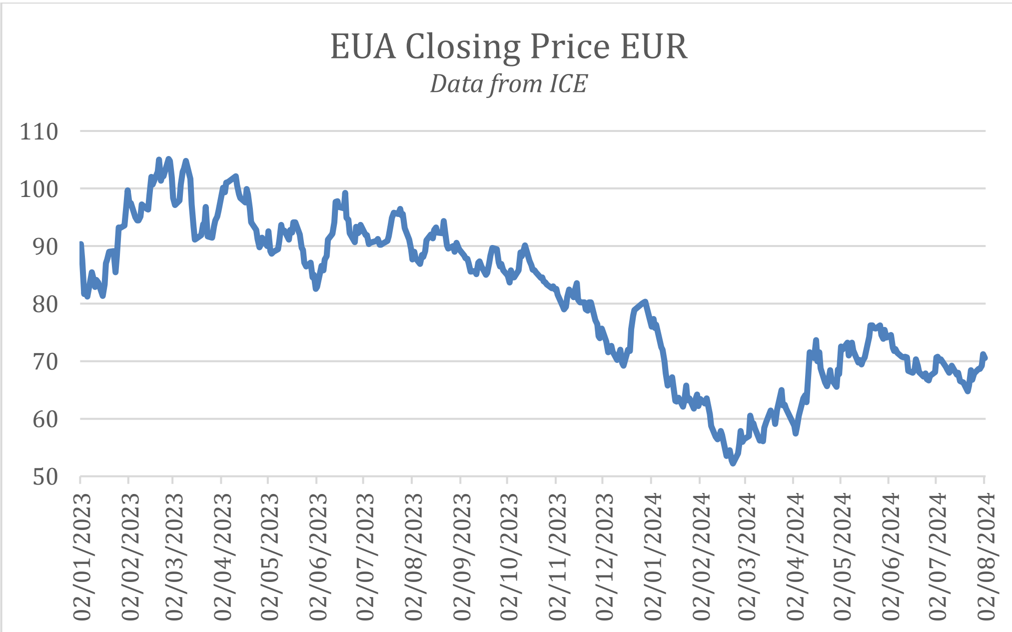
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 05/08/24

In brief: EUAs Surge on Middle East Tensions

The benchmark contract settled at EUR 70.58 last Friday, securing a EUR 2.71 (4%) weekly gain. EUAs traded in an EUR 4.1 range over the week. The Commitment of Trader's (CoT) data showed a 9.1% increase in bearish bets, marking a third consecutive increase in bearish bets. Dutch TTF continues to dictate the price of EUAs, with the five-day correlation between the two markets rising to 0.87 early in the week. The Dec24 contract is trading lower at time of writing (Monday morning) amid a fallback in natural gas prices. Going forward this week, besides downward pressure from the equity sell-off (more under Macro below), all eyes remain on the Middle East and the bullish impact any escalation in tensions will have on EUAs (more below). Should tensions ease, prices may continue to slide back towards fundamental levels widely estimated at around EUR 65. Should they escalate, we may cross the highs of last week. Outlook: Bearish/Bullish.



Freight Investor (Holdings) Limited
80 Cannon Street
London, EC4N 6HL

+44 (0) 20 7090 1121
info@freightinvestor.com

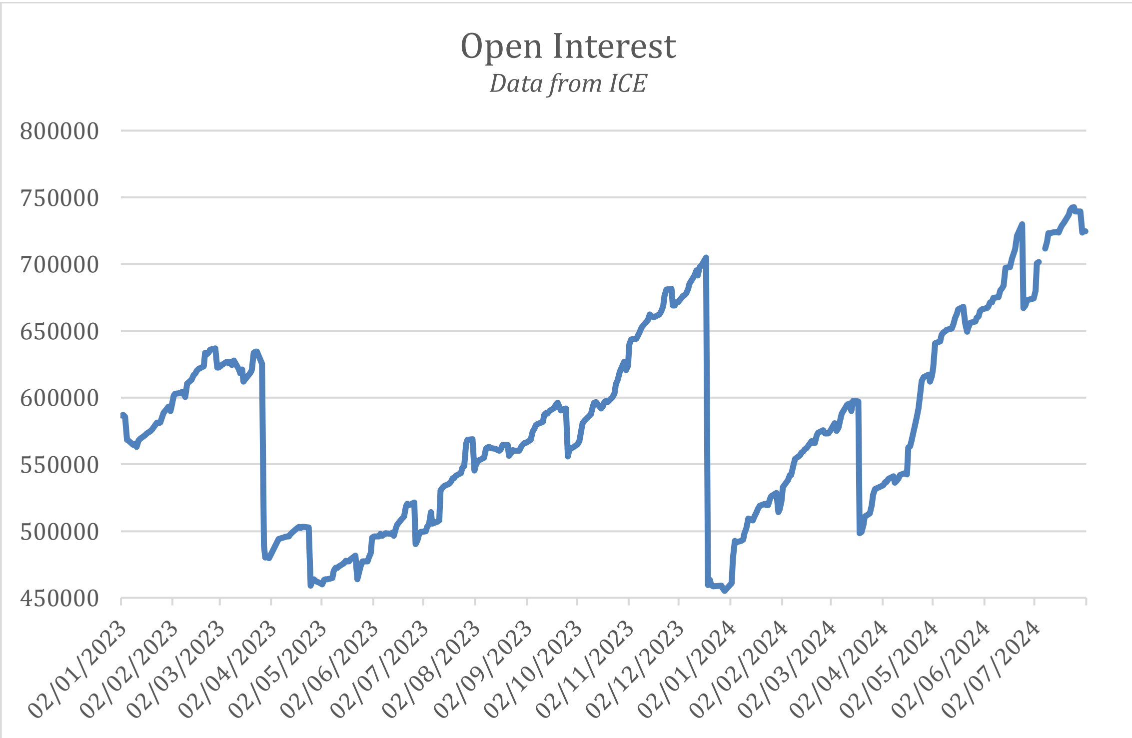
What happened? (Price movements)

- Monday saw EUAs push up from Friday's close as rising TTF gas prices injected bullish momentum. The Dec24 contract settled at EUR 68.69, up 1.2% on the day
- Tuesday saw all the gains from the day prior reversed as the benchmark contract settled 0.1% lower, closing the day at EUR 68.64
- Wednesday saw a 0.8% gain (and subsequently a 2.6% monthly rise) as general firmness across the energy markets supported EUAs. The Dec24 contract settled at EUR 69.21
- Thursday was a day for the bulls as EUAs hit a near four-week high (EUR 71.50) mid-afternoon, attributed largely to rising tensions in the Middle East which mounted pressure on energy prices. The benchmark contract closed the day at EUR 71.18, 2.9% higher
- Friday closed the week at EUR 70.58, a 0.8% drop on the day. Despite this loss, the benchmark contract posted a 4% weekly gain.

Why? (Market drivers)

- Auction platform EEX published an updated calendar of sales late on Wednesday, which confirmed the EU will sell a total of 203,556,000 EUAs for the remainder of the year from September. This represents an 8.2 million (4%) increase YoY compared to 2023.
    - No additional allowances will go on sale to fund RepowerEU (the bloc's initiative to transition away from Russian fossil fuels). This announcement was largely expected and as such did not have a great influence on prices
    - Higher auction volumes for the second half of this year, with a full auction schedule taking place for the first time in August, are weighing on EUA prices, dampening gains caused by rises in European gas and coal markets.
- Commitment of Trader's (CoT) Report: CoT data last Wednesday showed funds had increased their net short positions by 2.1 Mt (9.1%) to 25.5 Mt the week ending 26 July
    - This was the third consecutive increase in net short positions and marks the largest bearish bet in over four months

- A net short position has now been reported for 52 consecutive weeks
    - Total longs decreased by 230,000 tonnes to 38.1 Mt, while total shorts increased by 1.9 Mt to 63.6 Mt.
- Carbon continued to track Dutch TTF last week, with the five-day correlation between the front-month TTF contract and EUAs rising to 0.87 early in the week, whilst the 10-day correlation rose to 0.77
    - The big news of the week stemmed from the Middle East on Wednesday as reports that Israel reportedly killed the political leader of Hamas in Tehran, and that Iran's Ayatollah Khamanei subsequently called for a direct attack on Israel, according to the NY Times, put TTF into green across the curve. Further to this, continuing warm weather added to cooling demand in Europe and LNG competition from Asia.
- European gas storage remains on track to reach the EU 90% target in late August. Gas storage was up to 84.92% full on 29 July according to GIE, compared to the five-year average of 75.8%.



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

Supply: Auctions take place on four days this week (No auction on Wednesday), with 11,094,500 to be sold altogether in the primary market.

Middle East: The region remains in a state of heightened alert, with the likelihood of an Iranian-orchestrated retaliation likely in the coming days. This could come directly from Iran, from its proxies in the 'Axis of Resistance', or a combination of both.

Macro: The global economic outlook remains highly uncertain, with significant market volatility driven by multiple factors. European markets opened sharply lower this week due to global turmoil and rising recession fears, following intense selloffs in Asia. France's CAC 40, Germany's DAX, and the FTSE 100 all saw significant declines. The euro, however, strengthened against major currencies, gaining 2% since last Friday as investors sought safer assets. Meanwhile, the Japanese yen spiked following the Bank of Japan's rate hike, which also triggered a massive selloff in Japanese stocks. Concerns over the Fed's reluctance to lower interest rates amid softened U.S. economic data have contributed to the bearish sentiment. Safe-haven assets like gold, the yen, and government bonds saw increased demand, while Bitcoin and other riskier assets experienced selloffs. The CBOE Volatility Index (VIX) surged, indicating heightened market anxiety.

EU Gas: European LNG prices have risen to their highest levels in nearly eight months due to ongoing turmoil in the Middle East and increasing competition with Asia for liquefied natural gas (LNG). The landing price for LNG delivered to northwest Europe in September climbed to $11.61/MMbtu, driven by heightened instability in the Middle East and strong summer demand. The Dutch TTF front-month contract settled at EUR 36.97/MWh, its highest in two months. Despite high storage levels—currently at 85%—and healthy pipeline supplies, market sentiment remains on edge due to geopolitical risks. Tensions following a rocket attack in the Israeli-occupied Golan Heights and potential disruptions to Israeli gas flows to Egypt have added to the market's volatility.

Weather

Northern Europe: According to the latest forecasts, Northern Europe is expected to experience higher-than-average temperatures over the coming week. Heatwaves are anticipated to extend from southern regions, driving up electricity demand for cooling and potentially stressing the energy grid. This increase in power demand could influence gas prices as utilities may rely more on gas-fired power plants to meet the cooling needs.

Southern Europe: Southern Europe will continue to face extreme heat, with temperatures soaring above 40 degrees Celsius in regions such as Greece, Cyprus, Turkey, and Italy. The ongoing heatwave will likely drive higher electricity demand for air conditioning, putting additional pressure on the energy grid and potentially impacting gas prices due to increased consumption for power generation

Further Reading

- Analysts predict EUA prices will remain in the EUR 65-70 range for Q3 … https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/080224-stronger-gas-propels-eu-carbon-prices-to-near-two-month-highs

- European LNG prices tracked TTF and gained 2.6% overnight to a near 8-month high on Middle East escalation of tensions, while competition with Asia for LNG rises … https://montelnews.com/news/6ff286e2-77c6-4dea-b256-5dcf3a46a1bf/eu-lng-prices-rise-to-near-8-month-high-on-geopolitics

Sources

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