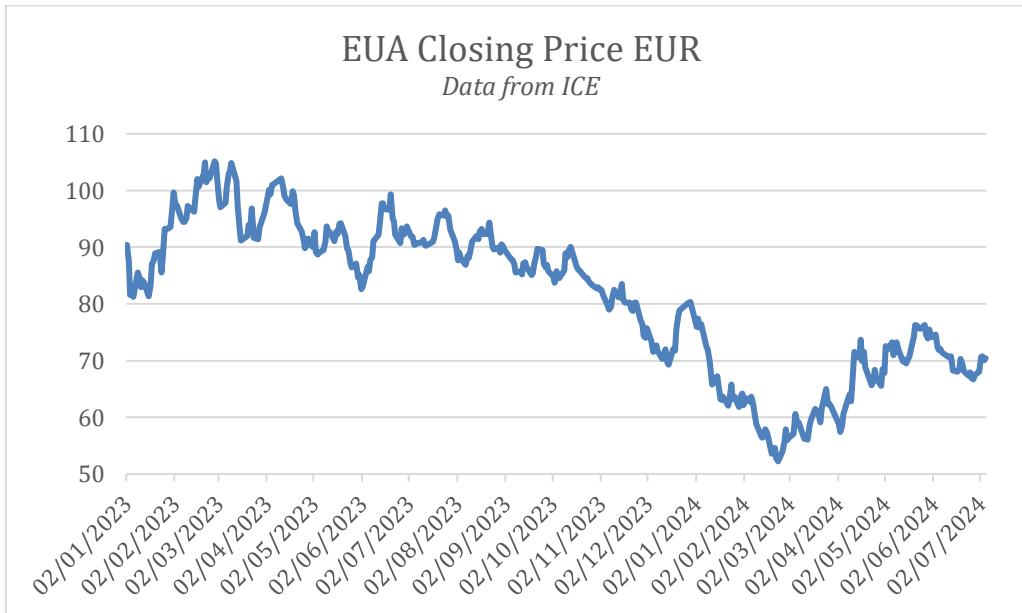




## FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 08/07/24

### In brief: EUAs climb, find support above 70

Front-december EUAs closed the week at EUR70.36, marking a EUR2.89 (4.3%) weekly gain. Traders noted support at EUR70 level through the week. The Commitment of Traders (CoT) data revealed the overall net short position increased by a further 16.5% to 21.2 Mt. Volume rose 35% compared with the week prior following significant trading in contracts other than the benchmark, particularly on Tuesday and Wednesday. This larger volume took place despite the arrival of holiday season which typically results in lower volume and volatility, a trend we started to glimpse toward the end of the week. Overall open interest resumed its climb towards a fresh yearly peak. The TTF correlation was somewhat off in the first half of the week but remains central. Geopolitical tensions and potential disruptions from Hurricane Beryl in the Gulf of Mexico may provide some upward pressure on prices. Overall, TTF/EUA market fundamentals suggest prices will likely stay within a narrow range. Outlook: neutral.



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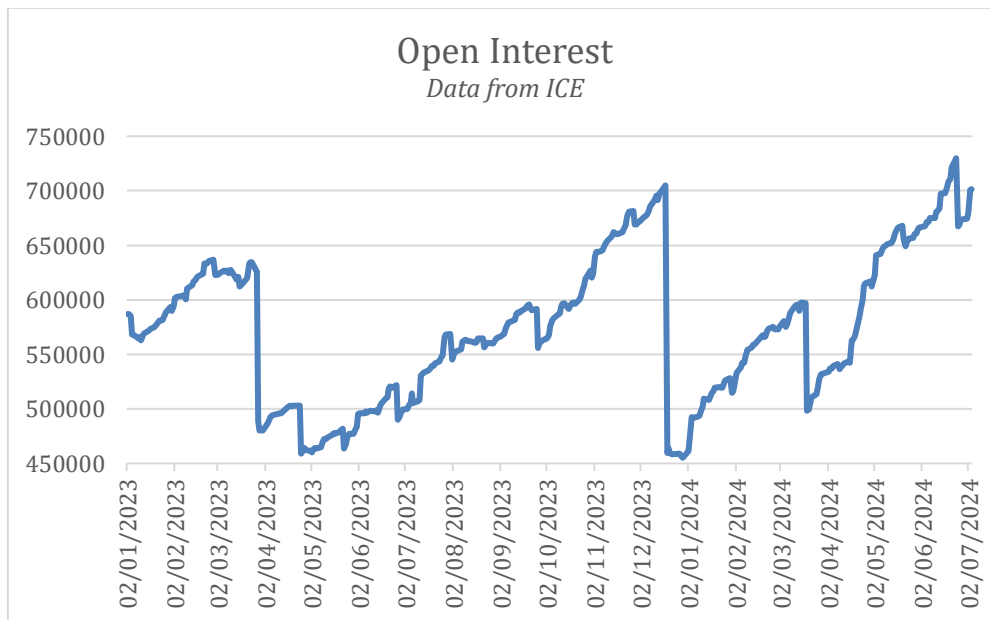
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### What happened? (Price movements)

- After rallying through the morning to test the EUR70 mark, EU carbon pulled back in the afternoon losing most of its early gains. The benchmark Dec24 contract gained 70 cents (1%) to close at EUR68.05. Elsewhere, front-month TTF lost nearly 3% on the day.
- Tuesday saw a handful of large purchases late in the day, driving the front-December contract up to EUR70.67, a 3.9% daily gain. Meanwhile, August TTF rose only half a percent.
- Wednesday saw EUAs rise to nearly EUR72 before falling back through the afternoon settling just 9 cents up at EUR70.76. Volume across the contracts was significant. Elsewhere, August TTF lost 3%.
- Thursday saw EUAs lost 69 cents (near 1%) to settle at EUR70.07. Meanwhile, TTF rose near 2% reportedly on progress of Hurricane Beryl which could potential hinder supply as it hits Texas early this week.
- Friday saw front-December EUAs inch up 0.4% to settle at EUR70.36, after hitting an early high of EUR71.24, amid markedly low volume of trading on the benchmark contract. The close secured a weekly gain of 4.3%.



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## Why? (Market drivers)

- Natural Gas:

### Asian LNG

- Average LNG price for August delivery into north-east Asia: \$12.20/mmBtu, down from \$12.50/mmBtu the previous week.
- Chinese LNG demand has dipped due to firm prices and cooler weather forecasts.
- China imported 5.9 million tons of LNG in June 2024, down from 6.3 million tons in June 2023.

### European Gas

- European gas prices have fallen but at a slower pace compared to Asia.
- Strong solar and hydro power generation has reduced gas demand in Europe.
- EU gas inventories are at 78%, with Dutch inventories at 69%.

### Market Influences

- Hurricane Beryl poses risks to LNG production and export, particularly in the Gulf of Mexico.
  - S&P Global assessed North West Europe LNG Marker (NWM) for August delivery at \$10.432/mmBtu, with Argus and Spark Commodities giving similar assessments.
  - Strong global gas prices and geopolitical tensions continue to influence market dynamics.
- Commitment of Trader's (CoT) Report: CoT data from last week showed all entities again increased their net short position, this time by 3 Mt (16.5%) to 21.2 Mt
    - Investment firms and credit institutions increased their net short position by 60.7 Mt (19.6%)
    - Funds have now held net short positions for 48 straight weeks.

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

Macro Outlook: The Eurozone economy is facing a complex mix of positive and negative forces that are likely to impact EUAs in the near term. Inflation has been easing faster than expected, with the latest figures showing a slight acceleration to 2.6% in May 2024. Despite this, core inflation remains elevated due to persistent service price increases, driven by robust wage growth in tight labor markets. The

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European Central Bank (ECB) is expected to cut interest rates soon, which could stimulate economic activity and potentially increase EUA demand as energy costs adjust accordingly.

Economic growth in the Eurozone remains fragile, with GDP expanding by just 0.4% in 2023 and showing signs of slow recovery into 2024. While consumer spending has been weak, a resilient labor market and increasing disposable income suggest a gradual recovery driven by household consumption. However, geopolitical risks, particularly related to the ongoing conflict in Ukraine and global trade tensions, continue to pose downside risks to economic stability.

EU Gas Market: For the upcoming week, EU gas prices are expected to remain relatively stable with a slight bearish trend. Despite firm global LNG prices, European gas prices are pressured by high inventory levels and softer demand due to increased solar and hydro power generation. Current EU gas inventories are robust at 78%, which reduces immediate concerns about supply shortages. However, geopolitical tensions and potential disruptions from Hurricane Beryl in the Gulf of Mexico may provide some upward pressure on prices. Overall, while minor fluctuations are expected, the market fundamentals suggest that prices will likely stay within a narrow range

Weather Forecast:

Northern Europe is anticipated to experience cooler-than-usual temperatures this week, which could increase heating demand and overall energy consumption. Temperatures are expected to drop 4 degrees Celsius below the seasonal average, particularly affecting regions such as Germany, the UK, and Scandinavia. This cooler weather pattern supports steady demand for natural gas, influencing TTF gas prices and indirectly impacting the EUA market.

Southern Europe is currently experiencing a heatwave, with significantly above-average temperatures expected to continue. Regions such as Spain, Italy, and the Balkans are facing extreme heat, which is increasing cooling demand and overall energy consumption. This hot weather will likely sustain or increase natural gas demand for electricity generation, influencing both regional and overall European gas markets.

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## Sources

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

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