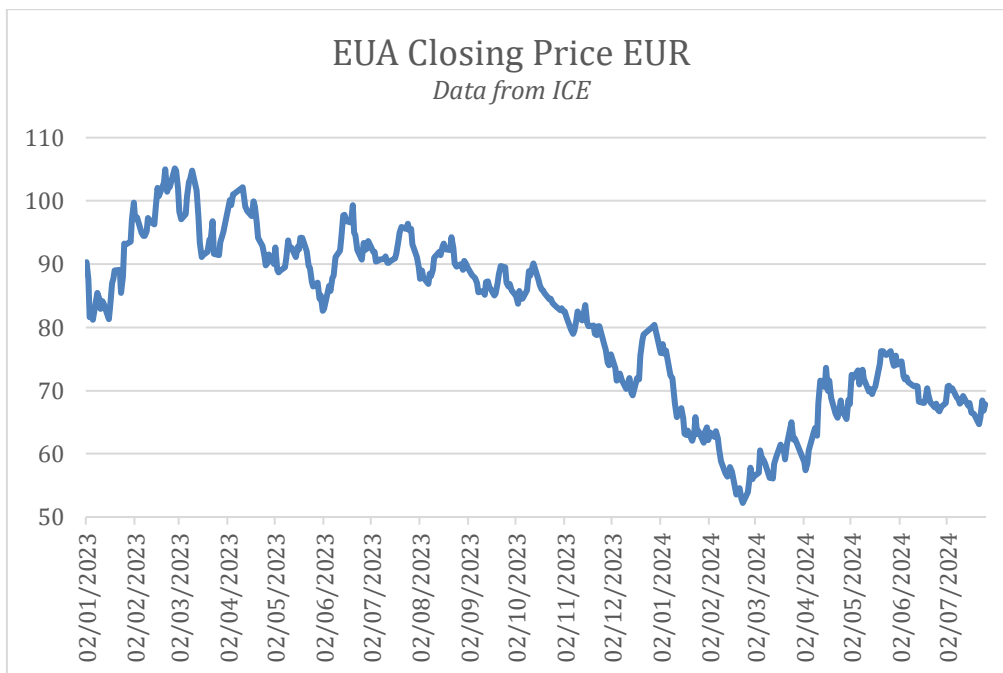




FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 29/07/24

In brief: EUAs Secure Weekly Gain on Stronger Gas

The benchmark contract settled at EUR 67.87 last Friday, securing a EUR 1.57 (2.4%) weekly gain. In a volatile week, EUAs traded in a wider EUR 4.8 range. Volume rose by 12.6% on the week prior and total open interest surpassed its highest level in over a year. The Commitment of Trader's (CoT) data showed a 29.1% increase in net short positions, the largest increase in bearish bets over the past two months. EUAs continue to track TTF and German power, with the five-day correlation for last week coming in at 0.87. Auctions take place every day this week, with 13,404,500 to be sold in the primary market. Going forward this week, a full auction schedule and the summer lull period will continue to put downward pressure on prices. However, these may be outweighed should TTF be further buoyed by tensions in the Middle East and high EU temperatures. Outlook: neutral to bullish.



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What happened? (Price movements)

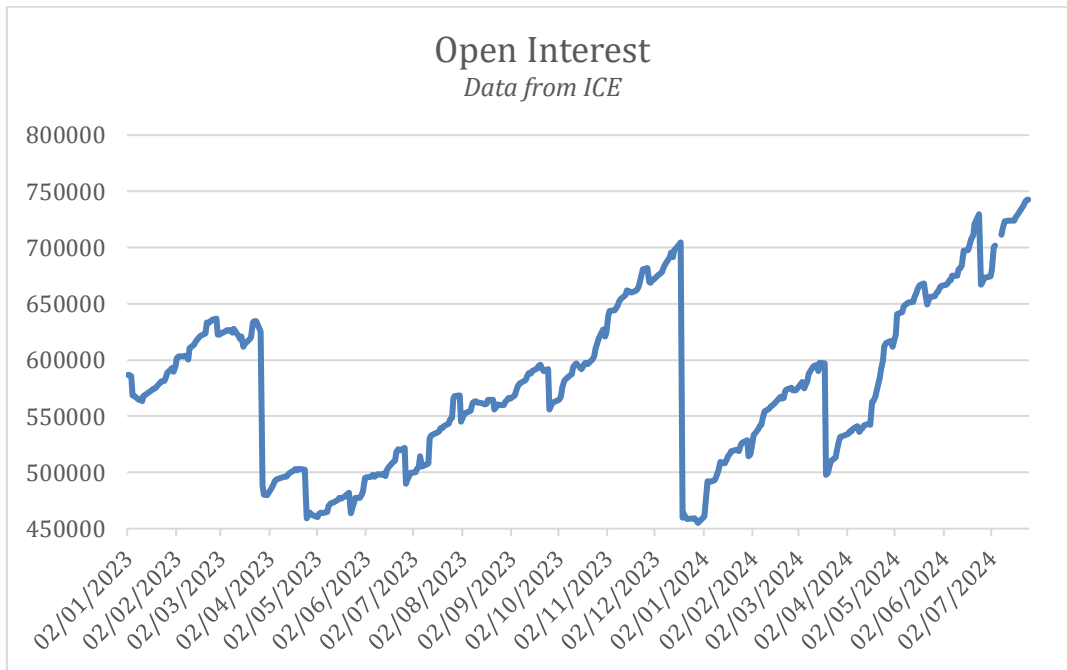
- Monday saw EUAs hit their lowest in three and a half months (EUR 64.24) as aggressive selling and cooler EU temperatures put downward pressure on prices. The Dec24 contract settled at EUR 64.72, down 2.4% on the day
- Tuesday saw most of the losses from the day prior reversed as EUAs bounced back to post a 1.6% gain on the day. The benchmark contract settled at EUR 65.73
- EUAs recorded their biggest daily gain in two months on Wednesday as bullish fundamentals including a rising gas market and the absence of an auction caused prices to surge. The Dec24 contract settled at EUR 68.41, a 4.1% gain on the day
- Thursday marked the return of the bears to the market as the benchmark contract fell by 2.3% to settle at EUR 66.81
- Friday saw EUAs secure its first five-day gain in 3 weeks as carbon tracked both rising TTF and power markets to post a 1.6% gain. The Dec24 contract settled at EUR 67.87, up 2.4% on the week.

Why? (Market drivers)

- Carbon continued to track TTF Dutch gas last week, with the five-day correlation between the August TTF contract and EUAs at 0.87 as of Friday's close
 - Meanwhile, the ten-day and 20-day correlations came in at 0.46 and 0.45 respectively
 - The power sector also played an important role on the EUA price, especially on Wednesday, as news from France about potential cutbacks in power exports to countries including Germany and Italy due to extremely high bids from neighboring nations pushed both power and EUA prices up
 - Despite temperatures in Northwest Europe expecting to hold above normal over the next two-weeks, high gas storage (84.12% as of 27 July) and renewable output (particularly solar and hydro) should offset any excessive demand for thermal power this week and subsequently prevent strong upward pressure on TTF prices.



- Commitment of Trader's (CoT) Report: CoT data from last week showed funds had increased their net short position to 23.4 Mt, up 5.3 Mt (29.1%) from the week ending 12 July
 - This was the largest increase in net short positions in two months, with analysts suggesting this boost in positions was the reason behind the rally on Wednesday as traders sought to test the conviction of short-positioned traders
 - Total longs increased by 1.9 Mt to 38.4 Mt, whilst total shorts increased by 7.1 Mt to 61.7 Mt, the biggest total short position in three months
 - On average this year, funds have maintained around 35.8 Mt in long and 58.8 Mt in short positions, with a net short position now being held for 51 consecutive weeks.
- In shipping news, emissions from the sector covered by the EU ETS fell by 13% last year, the lowest level in six years. If shipping emissions are to remain at these levels in 2024, the sector could weigh on EUA prices by reducing the cumulative demand for allowances.



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

Macro: European markets opened the week positively (as of this morning), buoyed by the global oil sector amid Middle East tensions and a series of upbeat earnings updates. The latest Federal Reserve minutes indicate a robust US labour market and strong economic activity, despite a downward trend in inflation. The US dollar continues to strengthen, reflecting this resilience. In the eurozone, growth remains sluggish, as indicated by declining PMI numbers, especially in Germany and France. Geopolitical tensions, particularly in the Middle East, have raised concerns about regional instability, impacting oil and natural gas forecasts. G20 leaders have expressed cautious optimism about a global economic "soft landing," though ongoing conflicts pose significant risks.

EU Gas: European natural gas prices experienced notable volatility last week, impacted by the partial restart of the Freeport LNG plant in Texas, which had been disrupted by Hurricane Beryl. The gradual ramp-up of production and the cancellation of multiple shipments highlighted Europe's reliance on LNG imports. Currently, European gas storage is nearly 83% full, providing some buffer against supply disruptions. Rising tensions in the Middle East, particularly after a rocket strike in the Israeli-occupied Golan Heights by Hezbollah, have raised concerns about wider regional instability, potentially influencing energy forecasts.

Weather

Northern Europe is expected to experience higher temperatures over the next week, with heatwaves extending from southern to northern regions. This shift will likely increase electricity demand for cooling, impacting energy consumption patterns and potentially stressing the grid.

Southern Europe continues to face extreme heat, with temperatures soaring above 40 degrees Celsius in regions such as Greece, Cyprus, Turkey, and Italy. This persistent heatwave is expected to drive higher electricity demand for cooling, further influencing gas prices due to increased power sector demand.

Sources

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

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