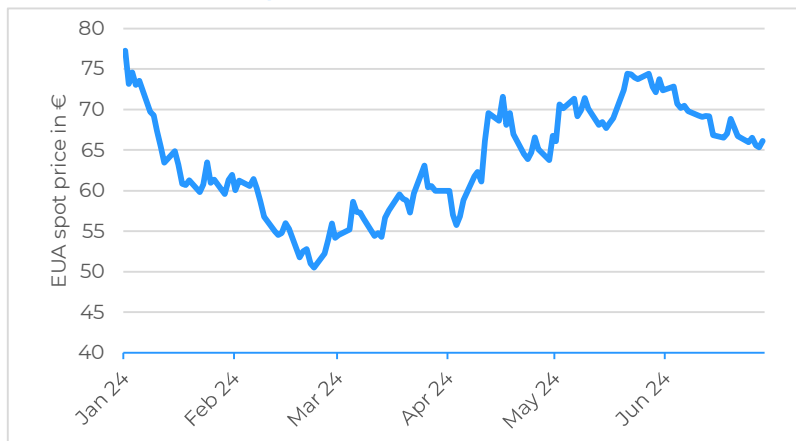


### EUA Market Developments



Source for graph and table: Bloomberg, retrieved 1<sup>st</sup> July, 2024

### Carbon Exchange-Traded Products

Period 01-Jun-24 to 28-Jun-24

| Ticker     | Return | AUM added (millions) |
|------------|--------|----------------------|
| CO2 LN (€) | -9.3%  | -28.7                |
| KEUA (\$)  | -11.6% | -2.5                 |
| CARB (\$)  | -10.6% | -17.5                |
| KRBN (\$)  | -6.5%  | -30.9                |
| KCCA (\$)  | -18.4% | -64.1                |

### June Developments

- European Carbon broke its three-month gaining streak in June, falling by c9% to record the first monthly decline since February. The month’s closing price of cEUR 66 is down c14% YTD, albeit up c31% since the February low.
- As geopolitical risk has continued to ease, volatility in the EUA price has dampened, with annualised volatility at a c3-month low. That reduced volatility has seen Investment Funds rebuild short positions that had fallen to a 7-month low in May. The net short position closed the month at a little over 21mt, vs. a February peak of 39mt.
- That appetite to build short positions, as well as a slight reduction in long positions, is driven by persistently weak near-term fundamentals. The record >75% penetration of renewables in the EU’s generation mix in May was repeated in June, with the CO2 intensity of the EU’s power generation at record lows as a result. With EUA supply temporarily inflated by REPowerEU, June’s average subscription rate of 161% in primary auctions was a YTD low, whilst the average discount of EUR 0.1 was the largest discount since November 2023.
- That said, the EUA price has failed to break below EUR 65, and we seem to be in a new trading range of cEUR 65 – 75 that has persisted for three months or so.

<sup>1</sup>Commitment of Traders report published by the [Intercontinental Exchange](#)

### Auction Results

|                                   | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| Avg million EUAs sold per auction | 2.89   | 2.78   | 2.78   | 2.79   | 2.68   | 2.76   |
| Avg subscription rate             | 163%   | 168%   | 168%   | 167%   | 167%   | 161%   |

Source: EU Commission, EEX, SparkChange

### EUA Market Outlook

- We are edging closer to 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. In the meantime, the market is in a tug-of-war between that longer-term bullish outlook vs. weak near-term fundamentals. In that context, we’re seeing appetite for long positions to be built toward the bottom of the recent EUR 65 – 75 range, with short positions being built again above EUR 70. As such, it’s likely that the EUA price remains rangebound in the near-term.
- Summer heat waves remain a squeeze risk, however. The extreme EUA price rally seen in Summer 2022 was exacerbated by high gas prices that meant Carbon intensive coal-fired power generation had to fill the gap left by disrupted renewables. Whilst low gas prices and high gas reserves minimise the presence of coal in the generation mix, dampening squeeze risk, the fact that Investment Funds are net short and the compliance deadline this year is in September raise it again. As such, we will continue to watch weather events closely.



## 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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