



## FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 13/05/24

### In brief: EUAs touch EUR 75, funds slash net short

The front-December future gained 7 cents (0.1%) last week to close at EUR 71.91. The move followed a surge through the 200-day simple moving average (SMA) and then the EUR 75 mark on Friday morning, before traders took profits ahead of the weekend and the return of a full auction supply. It was a week of relatively low volume with bank holidays across Europe. Perhaps the biggest story besides the EUR 75 high point, was the Commitment of Traders (CoT) data, which revealed funds had further slashed their net short position by a third, acting as a bullish signal. The net short now stands at 12.7Mt, the smallest amount in nearly eight months. Total open interest is climbing back towards its Q4 2023 high. Meanwhile in geopolitics, uncertainty reigns. The risk premium was eroding in view of a possible ceasefire in the Middle East. However, tensions appear to be reviving so possible upside risk persists. EUA supply this week is up by a quarter providing likely downward pressure. Our outlook is neutral.



#### Freight Investor (Holdings) Limited

80 Cannon Street  
London, EC4N 6HL

+44 (0) 20 7090 1121  
info@freightinvestor.com

Registered office address: 80 Cannon Street London, EC4N 6HL, UK  
Company Registration Number – 08443420 // VAT Number – 341 441 532

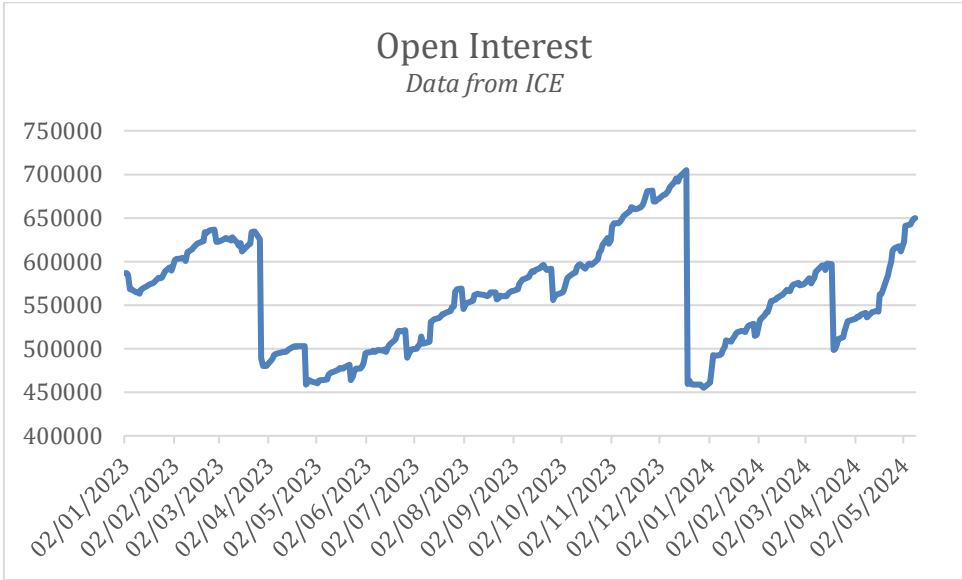
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### What happened? (Price movements)

- EU carbon opened the week continuing the upward trajectory from the week prior. One again the Dec24 tracked EU gas (TTF), surging early in the day to test the EUR 75 mark, before falling back and eventually settling EUR 1.36 (1.9%) up on the day at EUR 73.20
- After an early climb, Tuesday saw heavy selling across the morning as the front-December future threatened to break through the EUR 70 mark. Activity was high Tuesday morning following the UK Bank Holiday. EU carbon prices gained a touch during the afternoon but closed down on the day at EUR 70.98, a 3% daily reduction. Likewise, TTF fell 2.3%
- Wednesday saw somewhat subdued trading activity with prices initially dropping through EUR 70 before climbing steadily in the afternoon. The Dec24 closed at EUR 71.69 marking a 1% daily rise. The weekly Commitment of Traders (CoT) data did little to excite the market, with financials once again shaving their net short position
- With much of Europe on Bank Holiday on Thursday, trading activity was thin on the ground. Still, EUA prices inched up through the day and the benchmark contract closed 2.2% higher at EUR 73.26
- Friday saw considerable movement with EUAs surging past the 200-day moving average to mark a high over EUR 75, before traders raced to take profits ahead of the weekend and the benchmark contract lost nearly 4 Euros to settle down 1.9% at EUR 71.91. Across the week front-December EUAs climbed 7 cents.

### Why? (Market drivers)

- Commitment of Trader's (CoT) Report: Funds significantly reduced their net short position by 31% (5.7 Mt) to 12.7 Mt. The net short stood at nearly 40 Mt in February this year. The change represents an increase in longs of 4.1 Mt (12%) to 37.9 Mt and a reduction in shorts of 1.6 Mt (3%) to 50.7 Mt
- Auction supply fell by almost a quarter last week due to bank holidays: 6 May in the UK, Ascension Day 9 May and no German auction on Friday. This reduced trading activity considerably and likely provided short-term support for EUAs
- Warmer-than-expected temperatures prevailed across much of Europe.

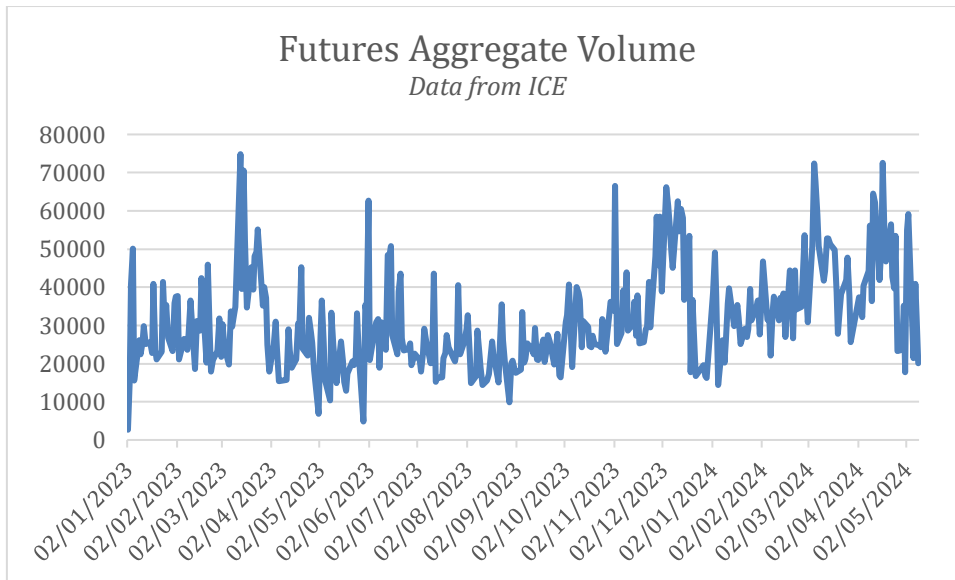


**What's coming up? (Trends and key developments)**

- This week will see a significant supply increase with a return to a full auction schedule
- On 1 June 2024 at 10.00am CET, the EU Commission will publish the total number of allowances in circulation (TNAC) on the EU carbon market in 2023. The TNAC plays an important role in the functioning of the Market Stability Reserve (MSR) of the EU Emissions Trading System (ETS). It determines whether allowances are withdrawn or released from the MSR
- Warmer-than-expected temperatures are expected across much of Europe for the next week
- Geopolitics and energy prices—uncertainty reigns:
  - Unlike analyst reports from last week expecting gas supply to tighten over next few months, ING forecasts downward pressure on TTF: <https://think.ing.com/articles/middle-east-tensions-ease-for-energy-but-russian-sanctions-hit-metals/>
  - Israel renews pressure on Hamas. Oil prices eased last week as many started to foresee a ceasefire. Tensions since appear to have reignited: <https://www.nytimes.com/2024/05/12/world/middleeast/israel-hamas-gaza.html>



- Gas traders keep watchful eye on Ukraine amid Russian strikes:  
<https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/050924-unfavorable-spreads-war-risk-deter-european-gas-traders-from-ukrainian-storage>



### Further Reading

- Key EU lawmaker Peter Liese says industry should make the most of the current price slump: “The number of certificates will become significantly more scarce from 2027 onwards. And anyone who has not invested or started to invest by then will pay very dearly in the long term”  
<https://www.euractiv.com/section/energy-environment/interview/key-eu-lawmaker-peter-liese-already-eyeing-next-co2-price-revamp/>
- On 8 May, climate think-tank Ember reported 30% of the world’s electricity generation in 2023 was renewable. A further 10% was nuclear. Ember’s analysts believe “a new era” of “permanent” decline in power sector emissions is likely to begin in 2024. This would be a “major turning point”  
<https://www.edie.net/report-global-electricity-emissions-set-to-decline-this-year-due-to-solar-and-wind-boom/>

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## Sources

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

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