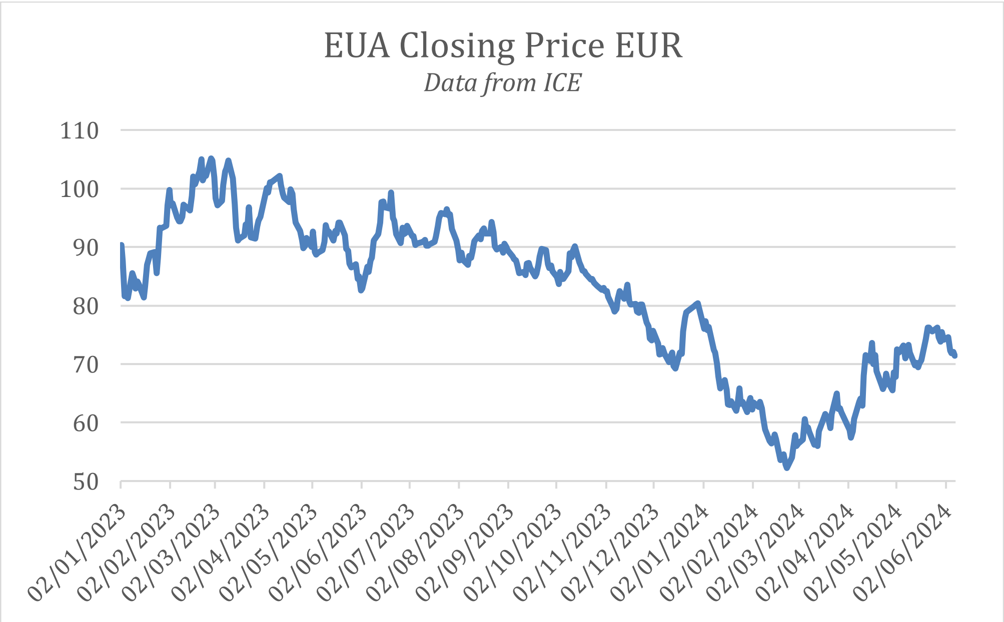
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 10/06/24

In brief: EU gas supply quivers, political instability looms

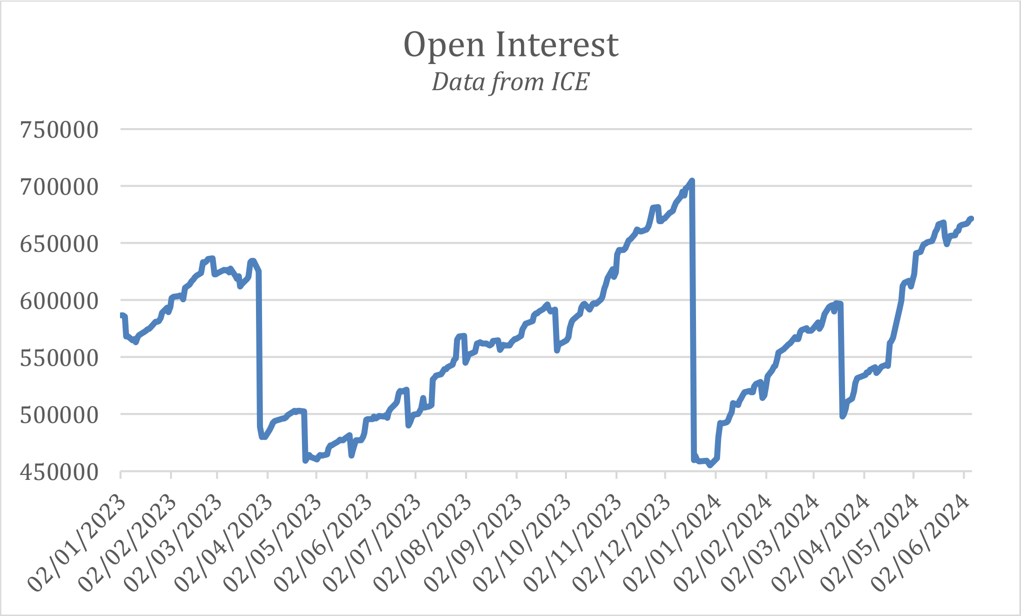
EUAs lost EUR2.71 (3.7%) last week to settle at 71.39. Volume returned to average levels, with nervousness reducing trading activity later in the week. Close correlation with TTF persists. The encroaching June options expiry is activing as a driver restricting trading to between the range of the call options with the highest open interest, which are EUR70, EUR75 and EUR80, with EUR70 having the most OI. Sentiment over EU gas supply remains fragile, with risks persisting on supply from LNG and Russian pipelines. Meanwhile, on the macro scene, the combined effect of lower-than-expected rate cuts and political uncertainty (more below) could contribute to a downward pressure on EUA prices. The EU gas supply concerns and the options expiry effect, will seek to keep EUAs in the EUR70-75 range in the short term with potential for upside spikes. However, the macro effects may have add a bearish edge. Outlook: Neutral to bearish.



Freight Investor (Holdings) Limited
80 Cannon Street
London, EC4N 6HL
+44 (0) 20 7090 1121
info@freightinvestor.com

What happened? (Price movements)

- Monday saw the week open with EUAs running to a five-month high of EUR 77.81 in the first half of the trading day. The run occurred following an unexpected gas outage in the North Sea. However, concerns eased and the Dec24 contract settled at EUR 74.57, a 0.6% gain on the day
- Tuesday saw EUAs plummet as aggressive selling resulted in the benchmark contract hitting a two-week low. The Dec24 contract closed the day at EUR 72.33, down 3% on the day
- Wednesday settled down 0.9% as the market reacted to the Commitment of Trader's (CoT) report which showed funds increased their short positions the week prior. The benchmark contract settled at EUR 71.82
- Thursday saw little action as the market seemingly took on a cautious approach ahead of the June options expiry. The Dec24 contract settled 0.6% higher at EUR 72.10
- Friday continued with low activity, as the trading range across all markets took a downturn. The benchmark contract settled at EUR 71.39, a 1% loss on the day and a 3.7% loss on the week.



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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 to 8 Mt the week ending 31 May, up 1.4 Mt (20.5%) from the week ending 24 May. This is the smallest net short position held by funds since October last year
    - The rebuilding of net short positions by funds indicated a fall in EUA prices was potentially on the cards, with the beginning of this week after the European elections adding some legitimacy to this speculation
    - Investment funds have now held a net short position for 44 successive weeks
    - Total longs decreased by 330,000 tonnes to 44.1 Mt, while total shorts increased by 1 Mt to 52.2 Mt
- TTF gas was once again instrumental in the direction of carbon last week, with volatility in the early part of the week for the Dutch market translating into a choppy start for carbon
    - The beginning of the week saw the TTF front-month rise by as much as 12% as the market jumped following news an unplanned outage occurred at the Sleipner field. This led to gas processing stalling at Nymhamna facility, in addition to gas supply from Norway to the UK halting on the Langeled pipeline
    - News arose on Tuesday the North Sea outage may be resolved quicker than expected, which saw both TTF and EUAs drop off, with TTF dropping as much as 6.5% and EUAs by 3%
- The expiry of the June options on 19 June is also playing an important role in the direction of carbon, with traders suggesting the EUR70 and 75 call options could be pinning prices.

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

Macro: The combined effect of lower-than-expected rate cuts and political uncertainty in France could contribute to a downward pressure on EUA prices. Lower-than-expected interest rate cuts could have a bearish effect on EUA prices due to reduced economic stimulus, stronger currency impacts, lower inflation expectations, and diminished market confidence. Additionally, the recent political development in France, where President Emmanuel Macron's decision to call a snap parliamentary election has contributed to market volatility, with the euro falling 0.5% to a one-month low against the dollar and a 21-month low against the pound, while French bond prices dropped, pushing yields to their highest in two weeks. This political instability could further reduce market confidence and economic outlook, potentially leading to a decrease in demand for EUAs as investors become more risk-averse and seek safer investments (more below).

- Investors in Europe will start the week grappling with uncertainty over the global interest rate outlook and the region's political landscape. French President Emmanuel Macron took a gamble on his political future on Sunday by calling snap legislative elections for later this month after being defeated by Marine Le Pen's far-right party in the European Union vote: https://www.reuters.com/markets/europe/global-markets-view-europe-2024-06-10/
- Far right gains and Green losses in the EU elections could signal reduced ambition in climate policy https://www.ft.com/content/86933e4e-b583-4a23-8865-4c446776a23d

EU Gas: EU gas prices are likely to experience volatility in the coming week. Supply concerns, particularly related to Russian gas and LNG imports, coupled with weather-driven demand fluctuations and geopolitical uncertainties, will be the primary drivers.

Weather: Forecasts indicate colder-than-normal temperatures in northern Europe for the coming week, which could increase heating demand and push gas prices up. As Europe transitions out of the heating season, any unexpected cold spells could lead to higher-than-anticipated demand for natural gas.

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

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Freight Investor (Holdings) Limited
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London, EC4N 6HL
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info@freightinvestor.com

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