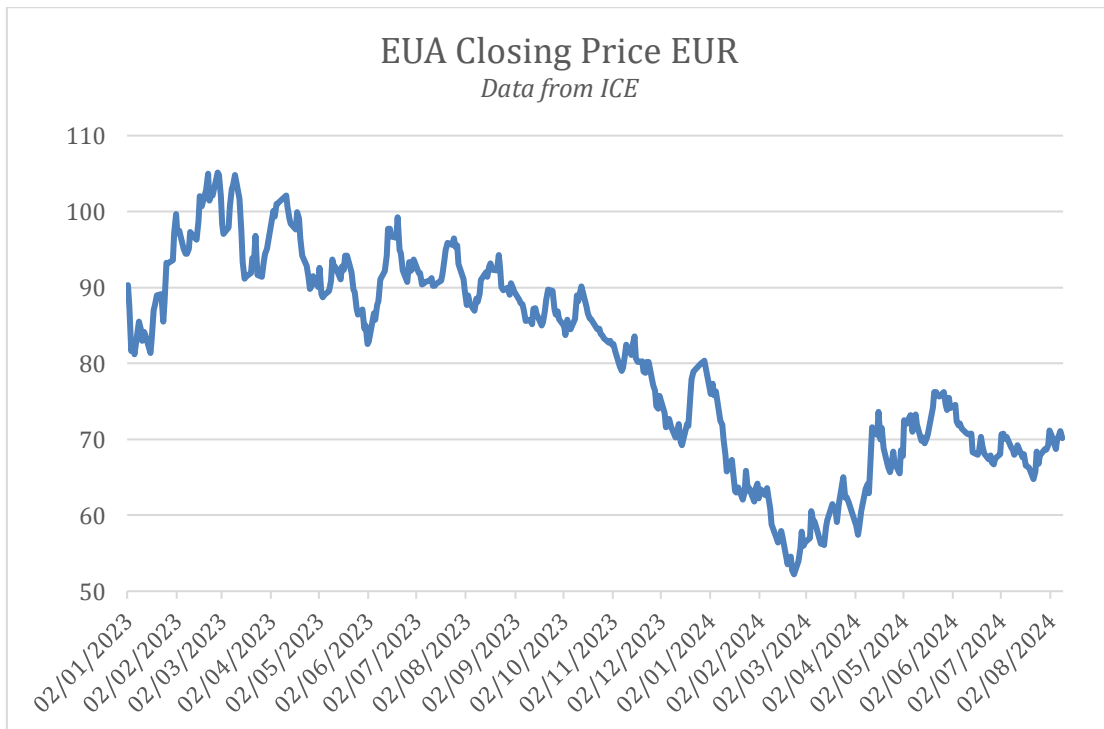




## FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS) EUA WEEKLY REPORT 12/08/24

### In brief: EUAs Shrug Off Surging Gas

Front-December EUAs closed the week at EUR 70.14, down 0.6% (0.44 cents) on the week prior. Meanwhile, the front-month TTF gas contract rose 14% to its highest level since December 2023 due to higher demand amid the warmer weather and supply concerns emanating from the Middle East and Russia. Volume was moderate across the five days, equaling the week prior. The Commitment of Trader's (CoT) data showed funds slashed their net short position by a quarter last week, marking a change in the recent direction of increasing bearish bets. EU gas remained the main driver of EUA prices as well as US recession fears earlier in the week. Traders noted much of Europe is on holiday. Many predict supply concerns have already been priced into gas markets (more below). Failing further developments these prices could ease this week which would likely knock on for emissions. Outlook: neutral-bearish.



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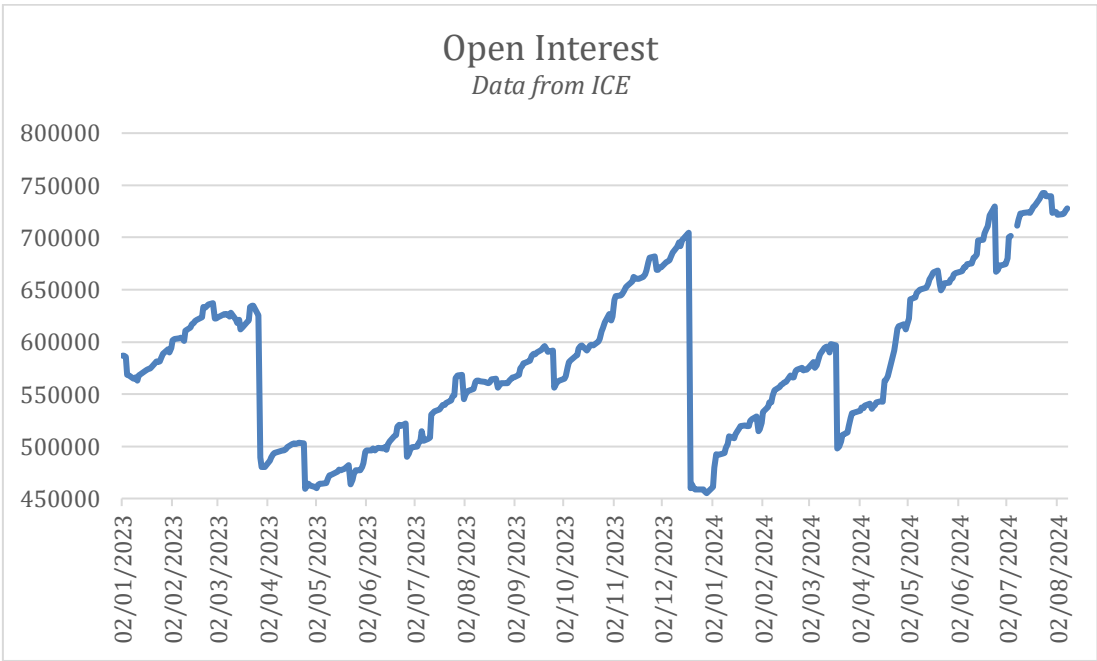
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**What happened? (Price movements)**

- Monday morning saw EUAs reverse the previous week’s 4% gains amid a sell-off in global stock markets and a knock-on in oil and gas. Meanwhile, rising tensions in the Middle East caused counter momentum and a bump in the afternoon. The Dec24 lost EUR 1.85 (2.6%) on the day settling at EUR 68.73. EU gas followed a similar path
- Tuesday saw a rebound on some of Monday’s losses in equities, energy and EUAs. The Dec24 gained EUR 1.23 (1.8%) to settle at EUR 69.96
- On Wednesday EUAs saw little action, inching up only in the afternoon in line with TTF gas to close at EUR 70.57. News from the CoT report that funds had slashed their bearish bets by 25% did little to drive the market
- EUAs continued their slow rise tracking EU gas on Thursday, settling up 49 cents (0.7%) at EUR 71.06. Thin trading continued, likely a result of summer vacations
- EUAs lost 1.3% (92 cents) on Friday while September TTF further inched up after a week of strong gains.





### Why? (Market drivers)

- Commitment of Trader's (CoT) Report: CoT data last Wednesday showed funds had reduced their net short positions by 25% to 19 Mt
  - This marked a reversal in the recent three-week trend of increasing bearish bets
  - A net short position has now been reported for 53 consecutive weeks
- EU gas: European gas prices saw significant increases, with the TTF benchmark rising to EUR 40 per MWh, its highest level since early December 2023. The rally was driven by multiple factors:
  - Geopolitical Risks and Supply Concerns: The primary driver was the fear of a potential disruption in Russian pipeline supplies to the EU via Ukraine. Specifically, gas supplies through the Sudzha crossing point were considered at risk due to reported advances by Ukrainian troops in the Kursk region, which is critical for gas transit to Austria and Slovakia. Although the flow of gas continued with only a slight reduction, these fears contributed to the price spike.
  - High Temperatures and Increased Demand: The ongoing heatwave across Southern Europe led to a surge in gas demand for cooling purposes, adding upward pressure on prices.
  - Middle Eastern Geopolitical Tensions: Heightened instability in the Middle East, with concerns over LNG supply routes and potential disruptions through key chokepoints, kept the market on edge, further supporting higher prices.
  - Economic Sentiment: Earlier in the week, fears of a potential US recession initially caused some downward pressure on prices. However, as these fears eased and concerns over supply disruptions took centre stage, gas prices rebounded and continued their upward trend.

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

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The European gas market is expected to remain volatile, with several key factors influencing prices:

1. **Geopolitical Uncertainty:** The situation in Ukraine, particularly concerning the potential disruption of Russian gas flows via the Sudzha crossing point, will continue to be a critical focus. As the transit agreement nears its expiration, any developments or tensions could lead to price spikes.
2. **LNG Inflows:** The continued strain on LNG inflows to Europe, due to strong demand from Asia and ongoing supply disruptions, will likely keep the market tight and prices supported.
3. **Weather Conditions:** The heatwave in Southern Europe is forecasted to persist, sustaining strong gas demand for cooling purposes. This could keep upward pressure on prices, especially if temperatures remain high throughout the week.
4. **Market Sentiment:** Speculative activity in the European gas markets remains robust, with investment funds holding significant net long positions. This indicates a continued bullish outlook, although the market may react sharply to any bearish signals.
5. **Supply and Weather Already Priced In:** Despite the current elevated prices, a number of traders believe that the risks related to supply disruptions and the ongoing heatwave have already been largely priced into the market. As a result, they argue that there may be limited further upside in prices unless new, significant supply shocks occur. This view could lead to a stabilization or even a slight correction in prices if the expected risks do not materialize or if weather conditions improve.

In summary, while several factors suggest that gas prices may remain elevated in the near term, the belief among some market participants that current risks are fully priced in could limit further gains. However, the market remains



highly sensitive to geopolitical developments and any shifts in weather patterns, which could still influence price movements.

### Further Reading

- Goldman analyst forecasts TTF-EUA decoupling over next five years. They foresee LNG supply to increase by 50% (and prices to halve) while EUAs rise to EUR 150 by 2030 ... <https://www.bloomberg.com/news/articles/2024-08-05/goldman-sees-carbon-market-heading-for-historic-tipping-point>
- Maersk U-turns into LNG <https://www.wsj.com/business/earnings/maersk-reports-lower-net-profit-despite-strong-container-shipping-demand-b88540a8>

### Sources

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

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