What's Hot: A Golden Cross for EUA Futures

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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-russ-ian-oil-and-gas-breathing-space-for-electricity-consumers-and-industry

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