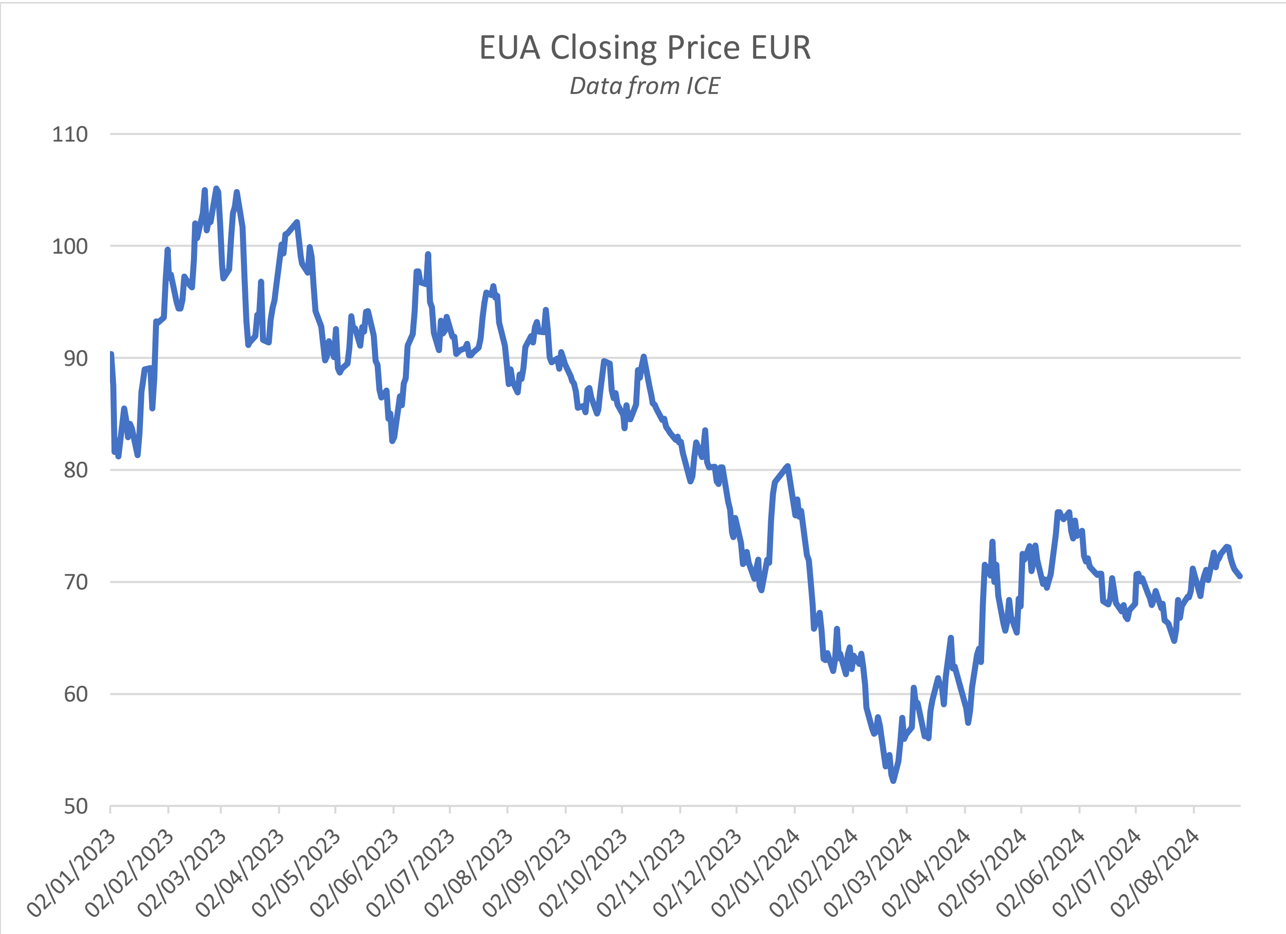
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

# EUA WEEKLY REPORT 27/08/24

**In brief: Funds Halve Net Short, Gas Slides**

The benchmark contract settled at EUR 71.13 last Friday, down EUR 1.39 (1.9%) on the week, while TTF gas lost 7%. EUAs traded in a moderate volume (up 13% on the week prior) in a EUR 4.13 range. The Commitment of Trader's (CoT) data revealed a halving 8.1 Mt (54.4%) in the funds' net short position (with many new longs placed), the smallest of its kind in almost three months (6.8 Mt). The five-day correlation between TTF and carbon fell to 0.64 last week, whilst the 10-day correlation was recorded at 0.57. Monday's auction price came in at EUR 69.28, with today's auction price coming in at EUR 70.17. At the time of writing, the Dec24 contract is tracking price increases in natural gas. Coming up, while EU gas prices might find some support from Norwegian maintenance and geopolitical risks (more below), high storage levels and weaker-than-expected demand due to mild weather and strong renewables could keep prices in check. Outlook neutral.





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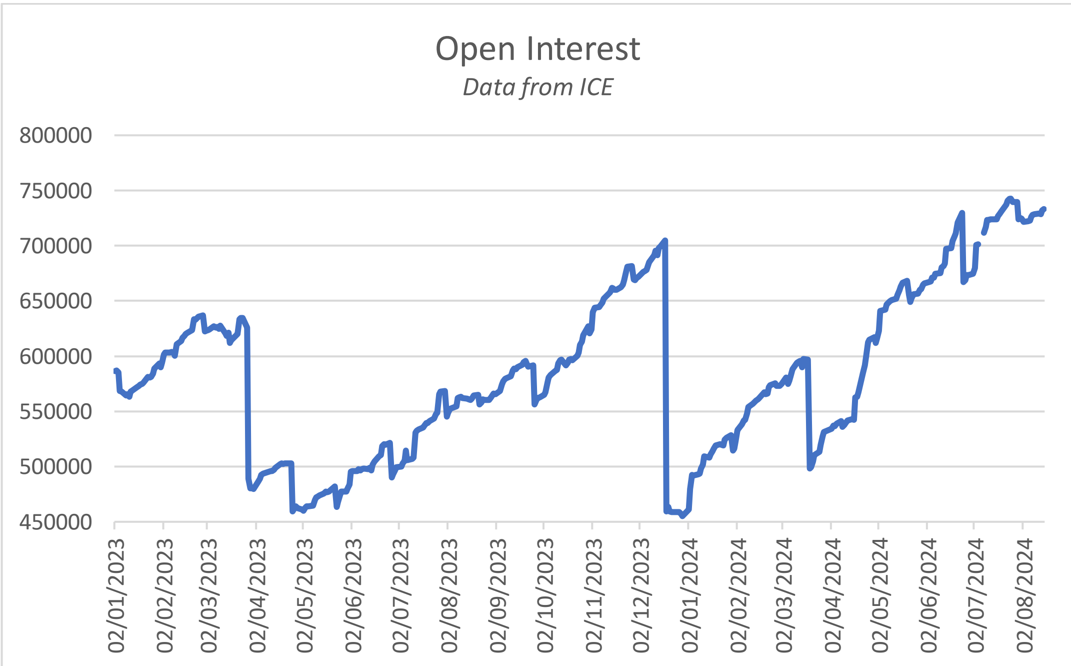
What happened? (Price movements)

- Monday opened in a bullish fashion as EUAs soared following an increased demand for coal fired generation. The benchmark contract closed the day at EUR 73.14, the highest settlement since 3 June
- On Tuesday sellers re-emerged dampening prices, albeit marginally. The Dec24 contract settled at EUR 73.07, down 0.1% on the day
- Despite the absence of a Wednesday auction, prices inched back further led by a falling TTF gas market. The Dec24 contract settled 1.3% down to close the day at EUR 72.14
- Thursday saw further selling and price drops for the third consecutive day. The Dec24 contract closed down at EUR 71.57, a 0.8% reduction
- Friday closed on a bearish note as high selling and a falling TTF market (down 7.5% on the week) put downward pressure on prices. The Dec24 contract last traded at EUR 71.13, down 0.6% on the day and 1.9% on the week.




Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data from last week showed funds had reduced their net short position to 6.8 Mt the week ending 16 August, down 8.1 Mt (54.4%) from the week ending 9 August. This was the lowest net short position in almost 3 months
    - Net short positions have now been reported for 55 consecutive weeks

    - Total longs increased by 6.5 Mt to 42.2 Mt, while total shorts fell by 1.6 Mt to 49 Mt, the first time in 2024 that total shorts dropped below 50 Mt
- The TTF correlation with carbon inched down last week, with the five-day correlation at 0.64 and the 10-day correlation as of Friday standing at 0.57
    - European gas storage injections remain above normal rates as stores build beyond the EU target level up to 91.6% full on 25 August according to GIE compared to the five-year average of 83.6%
    - TTF front month is almost unchanged at the time of writing, after a rally yesterday amid thin volumes with support from the ramp up in Norwegian maintenance this week. Prices remain supported despite healthy storage with concern for tighter supplies over winter amid the risk of unplanned supply disruption and cold weather

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

Norwegian Gas Supply: This week, the Norwegian gas supply will be reduced by over 120 million cubic meters per day, nearly one-third of its usual supply to Europe, due to planned maintenance. This maintenance will affect major facilities like the Karsto processing plant and the Troll gas field, which are essential for Norwegian gas exports to Europe. These maintenance activities are expected to last for around three weeks and could lead to sharp price movements on the TTF hub, especially if there are delays or complications in resuming full production.

Asian LNG Market: Asian LNG prices have slightly declined this week, easing from recent highs as spot demand softened. There are expectations for further price drops, particularly as buyers in price-sensitive regions like India and Thailand have recently refrained from securing spot deals due to elevated costs.

Renewables & Weather: In Europe, cooler temperatures forecasted for this week and strong renewable power generation are expected to reduce the need for gas-fired power, easing some pressure on gas prices.

Geopolitical Risks: Geopolitical tensions remain a critical factor in market dynamics. While fears of immediate supply disruptions from Russia have been somewhat eased due to strong storage levels in Europe, ongoing developments in the Ukraine-Russia conflict and tensions in the Middle East continue to pose risks. Any escalation could impact gas flows and market sentiment. For now, flows through Ukraine remain stable.

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<u>LNG Freight Rates and US Export:</u> LNG freight rates in the Atlantic have declined for the second consecutive week, dropping to $61,500/day, a notable decrease of over $15,000 in the past two weeks. Pacific rates have also eased. This decline reflects a less tight market, possibly due to fewer spot cargoes being shipped as buyers wait for prices to stabilise. Additionally, US feedgas flows have remained stable, and developments at export terminals like Corpus Christi and Plaquemines suggest that the US will continue to be a significant supplier of LNG as new facilities come online later this year.

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



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