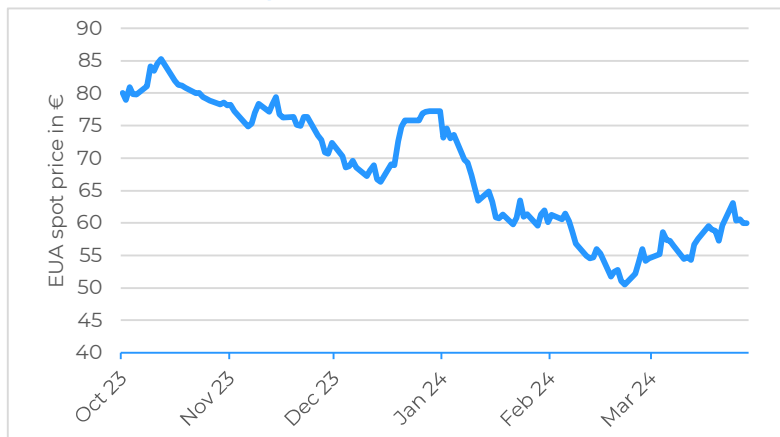


EUA Market Developments



Source for graph and table: Bloomberg, retrieved 2nd April, 2024

Carbon Exchange-Traded Products

Period 01-Mar-24 to 29-Mar-24

Ticker	Return	AUM added (millions)
CO2 LN (€)	9.9%	46.4
KEUA (\$)	9.5%	-2.9
CARB (\$)	9.5%	-40.8
KRBN (\$)	4.3%	-15.0
KCCA (\$)	-6.4%	-11.1

- European carbon posted its first monthly gain of the year, with the EUA price rallying c11% in March. The EUA price closed the month at EUR 60, c21% higher than the February low of cEUR 49. The positive price move was jittery, with three intra-month rallies of >10%, vs. slightly shallower drawdowns. Seven intra-day moves of >5% contributed to 30-day volatility reaching a 17-month high of c38%.
- Positive short-term factors – forecasts of a cooler start to spring, some production disruption in gas, an unscheduled nuclear outage and lower renewable output in general, flare-ups in geopolitical risk – were enough to trigger rallies. Turning to the longer-term, an improving economic outlook – globally, but also in some EU Member States – led to some of the more bullish EUA analysts to reinforce their positive stances.
- The evolution of Investment Funds' positioning in EUAs exacerbated the positive move seen in March. The short position held by Investment Funds in EUA Futures has contracted by c19% from a February peak of c75mt¹, while long positions have expanded to a nine-month high of c36mt. As a result, the net short position held by Investment Funds has in aggregate contracted by c40% to c25mt.
- The EUA price has given up some of the March gains in April, and sentiment seems to be struggling to find a direction. Near-term fundamentals remain bearish, but with the EUA price c40% lower than 2023 highs as we approach a tightening of EUA supply, market participants are trying to judge when we might see an inflection.

¹Commitment of Traders report published by the [Intercontinental Exchange](#)

Auction Results

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Avg million EUAs sold per auction	2.90	2.90	2.93	2.89	2.78	2.78
Avg subscription rate	173%	152%	156%	163%	168%	168%

Source: EU Commission, EEX, SparkChange

EUA Market Outlook

- The inflection point in EUA fundamentals – where the deficit in EUA supply vs. demand is re-established – is still some time away. That said, historically the market has anticipated these fundamental swings in advance. We therefore expect to see continued volatility as the tug-of-war plays out between short sellers remaining focused on near-term fundamental weakness and buyers shifting focus to more bullish long-term outlook.
- One element that plays into the hands of the bulls, is that the compliance deadline – typically preceded by a seasonal rally – has shifted from April to September. This raises the risk of a significant squeeze in EUA prices over the summer if corporates rush to secure their compliance obligation at a time when heat waves can trigger peak energy demand.

Events to Watch

- **SparkChange Webinar – 23rd April – Preparing for the Squeeze:** [Join our upcoming webinar](#) to better understand when we see the fundamental inflection point taking place, how far in advance the EUA market is likely to anticipate that, and how Investment Funds' positioning may bring that timing forward.



About SparkChange

SparkChange is a specialist provider of carbon data, analytics, insight and financial products empowering financial institutions to capitalise on the opportunities — and manage the risks — arising from the transition to a low-carbon economy. Combining extensive industry experience across carbon markets, financial products and data analytics, our team shares a passion for SparkChange's mission: To link the financial world to carbon markets.



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