FIS Weekly EUA Report

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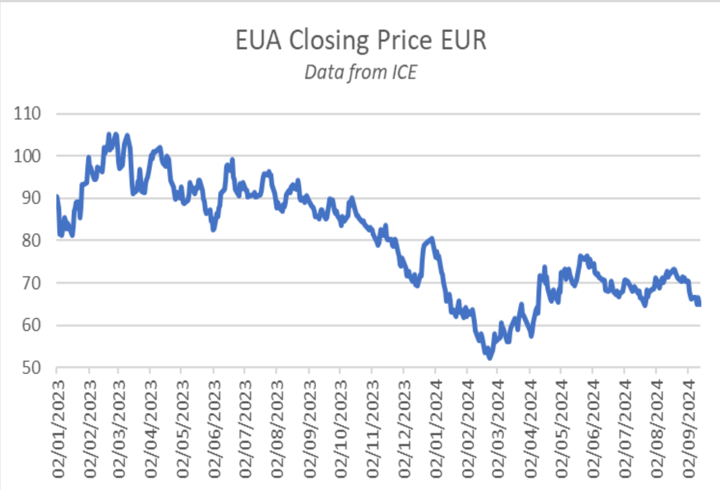
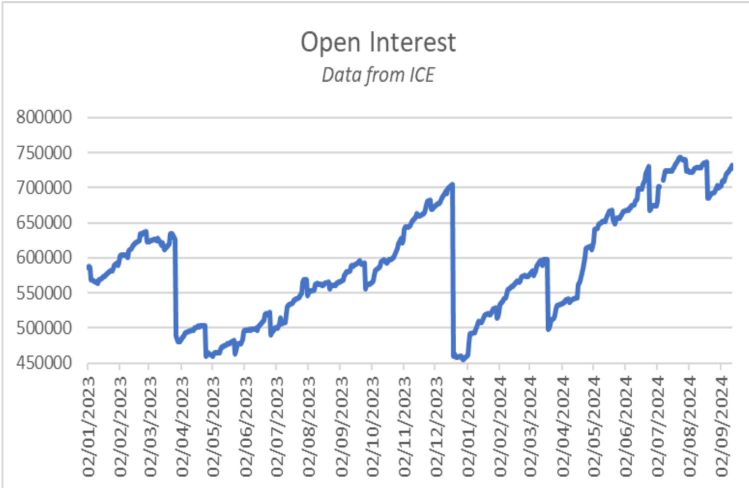
In brief: EUAs Continue Slide on Weaker Energy

Front-December emissions closed at EUR64.99 last week, down EUR1.51 (2.3%). The contract traded in a narrower EUR2.85 range amid moderate volume some 10% less than the week prior. Meanwhile, TTF gas lost 2.8% through the week after significant fluctuations early in the week owing to the prospect of Hurricane Francine disrupting LNG flows. Traders noted that besides the ongoing pull from EU gas prices, EUA traders have an eye on the upcoming September options expiry, with significant open interest (OI) on the EUR60 and EUR65 put options. With the largest OI being on EUR65, we'll likely see some anchoring around this level. Outlook: Neutral.





Highlights

- The week opened will the prospect Hurricane Francine may impact US' natural gas output. Prices rallied on Monday before plummeting by as much as 6.1% on Tuesday as any threat the storm posed waned.
- On Wednesday, news in the Commitment of Traders (CoT) report that funds had doubled their net short position were followed by a rally. The net short now stands at 14.2Mt.
- Weaker energy markets prevailed on Thursday with sentiment turning bearish following a report from the International Energy Association (IEA) that global oil demand growth in the first half of the year was the lowest since 2020. A rapidly slowing China was cited as the key driver.
- Gas once again was the culprit in low EUA prices on Friday, with TTF prices falling 2.7%.

Outlook

<u>Macro</u>

- Global markets remain on edge due to concerns over inflation and interest rate changes, which could indirectly impact energy markets.
- European economic indicators, particularly any data pointing to a slowing recovery or weaker industrial activity, could affect carbon market demand.
- The recent strength of the euro against the dollar could impact energy import costs, including gas and LNG.

EU Gas

- EU Gas Storage is currently above 91% full, providing a buffer against immediate supply shocks. and no significant delays in Norwegian maintenance have been noted. However, renewed interest from China in spot cargoes for winter and Egypt's recent tender to cover winter demand indicate potential shifts in the market.
- There has been a noticeable diversion of LNG cargoes, with a recent example being Uniper's tanker redirecting from the Netherlands to China. Atlantic LNG freight rates have declined for the fifth consecutive week, signalling a period of subdued demand.
- Ongoing concerns in Ukraine, particularly around the Russian pipeline transit deal set to expire at the end of 2024. Any new developments or changes in gas flow via Ukraine could cause market reactions.
- Tensions in the Middle East remain in focus, with potential implications for energy markets if regional instability affects oil and gas supplies.

Weather

- Northern Europe: Cooler temperatures are expected as autumn sets in, which may reduce power demand for air conditioning, easing some gas demand pressure.
- Southern Europe: Mixed weather is forecasted, with some areas still experiencing above-average temperatures. This could sustain some demand for natural gas, particularly for cooling purposes.

Further Reading

- Think Tank Institute for Energy Economics and Financial Analysis (IEEFA) claims Europe has ‘likely passed peak LNG consumption’ amid declining EU gas consumption https://ieefa.org/articles/european-lng-import-terminals-are-used-less-demand-drops

Sources

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

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