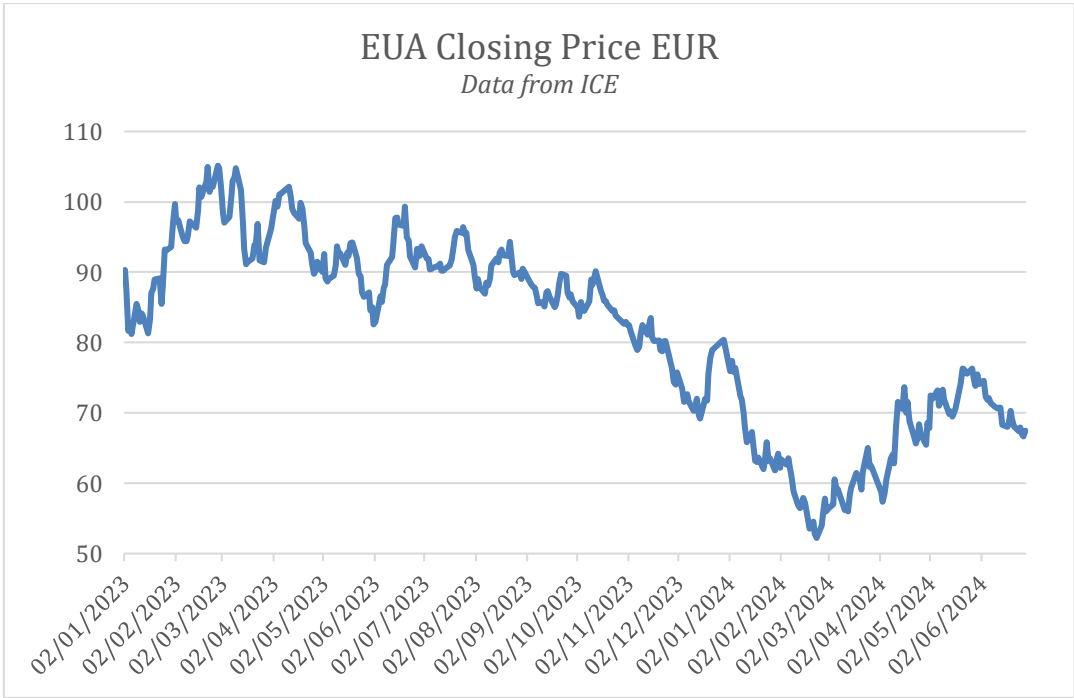




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 01/07/24

In brief: EUAs lose 9% in June, political concerns fade

EUAs lost 66 cents (1%) last week to close at EUR67.47, marking a 1.2% gain on the day but a 9% monthly loss. The Commitment of Traders (CoT) data revealed a 15% cut in long positions. Volume fell 9% compared with the week prior. EUAs maintained close correlation with TTF through the week except following news on Tuesday that Ursula von der Leyen will remain in the EU Commission’s top job. This put an end to concerns over recent weeks the EU might reduce its environmental focus, which had acted as a bearish fundamental signal on EUA prices. The interplay of a resilient Eurozone economy, slightly bearish gas market fundamentals due to high storage levels and supply risks, and cooler weather conditions suggests a mixed outlook for EUAs in the coming week. Outlook: 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

What happened? (Price movements)

- Monday saw the benchmark contract hit a seven-week low (EUR 67.01) as rising temperatures across Northern Europe translated into lower demand in the market. The Dec24 contract settled at EUR 67.35, down 1.1% on the day
- Tuesday reversed the downward trend of the past three days as news of incumbent EU Commission president Ursula Von der Leyen's return for a second term sent bullish signals throughout the market. The benchmark contract closed the day up 0.9%, settling at EUR 67.92
- Wednesday recorded the lowest settlement for EUAs in two months as the overall energy complex was impacted by bearish fundamentals throughout the day. The Dec24 contract settled at EUR 66.93, down 1.5% from the opening
- Thursday failed to bring much excitement as EUAs traded in a narrow range all day. The benchmark contract settled at EUR 66.67, a loss of 0.4% on the day
- Friday closed the week with the benchmark contract posting a 1.2% gain on the day at EUR67.47, albeit down 1% on the week and 9% on the month.

Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data from last week showed funds had increased their net short positions by 4.5 Mt, with short positions now standing at 18.1 Mt
 - Analysts noted the 32.5% increase in net short positions included a 5.6 Mt reduction in long positions the week ending June 21
 - Total long positions are currently at 31.9 Mt, whilst total shorts fell by 1.1 Mt to 50 Mt
 - Funds have now held net short positions for 47 straight weeks
- TTF and carbon resumed their correlation for the most part after the expiry of the June options contract two weeks ago, with this relationship continuing to dictate the direction of EUAs
 - Weekly average front-month futures prices for liquefied natural gas (LNG) cargoes in East Asia increased by 25 cents to \$12.61/MMBtu, while natural gas futures for delivery at the Title Transfer Facility (TTF) in the Netherlands decreased by 27 cents to \$10.75/MMBtu. In comparison, the same week last year saw prices of \$11.96/MMBtu in East Asia and \$10.72/MMBtu at TTF



- Rising temperatures throughout Europe on Monday were predicted to set the tone for gas and subsequently carbon for the week, with expectation that the temperatures would depress demand for heating facilities and led to the downward trend in the energy complex
- Strong renewable output in conjunction with healthy European gas storage levels are assumed to be the main reasons behind the stability of TTF prices at present. Gas levels are estimated to be around 75.5% full as of last week, a similar level to this time last year and notably higher than usual (TTF outlook below)
- The levels shown last week seemed to grab the attention of compliance entities, with analysts suggesting industrials were building their inventory for later years at these low prices.

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

Macro Outlook: The Eurozone economy is expected to continue its recovery with real GDP growth forecasted at 0.9% for 2024, driven by rising household spending and improving net trade balances. Inflation is projected to moderate from 5.4% in 2023 to 2.5% in 2024, supported by easing cost pressures and the lagging effects of past monetary policy tightening. Additionally, rising oil prices due to OPEC+ production cuts and expected supply deficits from peak summer fuel consumption may influence broader economic conditions and energy costs, potentially impacting EUA demand.

EU Gas Market: Dutch TTF gas prices have edged higher this week, with the benchmark front-month contract up to €34.95 per MWh, driven by expectations of cooler temperatures in Europe and strong competition with Asia for LNG cargoes. Cooler temperatures forecasted for Western Europe are expected to boost local distribution zone gas demand by 110 GWh/day. Despite stable Russian gas supply via Ukraine, strong Asian LNG demand and higher European prices to attract LNG cargos continue to support the market, though high storage levels maintain an overall bearish pressure.

Weather Forecast: Europe is anticipated to experience cooler-than-usual temperatures this week, which could increase heating demand and overall energy consumption. Lower temperatures are expected to drop 4 degrees Celsius below the seasonal average, boosting local distribution zone gas demand. This cooler weather pattern

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

freightinvestor.com



supports steady demand for natural gas, influencing TTF gas prices and indirectly impacting the EUA market. High temperatures in Asia continue to drive LNG spot demand, further supporting European market prices.

Further Reading

- An IMF study finds EU companies under the EU ETS are not only managing to maintain profits but increase investment in green transition technologies and processes: <https://www.imf.org/en/Publications/WP/Issues/2024/06/28/Firms-Response-to-Climate-Regulations-Empirical-Investigations-Based-on-the-European-550954>
- A World Bank report highlights a rebound in natural gas prices in mid-June following a period of low demand and oversupply due to a mild winter. Natural gas prices are expected to be significantly lower in 2024 than in the previous two years, with a recovery anticipated in 2025: <https://blogs.worldbank.org/en/opendata/natural-gas-market-developments--prices-bouncing-back-from-the-c>

Sources

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

***Disclaimer:** The information provided in this communication is not intended for retail clients. It is general in nature only and does not constitute advice or an offer to sell, or the solicitation of an offer to purchase any swap or other financial instruments, nor constitute any recommendation on our part. The information has been prepared without considering your investment objectives, financial situation, or knowledge and experience. This material is not a research report and is not intended as such. FIS is not responsible for any trading decisions taken based on this communication. Trading swaps and over-the-counter derivatives, exchange-traded derivatives, and options involve substantial risk and are not suitable for all investors. You are advised to perform an independent investigation to determine whether a transaction is suitable for you. No part of this material may be copied or duplicated in any form by any means or redistributed without our prior written consent. Freight Investor Services Ltd (FIS) is authorised and regulated by the Financial Conduct Authority (FRN: 211452) and is a*

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

freightinvestor.com

The FIS logo consists of the letters 'FIS' in a white, serif font, centered within a dark blue square.

member of the National Futures Association (“NFA”). Freight Investor Services PTE Ltd ('FIS PTE') is a private limited company, incorporated and registered in Singapore with company number 200603922G, and has subsidiary offices in India and Shanghai. Freight Investor Solutions DMCC ('FIS DMCC') is a private limited company, incorporated and registered in Dubai with company number DMCC1225. Further information about FIS including the location of its offices can be found on our website at freightinvestorservices.com

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

freightinvestor.com