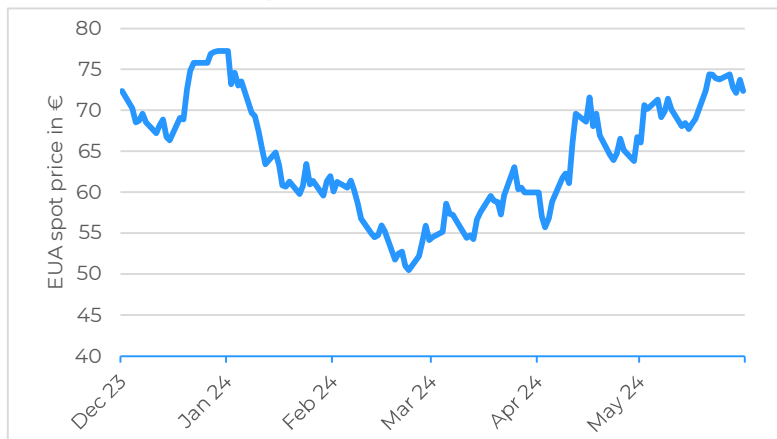


EUA Market Developments



Source for graph and table: Bloomberg, retrieved 1st June, 2024

Carbon Exchange-Traded Products

Period 01-May-24 to 31-May-24

| Ticker | Return | AUM added (millions) |
|------------|--------|----------------------|
| CO2 LN (€) | 8.4% | 5.1 |
| KEUA (\$) | 11.0% | 0.3 |
| CARB (\$) | 11.3% | 13.4 |
| KRBN (\$) | 7.9% | 23.6 |
| KCCA (\$) | 0.3% | 3.3 |

May Developments

- European Carbon rallied for the third consecutive month in May, recording a c8% gain. The EUA price closed the month up c43% from the February lows, with the price of cEUR 72 being down just c6% YTD.
- Geopolitical risks eased somewhat through the month of May, as tensions between Israel and Iran seem to have de-escalated, and annualised volatility in the EUA price has started to retreat from the 21st May reading of c38% that represented a 19-month high.
- EUA price fundamentals continue to be sluggish. Not only is the demand for power at a low ebb, but the generation mix continues to skew heavily to clean sources, whilst the residual thermal generation that is required, is predominantly delivered by cheap gas. Overall, the emissions intensity of the EU’s power generation has continued to fall from a FY 2023 record low of c244 gCO₂e per kWh, to a YTD average of c213.
- Nonetheless, we continue to see market participants showing willingness to look through the near-term oversupply of EUAs to a tighter future for the EU ETS in 2026 and beyond. This is playing out most acutely in Investment Fund positioning¹, which saw the net short position held by Investment Funds reach a 7-month low of c7mt, down c83% since the February peak. This reversal of sentiment has been triggered both by a significant reduction in absolute short positions, as well as long positions expanding to a 14-month high.

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

Auction Results

| | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Avg million EUAs sold per auction | 2.93 | 2.89 | 2.78 | 2.78 | 2.79 | 2.68 |
| Avg subscription rate | 156% | 163% | 168% | 168% | 167% | 167% |

Source: EU Commission, EEX, SparkChange

EUA Market Outlook

- As we have long argued, we are rapidly approaching an inflection point in the balance between EUA supply and demand, where the EU ETS flips from small surplus in 2024 to material deficit in 2026 – 2030. Whilst near-term fundamentals remain weak, on balance the longer-term focused bulls have been in the driving seat for the last three months, testing the resolve of the shorts as that inflection point edges closer.
- With summer on the horizon, eyes will be drawn to weather developments as the EU ETS is now much more sensitive to heat waves than winter cold snaps. If we see a hot summer – as some long-term forecasts are starting to point towards – that triggers disruption of hydro and nuclear generation similar to that which we saw in 2022, there’s scope for the remaining shorts to be squeezed further, potentially exacerbated by the September compliance deadline.
- If the European summer instead plays out as the British one has started(!), there’s a chance we see one final pull-back. Investor conversations would suggest that any such pull-back might be short-lived however, with many waiting for such a pull-back as an opportunity to build long-term positions in EUAs.



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.



Billal Ismail

HEAD OF SALES

Tel: +44 (0)20 8148 8541

Email: bi@sparkchange.io



Philipp Ruf

HEAD OF RESEARCH & ANALYTICS

Tel: +44 (0)20 8148 8541

Email: pr@sparkchange.io

IMPORTANT INFORMATION

Communication Disclaimers

This communication has been provided to you for informational purposes only.

This communication is not intended to constitute, and should not be construed as, investment advice, investment recommendations or investment research.

This communication is not intended as and is not to be taken as an offer or solicitation with respect to the purchase or sale of any security or interest, nor does it constitute an offer or solicitation in any jurisdiction, including those in which such an offer or solicitation is not authorised or to any person to whom it is unlawful to make such a solicitation or offer. Distribution of information contained in this communication may be restricted by law. Persons receiving this communication should inform themselves about and observe any such restrictions. Any dissemination or other unauthorised use of this information or documents by any person or entity is strictly prohibited.

SparkChange believes the information in this communication to be correct at the date of issue. However, no representation or warranty is given as to the accuracy of any of the information provided. Some information in this communication is based on information given/obtained from independent research providers that SparkChange considers to be reliable. Analysis provided in this communication may be based on subjective assessments and assumptions and can use one among several alternative methodologies that produce diverse results. Hence, analysis and projections should not be seen as factual and should not be relied upon as accurate predictions of future performance.

Spark Change Group Limited is part of the SparkChange Group. Spark Change Group Limited (FRN 944451) is an Appointed Representative of Kroll Securities Ltd. (FRN 466588) which is authorised and regulated by the Financial Conduct Authority.