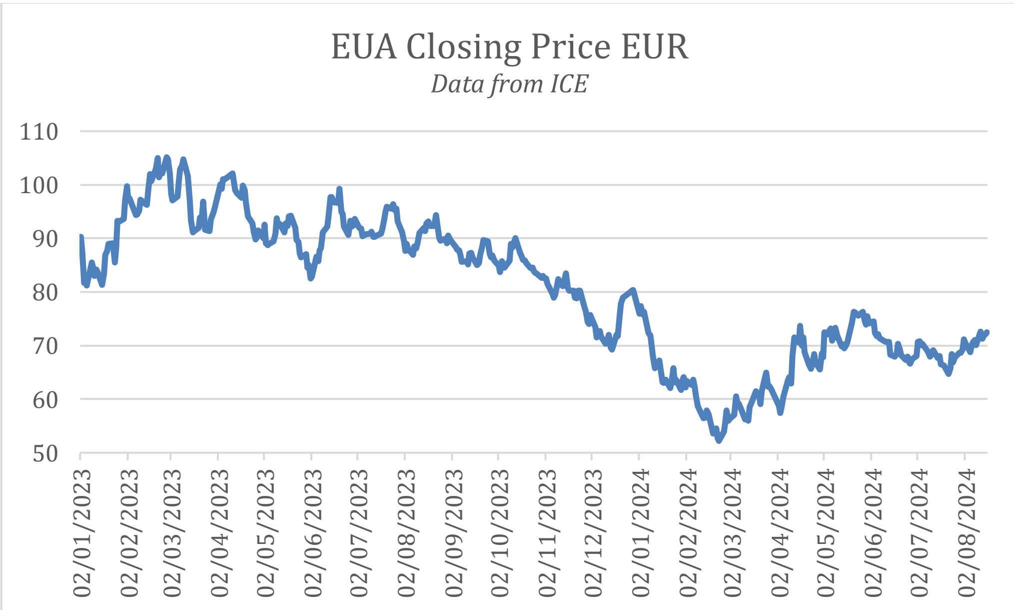
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 19/08/24

In brief: EUAs Rise as Stronger Energy Prices Persist

The benchmark contract settled at EUR 72.52 last Friday, securing a EUR 2.38 (3.4%) weekly gain. EUAs traded in a tight EUR 3.6 range over the week with the lowest volume seen in the past nine weeks. The Commitment of Trader's (CoT) report showed funds reduced their net short position to 14.9 Mt the week ending 9 August, the smallest reading since 14 June. The five-day correlation between the front-month TTF contract and EUAs dropped from 0.83 to 0.38 on Wednesday, with the ten-day correlation coming in at 0.77. At the time of writing on Monday morning, Dec24 has been trading sideways but is now pulling higher with small gains in natural gas markets. Going forward this week, high auction volumes and expected further low trading activity (EU holidays) could depress prices. However, all eyes remain on the Middle east and Ukraine-Russia, where ongoing developments have helped boost gas prices to their highest levels this year. This week, EU gas could trade sideways unless fresh disruptions occur (more below). Outlook: neutral.



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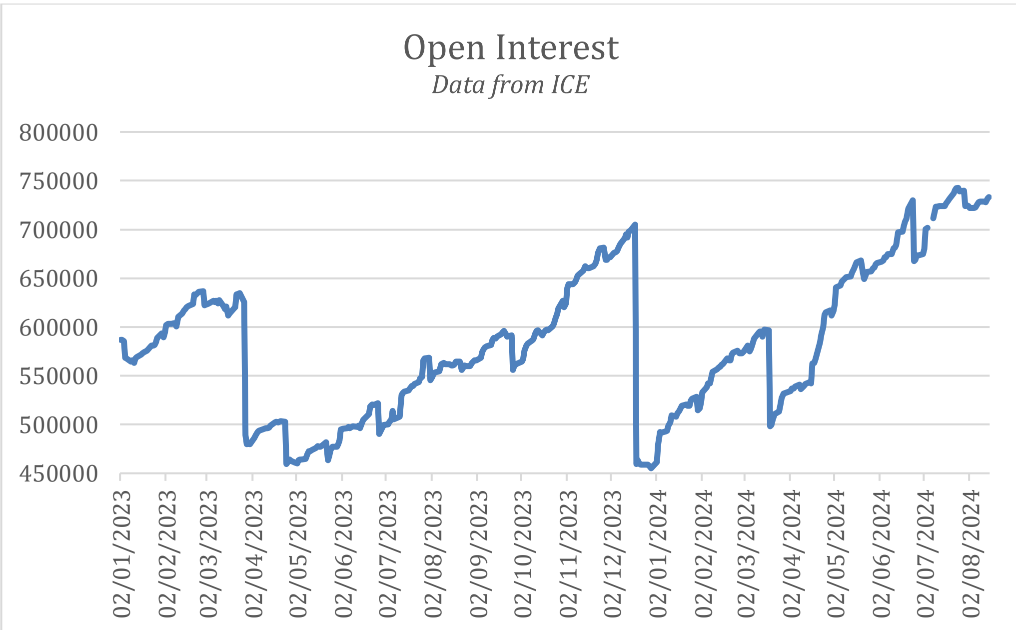
What happened? (Price movements)

- Monday saw EUA prices hit a two-month high (EUR 74.13) as rising tensions in the Middle East boosted prices across the energy markets, with the benchmark TTF contract hitting its highest price since December. The Dec24 contract settled at EUR 72.65, up 3.6% on the day
- Tuesday saw most of the gains from the day prior reversed as the benchmark contract fell by 2% to settle at EUR 71.17
- Wednesday marked a return in buying interest amongst participants as Commitment of Trader's (CoT) data revealed the lowest funds' net short positions in two months. The Dec24 contract closed the day at EUR 71.87, a 1% gain
- Despite a public holiday across much of Europe on Thursday, EUAs maintained upward momentum and inched up 0.3%, with the benchmark contract settling at EUR 72.11
- Friday saw EUAs post a 0.6% gain as modest buying in the market helped boost prices to close out the week up 3.4%. The benchmark contract settled at EUR 72.52.



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Why? (Market drivers)

- Carbon was supported by natural gas prices last week as geopolitical tensions in the Middle East and Ukraine injected bullishness into energy markets
  - The five-day rolling correlation between TTF and carbon dropped from 0.83 to 0.38 on Wednesday, with the 10-day correlation coming in at 0.77, a drop-off from 0.89 a week ago
  - TTF front month eased back slightly last Monday after reaching the highest since December at €40.75/MWh two weeks ago. Since Aug. 13, TTF front month has been pulling back but holding within the €38.5/MWh to €40.4/MWh range, with Ukraine transit supply risks and Norwegian outages weighed against muted demand as storage approaches EU target levels
  - European gas stores are up to 89.4% full on 17 August, according to GIE, compared to the five-year average of 81.4%, as net injections rise to near normal levels
- Commitment of Trader's (CoT) Report: CoT data from last week revealed funds further reduced their total short positions by 4.1 Mt (21.8%) to 14.9 Mt the week ending 9 August. This is the lowest short position since 14 June.
  - Net short positions have now been reported for 54 consecutive weeks
  - Total longs decreased by 2.2 Mt to 35.7 Mt, whilst total shorts fell by 6.3 Mt to 50.6 Mt.

Outlook for This Week: EU Natural Gas Prices

<u>Market Dynamics & Prices</u>: European natural gas prices are expected to remain elevated but volatile this week, with the Dutch TTF benchmark around €38-40 per MWh. Prices are holding at levels not seen since December 2023, driven by ongoing geopolitical risks, particularly concerning Russian gas supplies via Ukraine. However, strong storage levels, with European gas storage at nearly 88.5% capacity, have tempered fears of immediate supply shortages.

<u>Geopolitical Concerns</u>: The market remains cautious as Ukrainian forces make further advances into Russian territories, which could threaten the remaining Russian pipeline flows through Ukraine. Despite the ongoing conflict, Russian gas is still flowing, with

Gazprom continuing deliveries via Ukraine. However, any escalation could disrupt these supplies and push prices higher (more on the link between Russian gas flow into EU and TTF price below).

Weather & Demand: Weather patterns could influence demand this week, with warmer-than-average temperatures in southern regions potentially maintaining high cooling needs. Nevertheless, high storage levels and weaker summer demand may cap further price increases. Analysts suggest that the market has already priced in much of the weather-related and geopolitical risks.

LNG Flows & Global Factors: LNG imports to Europe remain under pressure due to strong Asian demand, which has diverted shipments away from Europe. While this continues to support prices, the robust European storage situation and ongoing supply from Russia might offset some of this pressure. The balance between these factors will be crucial in determining price movements this week.

In summary, while European gas prices are likely to stay high due to geopolitical and supply concerns, strong storage levels and existing market pricing may limit further significant increases unless new disruptions occur.

Further Reading

- Speculation on what a Russian halt of gas flow to EU would do to short-term TTF prices: https://montelnews.com/news/1893a317-f4ee-4578-ada4-4c97946cb9aa/gas-prices-could-jump-up-to-20-on-russia-halt-ex-regulator

Sources

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