

What's Hot: EUA prices nearing €100/tonne

Veröffentlicht am 11. Februar 2022

Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

The front December European Union Allowance (EUA) futures price hit an all-time high of €98.36 per tonne intraday on Tuesday, 8th February 2022. Although its prices pared back to €91.16 per tonne at the time of writing (Thursday 10th February 2022), €100 per tonne is easily within sight as the market closes in on a compliance deadline. Operators must have their greenhouse gas (GHG) emissions for 2021 verified by the end of March 2022 and then surrender the appropriate number of EUAs by the end of April 2022.

Figure 1: December 2022 EUA Price



Source: Bloomberg. Data from January 2017 to February 2022.

Historical performance is not an indication of future performance and any investments may go down in value

Fundamentals driving the price rise

High GHG emissions from electricity production and reduced Allowance supply are helping EUA prices. Elevated European natural gas prices due to the NATO-Russia sabre rattling is driving a greater reliance on electricity production through higher greenhouse gas emitting sources of energy, thus increasing reliance on EUAs.

Why a high EUA price is consistent with policy goals

Reducing greenhouse gas emissions by 55% by the year 2030 (relative to 1990), as stipulated in EU law, is a difficult task and will require the adoption of more pollution abatement technologies. However, many technologies are expensive. A higher carbon price is thus required to make these technologies viable. For example, Bloomberg New Energy Finance estimates that a carbon price of \$145/tonne would be needed to incentivise the initial phases of decarbonising global steel production over the next ten years . Heavy polluting industries need clean electricity, green hydrogen and carbon capture technologies to reach net-zero emission by 2050.

Path to net zero requires more

The European Union is the only continental scale economy with a well-articulated pathway to reach Net-Zero by 2050. But unless it fully adopts the “Fit for 55” legislative package , it will fall short. Negotiations are currently taking place, but this could be a multi-year process. However, what is clear is that the direction of travel is one of tightening emission standards and putting in the incentives to accelerate decarbonisation. A greater focus on European Union’s Emissions Trading System (ETS), which is already the centrepiece of the EU’s climate policy, is highly likely.

Softening the mechanism could be a mistake

Softening the mechanism could be a mistake

Press reports indicate that Peter Liese, a Member of European Parliament, will propose some changes to reduce price volatility of EUAs in the coming week. Under Article 29a of the ETS Directive, the European Commission is required to hold a committee meeting to discuss the possibility of increasing the supply of allowances if, for more than six months, the EUA price is more than three times the average price from the previous two years. Despite the strong price gains we have seen in the past year, this meeting has not been triggered (as the conditions have not been met). We agree that the Article is poorly worded and could do with clarification. However, prices are an important signalling mechanism and any measures that delink EUA supply from fundamentals could be a mistake. The climate goals are tough to achieve. To blunt the tools to get there would make it even tougher. We note that Peter Liese agrees that prices have been driven by fundamentals and any changes he proposes (which are not known yet) will require circa 65-70% approval at the Council, Parliament and then with the Commission. So, the price-drop in recent days (December 2022 EUA price fell to €90.50 at the time of writing, Friday 11th February) seems premature and possibly indicates an attractive entry point.

1 Decarbonizing Steel: A Net-Zero Pathway, BloombergNEF, December 2021

2 <https://www.wisdomtree.eu/en-gb/blog/2021-10-14/fit-for-55-legislation-going-harder-deeper-faster-with-the-eu-emissions-trading-system>

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.