

EUA Market developments



Source: Bloomberg, retrieved 2nd August 2022

Exchange-traded carbon products

Period: 1 July 2022 – 29 July 2022

| Ticker | Return | AUM added (millions) |
|--------------|--------|----------------------|
| CO2 LN (€) | -8.2% | € -45.5 |
| KEUA (\$) | -9.8% | \$ -6.6 |
| CARB (\$) | -10.0% | \$ -46.9 |
| KRBN (\$) | -7.9% | \$ -184.3 |
| KCCA (\$) | -7.0% | \$ -14.8 |
| CO2 NZ (NZD) | 7.1% | \$ 6.2 |

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July EUA price action was again driven by consequences of the war in Ukraine and the EU's reaction.

Fundamentally, the utility complex remains bullish EUAs, while the looming slowdown of industrial production softens this effect somewhat. Rallying gas prices keep emissions intensive coal and lignite fired power plants running across Europe. This is further intensified by the low availability of French nuclear plants which need to be compensated for by more fossil fuel burn. Overall, this means that the power sector is on the path to increase emissions significantly compared to 2021.

On the flipside are the fears of lower industrial output increased with the EU's announcement to reduce gas consumption by 15%, the larger than expected ECB interest rate hike as well as the negative IFO index publication. Consequently, carbon prices softened in the last weeks of July, dropping below 80€/tonne.

On the regulatory side, the EU Parliament rebuffed the EU Commission's plan to finance parts of the RePowerEU plan (that aims to render the EU independent from Russian gas) with EUA sales from the Market Stability Reserve. This feeling was echoed by member states in the Council, so that it looks increasingly unlikely that such sales will hit the market over the coming years.

| | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Avg million EUAs sold per auction | 2.52 | 2.35 | 2.47 | 2.46 | 2.31 | 2.25 |
| Avg subscription rate | 139% | 219% | 230% | 235% | 230% | 2.21% |

Source: EU Commission, EEX, SparkChange

EUA Market outlook

August usually sees a slowdown in carbon trading, as Brussels is in summer recess and auction volumes are cut in half. However, this year it is likely that volatility will persist: Any further development around power plant capacity (such as further outages due to low water levels on rivers) or gas flows can have a significant impact on the bullish side, in particular as EUA auction volumes are curtailed.

On the regulatory side there should be little news, however this year might see announcements from the EU Commission that could impact the EU ETS in both directions.

Events to watch

- Several utilities' H1 report which could include surprises on EUA hedging in Q2

About SparkChange

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