# What's Hot: A Golden Cross for EUA Futures

Published February 17, 2023

**Nitesh Shah**

Head of Commodities and Macroeconomic Research, WisdomTree Europe

European Union Carbon Allowances (EUAs) rose close to 19% in the past month (16/01/2023-15/02/2023). In its quarterly publication released on Monday 13th February 2023, the European Commission revised upwards its economic growth forecast for the Eurozone to 0.9% in 2023 from 0.3% previously. Moreover, it expects the trading block to avoid recession. With the European Union on a healthier footing than previously assumed, market participants are more optimistic and hence have upgraded their expectations on carbon allowance demand. The compliance deadline for 2022 emissions is 30th April 2023. There could be strength in demand as we approach that date.

At the same time, markets are anticipating an announcement on final decisions from trialogue discussions (between the European Council, European Commission and European Parliament) on the 'Fit for 55' legislative proposal package put forward in 2021. The preliminary agreement announced in December 2022 was more aggressive than the European Commission's initial proposal on many fronts affecting the European Emissions Trading System (See summary table of some of the provisional agreements below). A tighter Linear Reduction Factor; wider scope of Carbon Border Adjustment Mechanisms; an extension of the Market Stability Reserve intake of 24% to 2030 are all positive for EUA prices. The market awaits confirmation that these will be in the final wording.

Still risks linger with the financing of REPowerEU, where the Commission had proposed monetising some of the EUAs in the Market Stability Reserve. Parliament voted on 14th February to partially accept the idea of using Allowances in the Reserve to finance REpowerEU (by taking €12bn from the European Innovation Fund and then compensating the Fund with 27 million Allowances)[1]. The remaining €8bn will come from front-loading planned auctions of EUAs. If the Council also approves we see this as a price negative move.

*Source: BloombergNEF, January 2023*

With close to a 19% gain in EUA futures prices in the past month, the market has entered a "Golden Cross" in technical analysis jargon, where the 50 day moving average (DMA) price rises above the 200 DMA. It is interpreted by technical analysts and traders as signalling a definitive upward turn in a market.

*Source: WisdomTree, Bloomberg. 15/02/2022. DMA = day moving average. Based on December 2023 EUA futures price.*

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

1 https://www.peter-liese.de/en/32-english/press-releases-en/3920-overcome-dependency-from-russian-oil-and-gas-breathing-space-for-electricity-consumers-and-industry

**Related blogs**

+ What’s Hot: Progress on ‘Fit for 55’ breathes life into EUA market

+ What’s hot: Suspension of EU ETS unlikely

+ What's hot: European Parliament supports strengthening 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 affer seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can offen 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 affer 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.