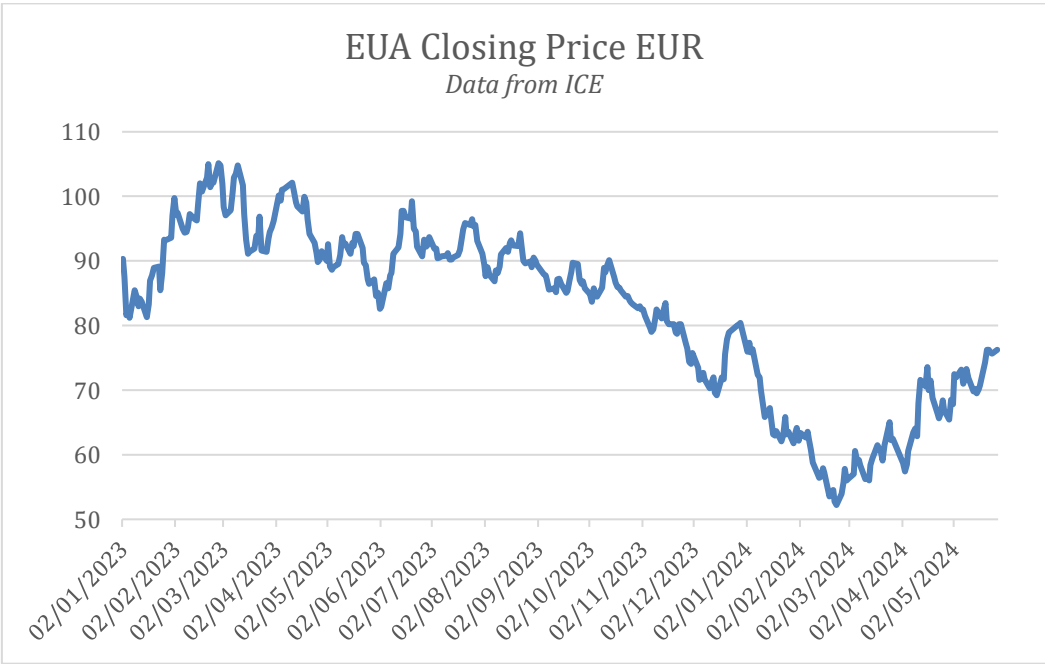




## EUA WEEKLY REPORT 28/05/24

### In brief: EUAs hit four-month high on surging gas

EUAs gained EUR 5.1 (7%) last week to end trading at EUR75.61, after climbing to a four-month high on Wednesday morning of EUR77.50. EUAs traded in a wide range over EUR7 with a weekly volume of 200k EUAs, up from 160k the week prior. Volatility in the gas markets was mirrored in EU carbon, with the 10 and 20-day correlations between the Dec24 and TTF front-month contract rising to over 0.9 last week up from 0.8 the week prior. Additional EU gas supply concerns and geopolitical events added to a tighter market outlook to cause a more-than-10% weekly rise in front-month TTF. This week will likely see a continuation of TTF dominance on EU carbon prices. TTF price projections are mixed. While some analysts point to the same gas supply constraints persisting and potential further geopolitical developments, others feel the gas fundamental picture is not as strong as the recent surge suggests. Our outlook is neutral.



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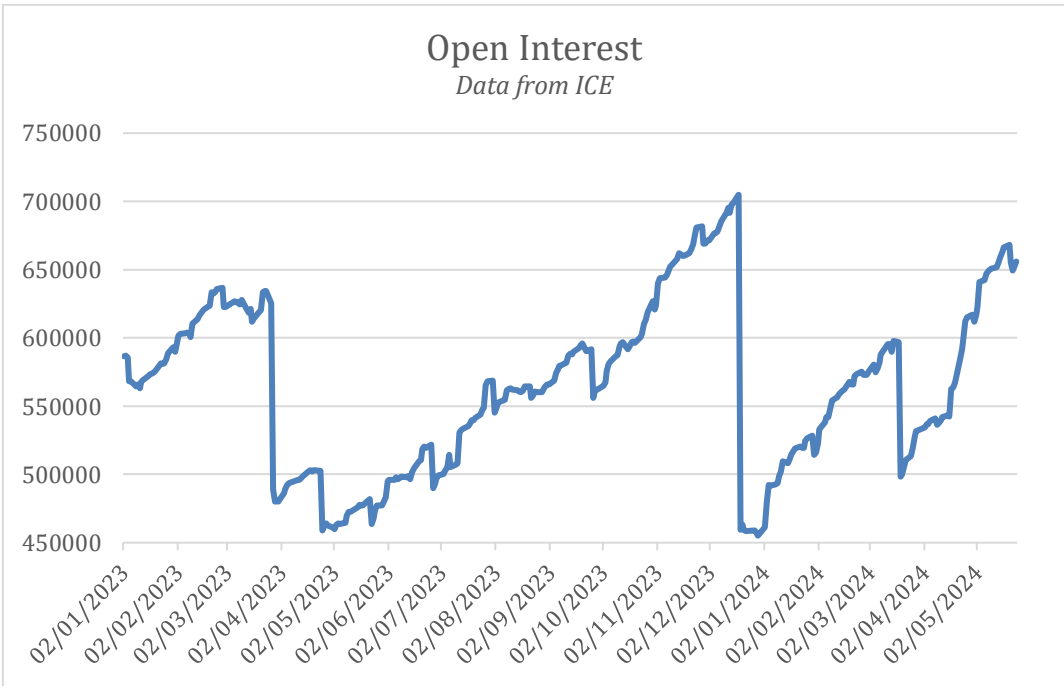
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### What happened? (Price movements)

- Monday opened in bullish fashion as EUAs surged following increased demand for Dutch gas (TTF) and German power. The Dec24 contract settled up 5% on the day at EUR 74.22
- Tuesday saw EUA prices continue to rise in line with natural gas prices, which saw healthy gains ahead of the expiry of the June options contract. The Dec24 contract closed the day at EUR 76.25, the highest since 5 January
- Wednesday brought an end to the four-day price climb, but only just, as EUAs lost 0.1% to settle at EUR 76.21
- Thursday marked a second consecutive day of minor losses for EU carbon as the Dec24 contract settled marginally lower at EUR 75.81, down EUR 0.40 (0.5%)
- Friday concluded the week with a third daily downtick as carbon continued to seek direction from anything other than TTF. The Dec24 contract settled at EUR 75.61, down 0.3% on the day. Despite losing value over the past three days, EUAs still secured a 7% gain over the week
- The benchmark contract settled at EUR 76.25 on Monday, up 1.9% from Friday.



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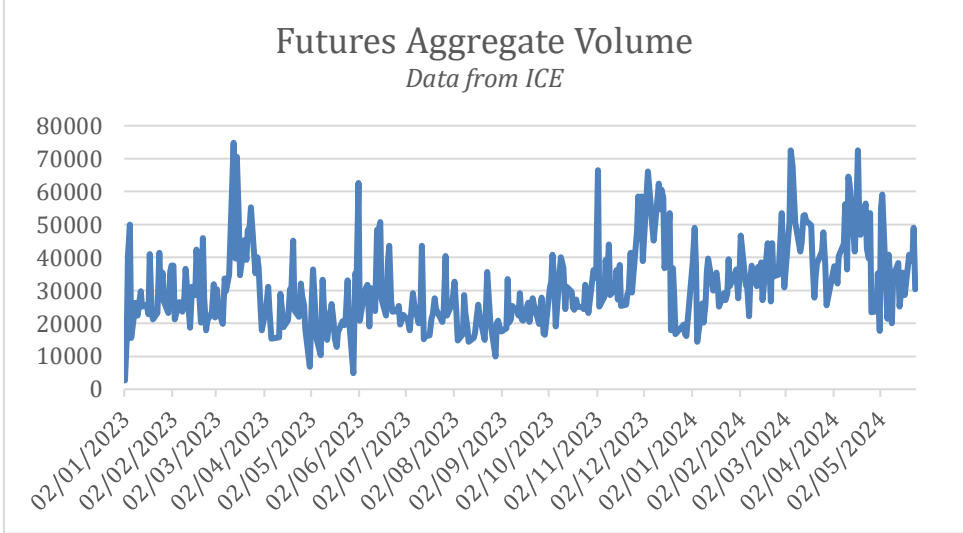
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### Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data last Wednesday revealed investment funds increased their net short positions for the first time in six weeks, up 2.6 Mt (22.4%) the week ending 10 May
  - The latest data shows an increased appetite for the bears, with net short positions now standing at 14 Mt
  - Funds have now held a net short position for 42 consecutive weeks
  - Total long positions stand at 40.5 Mt and total shorts stand at 54.5 Mt.
- Dutch TTF continued to be instrumental on the direction of carbon last week, with the correlation between the Dec24 contract and the front month TTF rising to 0.9 and higher, up from 0.8 the week prior
  - Gas supply concerns injected bullishness into the market. These centred on the US Gulf (predictions of a heavy upcoming hurricane season), Australian LNG exports (ongoing), potential escalations in Russia and Ukraine, security developments in the Red Sea region, and North Sea maintenance outages (more in further reading below)
  - News of a potential suspension to pipeline supplies to Austria and Italy from Russia pushed prices further up on Thursday, with TTF prices peaking above their one-year average
  - Additionally, the expiry of the TTF June options contract last Thursday caused price volatility in the market throughout the week.
- The strength of EUAs at the beginning of this week was put down to a decoupling in the European power market, with German Cal-25 futures trading at a significant premium to French nuclear energy.

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

- EUA auction supply will fall by over a third this week in the absence of the fortnightly Polish auction
- EU weather: Germany and the Nordics appear set for unusually high temperatures next week
- The upcoming hurricane season in the US could affect LNG supply. National Oceanic and Atmospheric Administration's (NOAA) outlook for this year's Atlantic hurricane season, which runs from June 1 to November 30, suggests an 85% chance of an above-normal season.



**Further Reading**

- European LNG prices rise to five-month high amid geopolitical risk and competition with other global demand hubs: <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/052224-european-lng-prices-reach-five-month-high-as-global-competition-heats-up>
- Trials of 'Blue Visby' software indicate significant CO2 emissions reductions for bulkers: <https://splash247.com/bulker-duo-averages-17-3-co2-reduction-in-blue-visby-trial/>
- Recent TTF rally could be overdone, say analysts: <https://montelnews.com/news/13ccef6-5a04-45f3-a1de-7b635df55ad6/asia-set-to-outbid-europe-for-lng-until-winter-analysts>

**Sources**

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

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