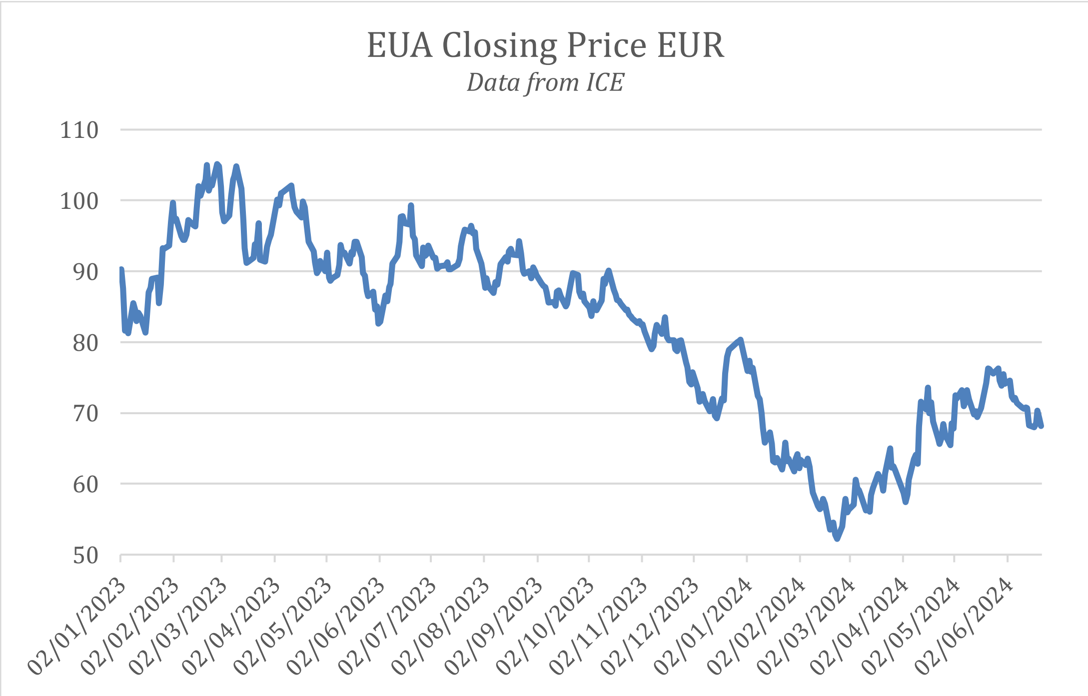
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 24/06/24

In brief: EUAs recouple with gas

EUAs lost 15 cents (2%) across the week to close at EUR68.13. The expiry of the June options contract resulted in EUAs trading steadily between the mid EUR67 and mid EUR69 early last week, with analysts pointing out prices were resting between the two options contracts with the most open interest (OI), the EUR65 strike with 9.1 Mt OI, and the EUR70 strike with 9.2 Mt OI. Following the options expiry on Wednesday, EAUs jumped 2.7% before resuming correlation with TTF and falling in tandem with EU gas through the rest of the week. Volume climbed 12% on the week prior to 145k. As for upcoming, overall, the interplay of a resilient Eurozone economy, somewhat balanced gas supply and demand dynamics, and warm weather conditions suggests a stable to slightly bullish outlook for EUAs in the coming week.



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What happened? (Price movements)

- Monday opened with a fractured relationship between EU carbon and TTF gas as the expiry of the June options contract on Wednesday dominated the EUA headlines. The Dec24 contract settled 0.4% lower at EUR 67.99
- Tuesday saw little to write about as the market continued to await the expiry of the June options contract, with EUAs trading in a tight EUR 1.54 range and settling 0.8% higher at EUR 68.50
- Wednesday marked the return of the close correlation between EUAs and EU gas, with the former making its biggest one-day gain in a month. The benchmark contract closed the day at EUR 70.33, up 2.7% on the day
- Thursday saw EUAs ease following news Russian LNG transshipments via Europe are to be banned. The Dec24 contract settled 1.6% lower at EUR 69.22
- Friday concluded the week with further downside to the benchmark contract as energy markets continued to slide on concerns of Russian LNG supply to Europe. The Dec24 contract settled at EUR 68.13, down 1.6% on the day and 0.25% on the week.

Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data from last week revealed funds increased their net short positions to 13.6 Mt, up 3.8 Mt (38.1%) from 9.9 Mt the week ending 7 June
    - Despite increasing significantly, this level of net short positions is still quite low in comparison to 2023, with the average net short position last year recorded at 36 Mt
    - Funds have now held a net short position for 46 straight weeks
    - Total longs decreased by 3.3 Mt to 37.5 Mt, while total shorts increased by 507,000 tonnes to 51.1 Mt.
- TTF struggled to hold its usual influence on EUAs over the first half of last week, with the correlation almost non-existent
    - The correlation between the two markets fell off so much that two weeks ago, on 13 June, the 5-day correlation between the two markets hit -0.75, with the 10-day correlation hitting -0.49 last Monday

- Once the June options contract expired on Wednesday, the correlation between the two markets quickly resumed and reached highs of 0.88 once again on Friday
- News on Thursday of a ban on Russian LNG transshipments through Europe had a surprising effect on gas prices. Analysts were quick to point out the implications of this ban could in fact have price dampening effects on the market
  - The ban potentially means Russian LNG could end up being essentially stuck in Europe, with EU countries unable to re-export the gas to other countries.

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

Macro Outlook: The Eurozone economy continues to show resilience with real GDP growth forecasted at 0.9% for 2024. This growth is driven by robust wage increases, rising household spending, and improving net trade balances. As the impact of previous monetary policy tightening fades and financing conditions ease, economic activity is expected to pick up further. Inflation is projected to moderate gradually, with headline inflation expected to decrease from 5.4% in 2023 to 2.5% in 2024. These economic conditions suggest stable to slightly increased industrial activity, potentially leading to higher demand for EU Allowances (EUAs) as industries strive to meet emissions targets.

EU Gas Market: Dutch TTF gas prices are expected to remain stable to slightly bullish in the near term. This stability is underpinned by the resumption of full production at Chevron's Wheatstone gas facility in Australia, which alleviates some supply constraints. Additionally, easing concerns over Russian gas supply to Europe and the expected seasonal increase in demand as autumn approaches contribute to this outlook. However, high storage levels and the return of supply cuts by OPEC+ could temper significant price increases, maintaining a balanced market.

Weather Forecast: Europe is anticipated to experience warmer-than-usual temperatures in the coming weeks, which could reduce heating demand while potentially increasing overall energy consumption due to cooling needs. This stable weather pattern supports steady demand for natural gas, thereby influencing the TTF gas prices and, indirectly, the EUA market. As temperatures rise, the energy sector's reliance on gas for cooling may keep demand consistent, reinforcing the current stability in gas prices.

Further Reading

- New report by NGO Transport & Environment (T&E) on EU national climate targets to 2030 finds major EU countries are significantly off track to meet targets and will require additional EUAs or face fines. Germany and Italy will fail to meet their climate targets by a substantial gap (10 and 7.7 percentage points respectively). As a result, they could consume all the available EUAs left for other countries. Germany alone will be in need of 70% of the available credits. https://www.transportenvironment.org/articles/12-eu-countries-fail-to-comply-with-2030-national-climate-targets-new-study

Sources

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

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