

Carbon Market Strategist

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Almost 267 million allowances to be withdrawn

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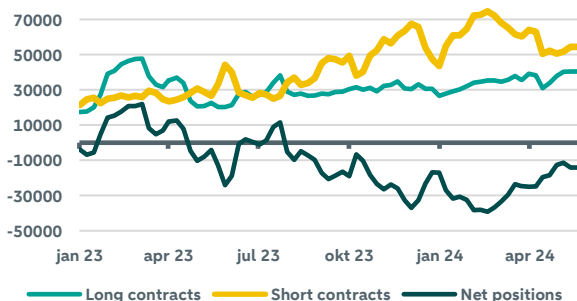
- Carbon prices remained on the upward trend that was fueled by the rise in gas prices following higher Asian competition for LNG as well as lower supply of allowances
- The EC announced a Total Number of Allowance in Circulation (TNAC) of 1111 Mt, and thus 267 million allowances will be withdrawn from the market between September 2024 and August 2025
- Germany plans to phase out 10 GW of coal and lignite capacity over this summer, while France’s nuclear output is expected to be higher than last year during the summer period, reducing demand for allowances
- The current levels of gas prices are expected to prevail in the summer period. Accordingly, we expect the EUA price to range between 73-78 EUR/tCO₂ during June

EUA prices averaged 71.4 EUR/tCO₂ in May. Prices stayed on the upward trend that was fueled mainly by the rise in gas prices following higher Asian competition for LNG and maintenance in Norway. The European Commission’s decision on TNAC on 1st June entailed supply tightening and upward pressure on EUA prices. EUAs are trading at 75.9 EUR/tCO₂, at the time of writing.

In May, the EUA price kept the high correlation with European gas prices, which in turn has been witnessing an upward trend driven by different markets forces such as unplanned outages in Norway and the US, along with the higher competition from South and Southeast Asia for LNG cargos. Furthermore, European gas remained sensitive to geopolitical tensions even with the current higher than average storage levels. Consequently, volatility in EUA followed closely that of gas.

Investment funds positions

Number of contracts



Source: Bloomberg, ABN AMRO Group Economics

EUA price

EUR/tCO₂



Source: Bloomberg, ABN AMRO Group Economics

Meanwhile, carbon markets have been witnessing a decrease in bearish sentiments since March manifested by a decrease in investment funds’ short positions. However, net positions remain dominated by short trades as illustrated in in the chart above (left). Meanwhile, European industrial output has been showing signs of improvement with the eurozone manufacturing PMI for May contracting at a slower rate (at 47.3, up from 45.7 in April) (see more [here](#)).

From the supply side, as mentioned in our April update (see [here](#)), the ETS market auction volumes will increase in 2024 mainly due to the front-loading of allowances to finance REPowerEU package. Meanwhile, the European Commission announced on June the 1st its decision on the Total Number of Allowances in Circulation (TNAC). The EC announces a TNAC of 1111 736 535. This reflects a withdrawal of 267 million allowances in the 12 months starting September 2024. These allowances will be inserted the Market Stability Reserve (MSR) (read more [here](#)). The decision will tighten supply and put upward pressure on EUA prices.

Recent and upcoming developments

The European commission was notified by the German government its intention to cancel around 12.25 million EUAs following the closure of two ET ETS installations in 2022. Relatedly, Germany plans to phase out 10 GW of coal and lignite capacity over this summer, which in turn will increase Germany's reliance on gas and reduces demand for allowances as gas has lower emission intensity than coal, while France's nuclear output is expected to be higher than last year during the summer period, reducing the demand for allowances.

Outlook

For June, even with low demand for heating in the summer time, weather conditions will affect carbon markets through their impact on renewable output. That is, lower renewable output due to cloudy skies or slower wind speeds will increase fossil fuel based generation and consequently demand for allowances. Meanwhile, the current levels of gas prices are expected to prevail in the summer period. Accordingly, our outlook for the EUA price is neutral with a price range between 73-78 EUR/tCO₂ during June.

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