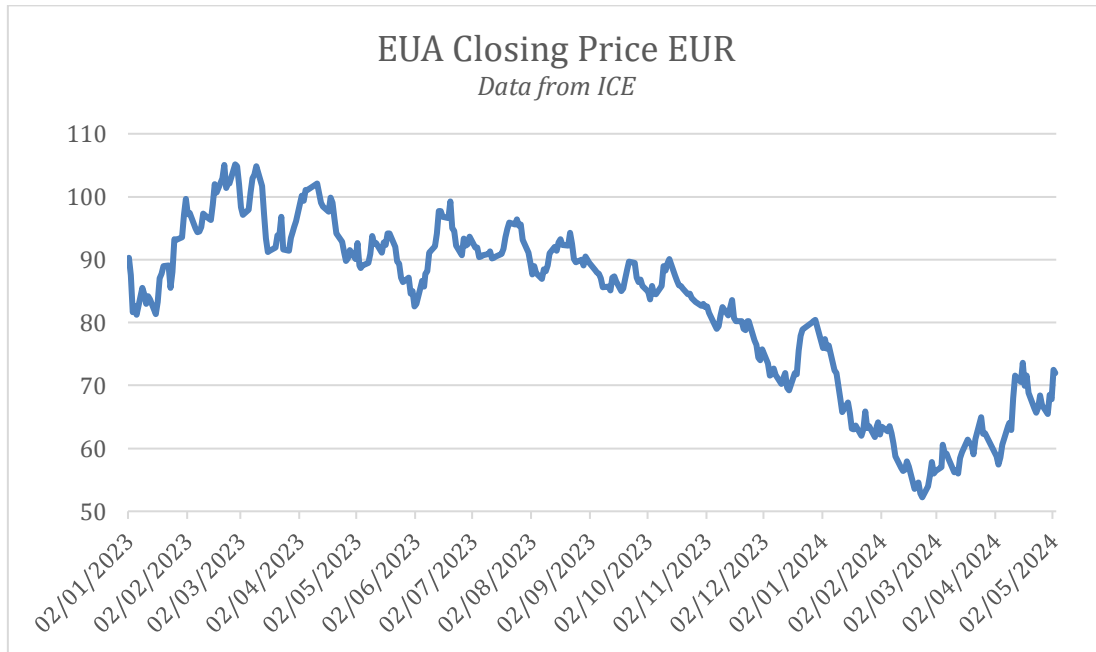




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 06/05/24

In brief: EUAs find support over 70 Euros

Last week, the benchmark contract, the Dec24, gained 7.4% to close at EUR 71.84. EU carbon broke through the EUR 70 mark after finding support above the 100-day moving average. It was a week of higher-than-average volume with significant trading activity particularly on Thursday and Friday. Market drivers were once again dominated by the gas markets, with the Dec24 tracking TTF all week. The year-to-date correlation between TTF front month and EUAs stood at 76%. While the geopolitical issues from the weeks prior (Middle East tensions and Russian attacks on Energy infrastructure) were now off the table, warm weather forecasts and a significant LNG outage in Australia boosted EU gas. For the third week running investment funds trimmed their net short position, leading some analysts to speculate we may have found a floor. Gas remains the key focus, whose supply appears to have tightened. EUA supply this week is down by a quarter. Our outlook is neutral to bullish.



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What happened? (Price movements)

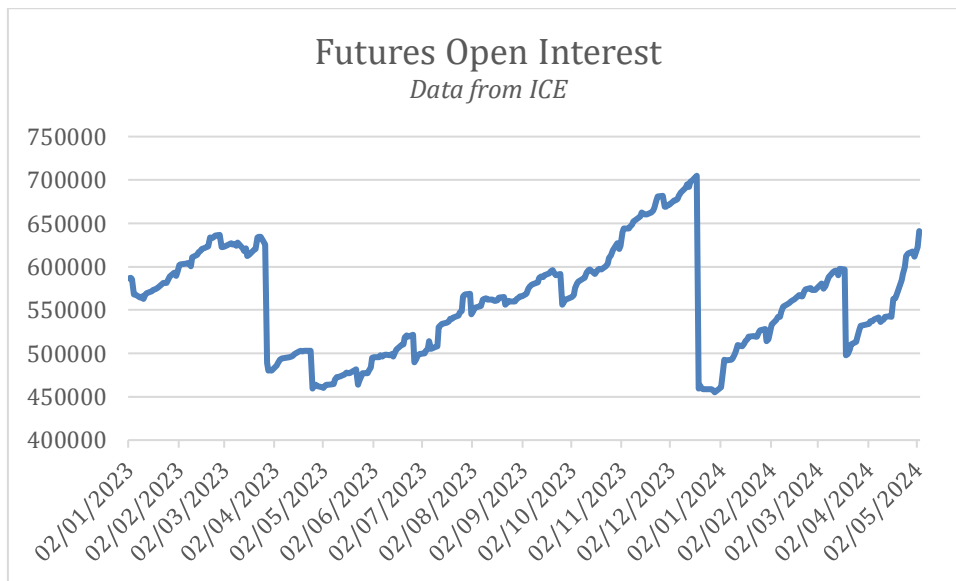
- Monday saw a continuation of Friday's downward trend. The Dec24 lost EUR 1.43 2.2% through the day to close at EUR 65.49 after testing the EUR 65 support level. Trading was somewhat subdued, with a high-low spread just over two Euros and relatively low volume. EU carbon appeared to follow EU gas down, which reacted to forecasts of warmer weather
- Tuesday saw EUAs track TTF prices up. While the June TTF contract rose 4% the front-December EUA climbed EUR 3.03 (4.6%) to close at EUR 68.52. Sources offered mixed theories over TTF's rise, with some suggesting anticipation of the 1 May Bank Holiday played a key role
- On Wednesday, amid low volume, EUAs crept down 1% to end trading at EUR 67.82. Likewise, June TTF fell 1.3% on the day. While the absence of the fortnightly Polish auction would typically lead to increased trading on the secondary market, the May Day holiday had a contrary affect. The weekly CoT data showed funds once again trimmed their net short position (more below)
- Thursday saw active trading and the second most bullish day of the year, with buyers pushing the price up nearly 7%, smashing through the EUR 70 mark. The Dec24 settled at EUR 72.51. The gains can be attributed to surging gas, with the June TTF contract picking up 7.6% amid concerns over increased competition for LNG from Asia and Norwegian flows recovering slowly after outages
- Friday saw reports of a mechanical fault on an LNG train at Chevron Australia, which appeared to add added further support to TTF (more below) although the incident was reported three days after it occurred. The day/week closed at EUR 71.84 a 0.9% slide on the day and a 7.4% weekly gain.

Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data revealed investment funds further trimmed their net short position by 1.1 Mt (5.6%) to 18.4 Mt. This meant for an increase in total longs of 3 Mt to 33.8 Mt vs an increase in total shorts of 1.8 Mt to 52.3 Mt. Total shorts therefore still outstrip total longs by over 35%
- EUAs continued to be led by natural gas last week
 - TTF prices rose early in the week on reports of warmer-than-expected temperatures until mid-May



- Many predicted traders would look to make summer gas injections earlier this year (more below)
- A mechanical fault affected an LNG production train (one of three) at Chevron Australia. While the fault occurred on Tuesday, it was not reported in the media until Friday (link below).



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

- Auction supply will be reduced by almost a quarter this week due to bank holidays: 6 May in the UK, Ascension Day Thursday and no German auction Friday. This should provide short-term support for EUAs
 - Trading activity also will likely be significantly lower
- Warmer-than-expected temperatures are expected across much of Europe for the next fortnight.

Further Reading

- On 1 May, BloombergNEF (BNEF) analysts released a report (link below) in which they forecast the price of EU emission allowances to average EUR 65 this year, before more than doubling to EUR 146 by the end of the decade

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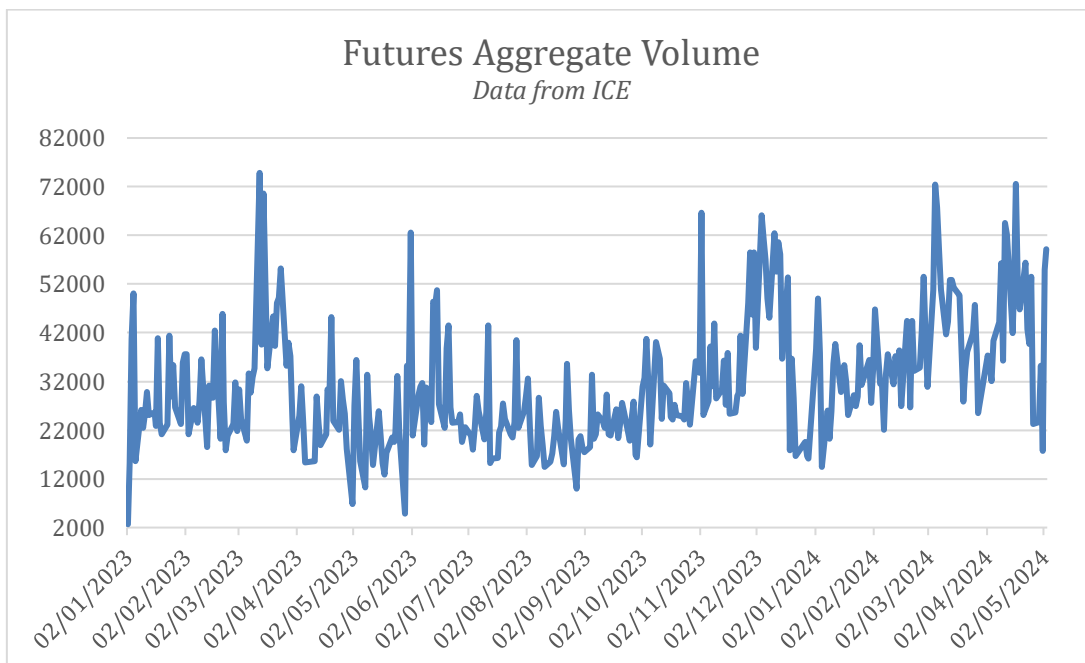
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- BNEF expects EUA prices to rise to an average of EUR 80 next year before accelerating in 2026, as a number of ‘largely bullish’ policy amendments and legislative reviews come into play. These include: the maritime sector being fully phased into the EU ETS (i.e. paying for 100% of their EU-based emissions), the cessation of the aviation sectors receipt of free allowances, the reduction of free allocation due to the Carbon Border Adjustment Mechanism (CBAM), and seven substantial carbon market policy reviews will be finalised <https://about.bnef.com/blog/eu-ets-market-outlook-1h-2024-prices-valley-before-rally/>
- Traders increase bid on near-term natural gas on forecasts of a tighter global summer gas balance this year <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/050224-expectations-of-tight-summer-to-ramp-up-restocking-in-european-gas-lng-markets-traders-analysts>
- Chevron Australia LNG outage: <https://lngprime.com/lng-terminals/chevron-working-to-resume-full-gorgon-lng-production-after-mechanical-fault/111307/>



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Sources

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

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