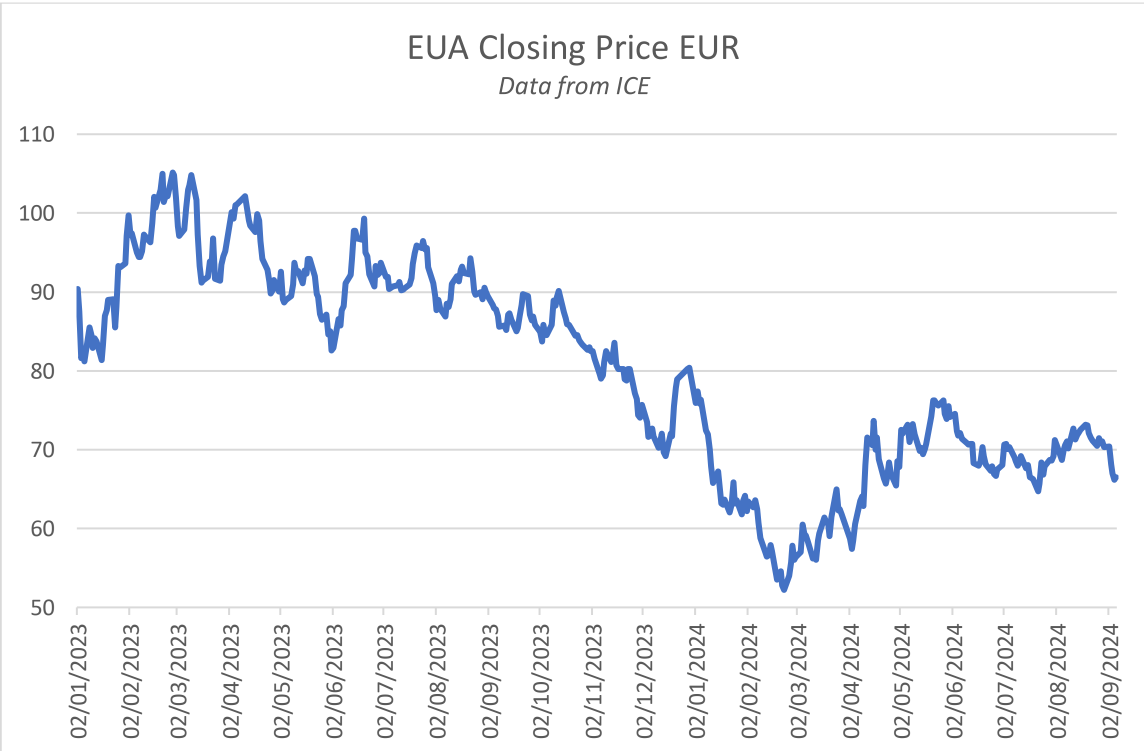
FIS Consultancy for Shipping in the EU Emissions Trading System (EU ETS)

EUA WEEKLY REPORT 09/09/24

In brief: EUAs Fall to 6-Week Low as Traders Return

The benchmark contract settled at EUR 66.50 last Friday, down EUR 3.80 (5.4%) on the week. EUAs traded in a wider EUR 5.04 range amid volume over 50% higher than the week prior. The Commitment of Trader's (CoT) report revealed funds increased their net short position for the first time in five weeks. The change in compliance deadline from April to September this year gives some prospect of last-minute buying for the remainder of the month, with April having experienced an average price appreciation of 14% over the past five compliance years. The Dec24 had recouped earlier losses on Monday morning (at time of writing) following the auction results (EUR 65 .75). On gas, the EUA-TTF gas correlation looks to have strengthened again after a few weeks of wavering. Overall, while geopolitical and supply risks keep natural gas markets on edge, healthy storage levels and seasonal cooling in both Europe and Asia should provide some relief in the short term. However, any escalation in the conflict in Ukraine or further delays in Norwegian maintenance could trigger additional price spikes in the coming weeks. Outlook: neutral.



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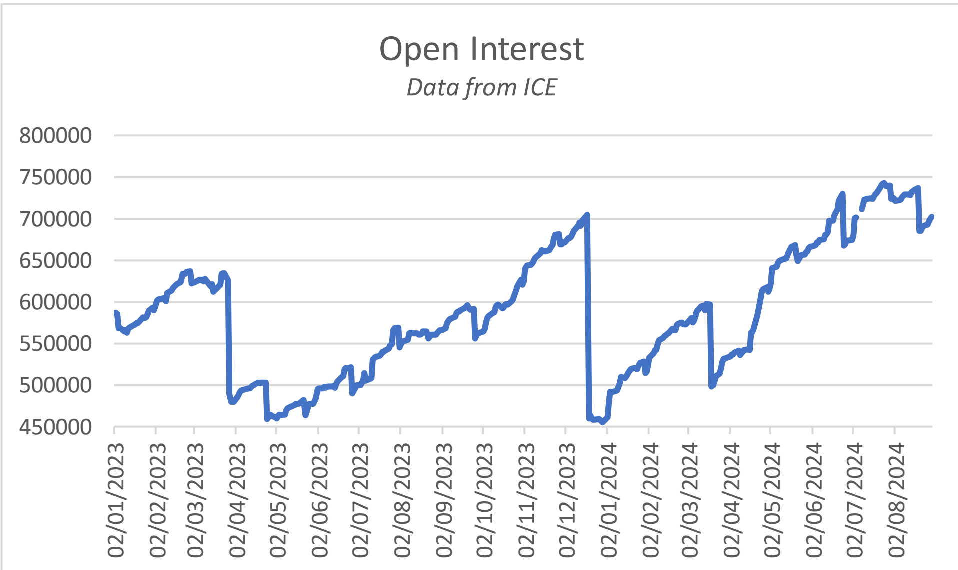
What happened? (Price movements)

- Monday saw little to report as the closure of US markets ensured low volume was traded throughout the day. The Dec24 contract settled at EUR 70.43, a 0.18% gain on the day
- Tuesday marked a return of aggressive selling as the benchmark contract dropped 3.2% to settle at EUR 68.16
- Wednesday saw carbon hit a six-week low as the benchmark contract fell to EUR 66.75 in the last hour of trading. The Dec24 contract closed the day at EUR 67.00, down 0.6%
- Thursday continued in the same way as high levels of selling dragged prices further down, with the benchmark contract falling 1.2% to settle at EUR 66.20
- Friday brought a halt to a three-day losing streak as the Dec24 contract climbed 0.5% to settle at EUR 66.50. However, the benchmark contract still lost 5.4% over the week.

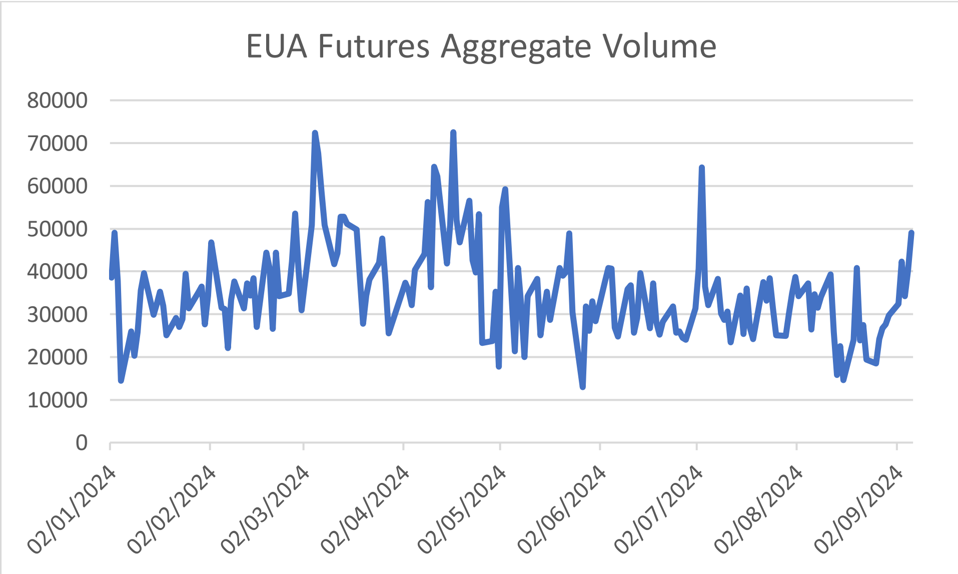


Why? (Market drivers)

- EUAs tracked the energy markets last week, with TTF suffering a three-day loss at the beginning of last week as maintenance outages in the North Sea and news coming from France that its nuclear capacity will increase for the remainder of 2024 subsequently caused a drop in TTF prices
  - Thursday and Friday did see small gains in the October TTF contract, with high European gas storage (up to 92.85% full on Sep 7 according to GIE) continuing to support TTF and prevent any further downside risk
  - The latest ECMWF weather forecast for NW Europe suggested temperatures will remain above the 30-year normal until 10 September, after which they

will fall below normal for the remainder of the forecast period, from which we should see an increased demand for heating facilities.

- Commitment of Trader's (CoT) Report: CoT data from last week showed funds increased their net short positions to 6.7 Mt for the week ending 30 September, up 1.9 Mt (39%).
    - This marked the first increase in bearish bets in five weeks
    - Total longs fell by 1.2 Mt to 40.3 Mt, while total shorts increased by 630,000 tonnes to 47 Mt.



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

<u>Macro</u>: Global markets have entered the week with a cautious tone due to ongoing economic concerns. The focus is on weak demand in China, which has led to reduced industrial activity and dampened growth expectations. This has reverberated across global markets, including Europe, as recession fears remain. The ECB is expected to take a measured approach, with the euro still performing strongly as a safe-haven currency. Additionally, geopolitical tensions in Ukraine and the Middle East persist, keeping markets volatile. Key economic indicators, including inflation data and sentiment indices from the Eurozone and the U.S., will be watched closely for signs of broader economic slowdown, which could influence energy markets, particularly gas prices in Europe.

<u>EU Gas</u>: European natural gas prices saw volatility last week due to geopolitical risks and maintenance activities in Norway. Prices at the Dutch TTF hub softened towards the end of the week, with LNG competition easing as Asian demand waned amidst cooling temperatures and weaker economic data from China. However, TTF prices

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remain supported by ongoing concerns around the potential for disruptions to Russian pipeline flows through Ukraine, particularly following Ukrainian military operations near the Sudzha entry point. Additionally, Norwegian gas supplies have been restricted due to maintenance, which could lead to increased price volatility through September as maintenance continues. With European storage facilities over 92% full, these supply-side risks are somewhat balanced by strong inventories.

Weather:
Northern Europe: Cooler temperatures are expected this week, reducing the need for gas-fired power generation as renewable energy sources, such as wind and solar, remain robust. This could dampen gas demand in countries like Germany, the UK, and the Netherlands.

Southern Europe: Milder temperatures will persist, particularly in Italy and Spain, but overall energy demand should start to decrease as summer winds down. There is no significant weather event expected that could sharply increase gas consumption in the region, although ongoing geopolitical tensions remain a concern for energy traders.

Further Reading

- ING analysts raises TTF gas outlook to €37/MWh for Q4, up from €35/MWh, though prices are expected to trend lower. Despite stable fundamentals, including storage levels over 92%, speculative trading has increased due to concerns about potential disruptions to Russian pipeline gas via Ukraine. Attacks in Russia's Kursk region near the Sudzha entry point could threaten around 15 bcm annually, but flows remain uninterrupted for now. However, the transit deal with Ukraine will expire by the end of 2024, with no planned renewal, raising the potential for price spikes if winter conditions worsen. https://think.ing.com/articles/oil-demand-risks-and-natural-gas-supply-risks/

Sources

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

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