

EUA DEC-24 **-2%**

EUAs Prolong Decline on Bearish Gas

Outlook In Brief

Fundamentals: EUAs closed at €63.39 on Friday, down €1.60 (2%) on the week. The ongoing bearish trend in TTF gas continues to suppress EUA prices. Ample winter storage and low EU demand have overshadowed geopolitical supply threats, driving the market lower. EUA prices have now declined for five consecutive weeks. September EUA options, expiring on 25 September, show total open interest (OI) of 24.7 million, with the largest positions at €60 and €65. A move towards €65 could prompt market makers to hedge by buying into the market. Additionally, the latest Commitment of Traders (CoT) report revealed a significant increase in funds' net short positions, though this has not triggered the short squeeze some anticipated. Colder EU weather and macroeconomic optimism from the Federal Reserve's rate cuts could dampen the price slide this week. Outlook: Neutral.

Technical: Technically bearish, the MA on the RSI is implying that momentum remains weak at this point. As noted earlier in the week, the 1- and 4-hour RSI remain in divergence, implying caution on downside moves. However, intraday Elliot wave analysis continues to suggest that upside moves look like they could be countertrend. Due to the divergence in play, the futures are not considered a technical sell at these levels. If we do trade above the EUR 68.87 resistance, then the probability of the futures trading to a new low will start to decrease.

Key Drivers

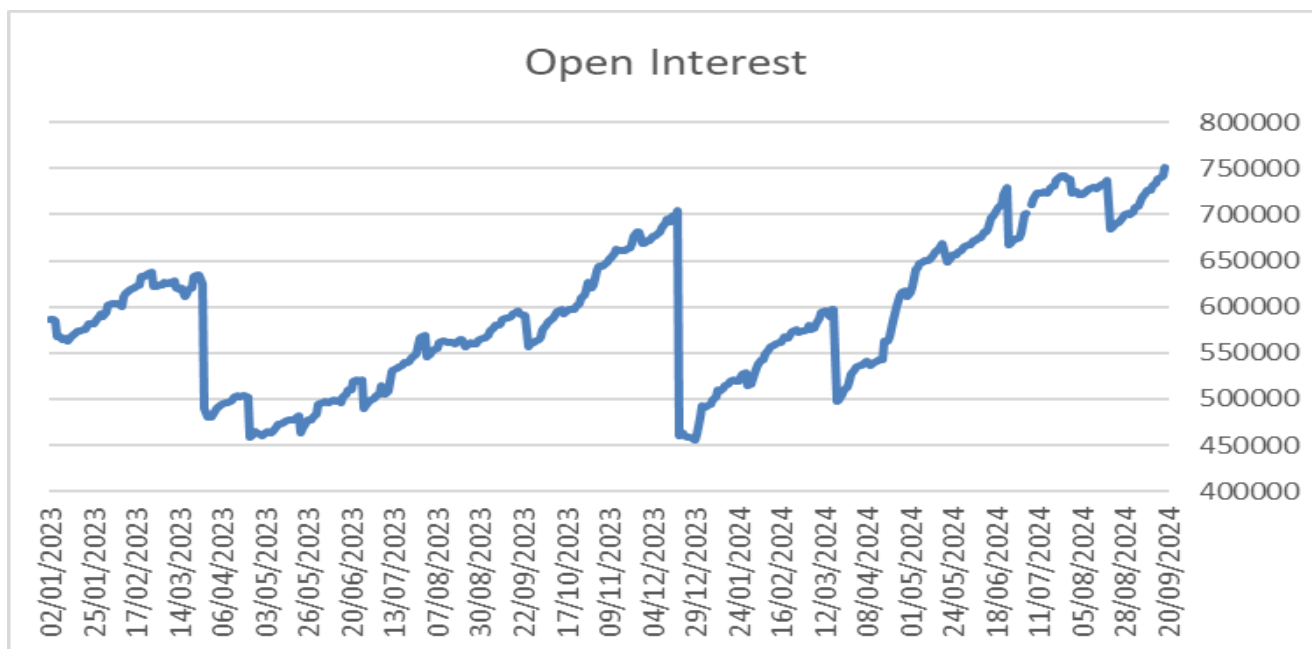
Weekly Auction Supply: The weekly auction supply returns to normal levels this week following a 13% slump last week owing to the absence of the Polish auction. This means that we can expect to see 14.5 mn EUAs offered on EEX between 23 and 27 September.

Weather: Turbulent weather has continued to plague the continent as storm Boris wrought havoc in central and southern Europe. However, logistical disruptions to gas supply are expected to be limited. Cooler weather next week may mark the beginning of the continent’s heating season.

Economic Outlook: The ECB followed the United States and Canada in their decisions to reduce interest rates, citing an alleviation in inflationary pressure. Whilst this will provide some short term economic relief, the tone in the ECBs statement was cautious, as Ursula von de Leyen cited persisting conflicts in the Middle East and Ukraine as potential factors which may stymie growth.

Gas TTF Outlook: The fundamental outlook for TTF gas remains bearish as production from the north remains high. Renewables continue to increase steadily with the inverse being true of gas fired output. To further compound matters, LNG storage appears to be steady and nearing capacity as we head into winter, suggesting limited probability of a supply squeeze on price.

Macro/Political: Europe’s gas supply and the anticipated price rises expected over winter were brought into question on Thursday as the prospect of Azerbaijan sending gas to Europe via Ukraine hit the markets. Whilst these reports were seemingly debunked, developments around this prospect will be a large source of price volatility in the months to come.



Highlights from the Week

Monday 16th

The auction cleared at a notable premium of €1.82, driven by demand of 6.7 million tonnes (mt), a new high. Despite this strong trading activity, overall market sentiment remained bearish, with sustained selling pressure pushing Dec-24 EUAs to a five-month low of €63.42. Analysts have suggested the premium could be due to compliance buying typical of this period, while others pointed to options hedging following an earlier futures price drop.

Tuesday 17th

Tuesday saw a sharp decline at the market open, with prices dropping €0.80 to €62.45 in the first two minutes. However, buyers quickly stepped in, leading to a rally that closed the day with a 1.8% rise on the Dec-24 contract, supported by heavy trading volume of over 33mt. The rise in carbon prices was mirrored by an unexpected 4.3% increase in TTF prices, despite rising temperatures and higher renewable energy generation.

Wednesday 18th

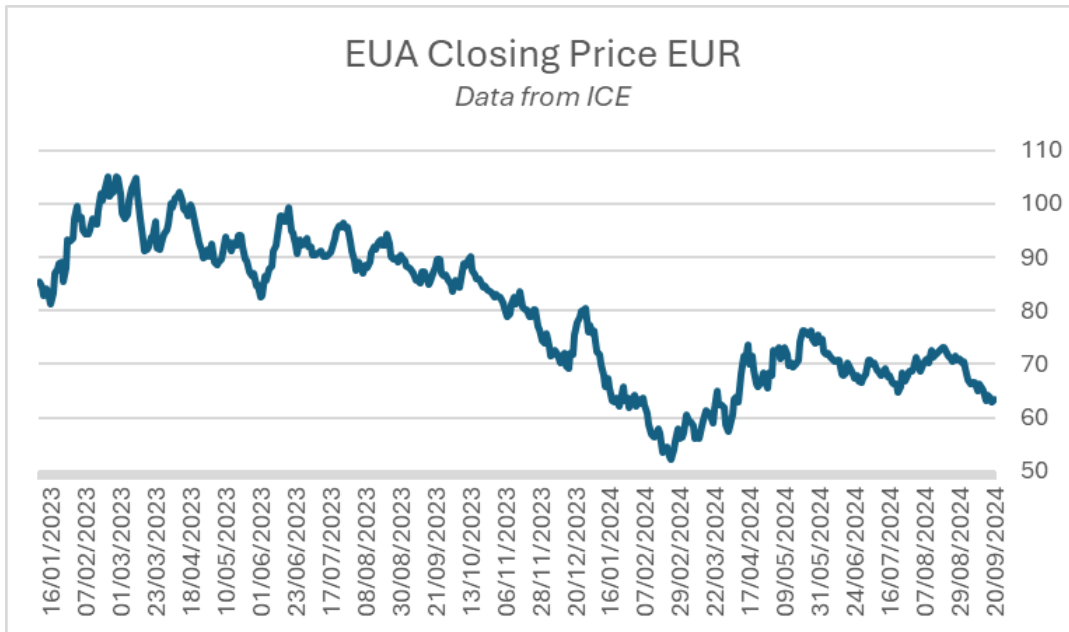
The Commitment of Traders (COT) report revealed a significant increase in net short positions, growing by 18mt in two weeks to reach 21.5mt. This prompted a brief rally in EUA prices, which reached a high of €64.88, before the auction cleared €0.24 below the spot price, causing a reversal. Afternoon selling pressure brought Dec-24 prices back to €63.21.

Thursday 19th

Early buying pushed Dec-24 prices to a midday high of €65.42, with the auction clearing at a slight premium. However, the gains were short-lived as a sharp 12.5% drop in TTF prices, coupled with rumors of Azerbaijan supplying gas to Europe via Ukraine, led to a 6% fall in EUAs, bringing prices to a new five-month low.

Friday 20th

Friday's trading was relatively subdued, with Dec-24 prices fluctuating between €62.88 and €64.15. TTF front-month gas prices rebounded following Thursday's steep decline, and EUA prices followed suit, ending the week with a modest 0.9% increase.



Contact

Robert Jones: +44 7727 479982
RobertJ@freightinvestor.com

The information provided in this communication is not intended for retail clients. It is general in nature only and does not constitute advice or an offer to sell, or the solicitation of an offer to purchase any swap or other financial instruments, nor constitute any recommendation on our part. The information has been prepared without considering your investment objectives, financial situation, or knowledge and experience. This material is not a research report and is not intended as such. FIS is not responsible for any trading decisions taken based on this communication. Trading swaps and over-the-counter derivatives, exchange-traded derivatives, and options involve substantial risk and are not suitable for all investors. You are advised to perform an independent investigation to determine whether a transaction is suitable for you. No part of this material may be copied or duplicated in any form by any means or redistributed without our prior written consent. Freight Investor Services Ltd (FIS) is authorised and regulated by the Financial Conduct Authority (FRN: 211452) and is a member of the National Futures Association ("NFA"). Freight Investor Services PTE Ltd ('FIS PTE') is a private limited company, incorporated and registered in Singapore with company number 200603922G, and has subsidiary offices in India and Shanghai. Freight Investor Solutions DMCC ('FIS DMCC') is a private limited company, incorporated and registered in Dubai with company number DMCC1225. Further information about FIS including the location of its offices can be found on our website at [freightinvestorservices.com](https://www.freightinvestorservices.com)