FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 25/03/24

In brief: EUAs Track Rising Gas Prices, Amid Muted Trading

The benchmark contract closed Friday at EUR 61.52, a weekly gain of EUR 2.13 (3.6%). EU carbon traded in a EUR 4.09 range. Wednesday's Commitment of Trader's (CoT) report revealed the third consecutive weekly reduction in speculators' net short position, with funds net short holdings decreasing 3.8 Mt (11.3%) to 29.6 Mt. Since bearish bets reached their peak of 39.2 Mt on 23 February, net short positions have dropped by approximately 25%. In the absence of any major political or technical price driver last week, European gas remained the main influence for EUAs, with strong gains in TTF pushing carbon prices higher. With one less auction this week and an expected rise in US natgas demand (more below), EUAs could endure ongoing upward pressure over the next few days. Outlook: neutral to bullish.

What happened? (Price movements)

- Monday saw the highest EUA settlement in five weeks as prices jumped following rising gas prices and forecasts for cooler weather. The Dec24 contract settled 3.4% higher at EUR 61.43
- On Tuesday, the benchmark contract swung in both directions as gas price volatility played on EUAs. Despite a bullish start to the day (up 2.4%), during the afternoon all gains were reversed and the Dec24 settled down 1% at EUR 60.84
- Action died down on Wednesday, with the benchmark contract trading in its narrowest range in over a month. The CoT report revealed the third successive reduction in short positions held by funds, yet this news did little to instigate activity in the market. The Dec24 future settled down 0.4% at EUR 60.62
- Thursday saw a continuation as EUAs traded in their narrowest range in six weeks (EUR 1.50). Falling gas prices depressed the EUA market and the Dec24 contract settled 2.6% down at EUR 59.07
- Friday saw EUAs post the fourth five-day gain in succession as the benchmark contract closed out the week up 3.6%. The Dec24 contract settled at EUR 61.52, a 4.2% gain on the day.

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Why? (Market drivers)

- The significant gains (3.4%) made on Monday were attributed largely to the spike in gas prices (TTF rose by as much as 7.7% in the morning)
    - Bullish fundamentals spurred the TTF price climb, namely, operations at gas fields connected to FLAGS pipeline being affected due to a power outage, as well as supply from Aasta Hansteen being reduced due to a two-day close in operation. Cold weather forecasts put further upward pressure on gas
        - Freeport LNG anticipates two of its three liquefaction trains at its export facility will remain out of service through May (more below)
    - Gas prices did fall off on Wednesday and Thursday, stemming in part from a drop in LNG demand from Asia, leading to losses in EUAs on both days
    - With the front-month TTF contract enduring strong gains recently, analysts have noted that prices are getting close to fuel switching levels and that coal could become an attractive fuel choice. However, with storage levels at record levels for this time of the year (60%), gas is likely to remain in the money
- Commitment of Trader's (CoT) Report: CoT data last Wednesday showed funds had trimmed their short positions for the third consecutive week, with total net shorts now standing at 29.6 Mt, down 3.8 Mt (11.3%) the week ending 15 March
    - Since bearish bets reached their peak of 39.2 Mt on 23 February, net short positions have dropped by approximately 25%
    - Total longs increased by 1.05 Mt to 35.7 Mt, while total shorts fell by 2.7 Mt to 65.3 Mt
    - It has been suggested that funds have been slowly unwinding their short positions in the past few weeks to take profit without triggering price spikes
- Despite there being no auction on Wednesday, the market did not react as expected with EUAs suffering a loss on the day (0.4%). Given this surprising reaction or lack thereof, analysts pointed to a certain fatigue in the market amongst traders. Additionally, it was suggested the unpredictability of price movements currently has the bears concerned about when to sell

What's coming up? (Trends and key developments)

- This week, auction volumes will increase from 11,094,500 to 11,608,500
- Upcoming Event: Shipping Risk Management in 2024-FIS will be heading to Athens to host a workshop on *FFA, Fuel Oil and EUA risk management in 2024 and beyond*. The event will take place on 25 April in the stylish Grand Hyatt Hotel just south of the centre. Register via the following link Shipping Risk Management in 2024 - With the Experts (zohobackstage.eu)

Further Reading

- Natural gas prices saw huge gains on Monday, the most since 3 January, with interruptions on a production line in Texas LNG plant playing a significant role in export levels from the region https://www.bloomberg.com/news/articles/2024-03-18/european-gas-extends-rally-with-focus-on-global-energy-supply
    - US natgas futures fell through the week on lower production and cooler weather forecasts https://www.nasdaq.com/articles/us-natgas-prices-ease-1-to-three-week-low-on-mild-forecasts
- This report by Finnish technology group Wärtsilä assesses future fuels in the marine industry. Among the key takeaways for smaller operators is that investing in fuel flexibility is seemingly the most financially viable way of avoiding the risk of stranded assets https://www.offshore-energy.biz/eu-ets-and-fueleu-maritime-to-close-price-gap-between-green-and-fossil-fuels-report-finds/

Sources

All pricing data taken from Intercontinental Exchange (ICE) and European Energy Exchange (EEX)

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