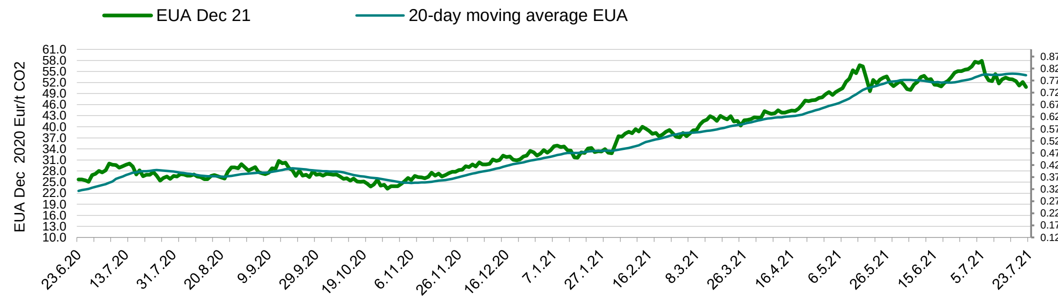
Emission Trading Weekly 29

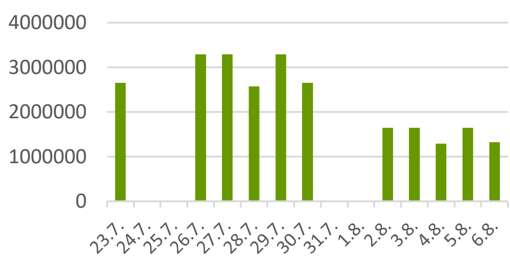
23.7.21



EUA prices €/t	23.7.2021 14:36			
Product	**Bid**	**Ask**	**Last**	**Change***
Dec-21	0.00	0.00	50.79	-7.21 %
Dec-22	0.00	0.00	51.16	-7.51 %
Dec-23	0.00	0.00	51.79	-7.59 %
UKA DEC-21	0.00	0.00	50.17	-7.59 %

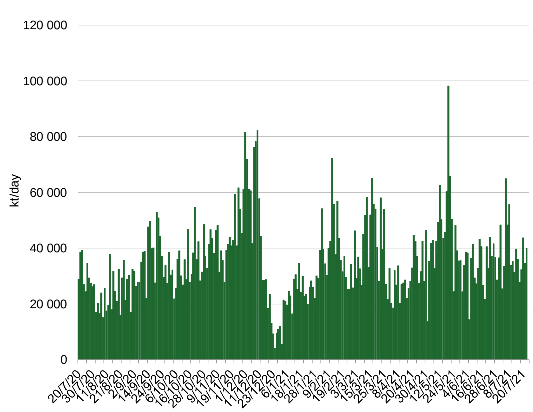
*Change compared to the previous report ** EEX spot

Upcoming auction volumes



Daily traded EUA volume, ICE Futures Europe*

*Daily traded volumes of EUA futures contracts at ICE Futures Europe exchange



Energy prices		23.7.2021 14:36	
Product	**Unit**	**Prices***	**Change***
ENO Q3-2021	€/MWh	47.50	3.16 %
ENO 2022	€/MWh	32.10	1.25 %
ENO 2023	€/MWh	29.40	1.19 %
ENO 2024	€/MWh	28.50	-1.05 %
EEX, Base load Cal-21	€/MWh	70.07	-3.97 %
Brent crude	$/bbl	73.58	-2.87 %
Natural gas UK (Q3-21)	p/therm	95.33	6.07 %
Coal CIF ARA API2 2022	$/t	94.25	7.96 %

*Change compared to the previous report **Last trade price

Market Analysis

The emission allowance corrected the strong downward movement seen the week before last having first reached almost all-time record high figures at the start of the week. The fall was driven by a correction movement in gas, the start of free emission allowance allocations and an increase in the French nuclear power output target for this year. Last week saw volatility in the price movement as operators waited for publication of the European Commission's Fit for 55 package of proposals. The package was published on July 14 and the emission allowance price was falling ahead of publication but rose sharply immediately following publication only to retreat to the level seen in the days before. The package was largely in line with the information leaked earlier and so there were no significant surprises to the market. On Friday, the emission allowance closed at €52.89/t, down €1.40 at the weekly level.
This week the emission allowance price has been falling as the allocation of free emission allowances progresses and the market slows for the holiday season and a new wave of Covid-19 raises its head. Auction availability will remain at the normal level next week before halving in August for the summer holiday period. Volumes traded on ICE have been largely below normal in recent days.

Market View

The 55% reduction in emissions by 2030 proposed in the European Commission's legislative package was largely in line with the drafts leaked and price movements remained modest. Market reaction has been more in response to behavior with traditional buy and sell factors. Funds' ownership of emission allowances fell last week to their lowest level for eight months. Major points in the package included an annual increase in the reduction coefficient from 2.2% to 4.4%, which will result in a reduction of 61% instead of 43% as was earlier the case, MSR withdrawal will be kept at the higher rate of 24% and not revert to 12% in 2024, the MSR reserve will be capped at 400m tonnes, the introduction of a carbon border adjustment mechanism applying to imports in certain sectors and the gradual removal of free allocations in these sectors. The package also included actions outside EU ETS such as increasing the target to produce electricity from renewables from 32% to 40% and raising energy efficiency from 32.5% to 39% by 2030. Whereas it is expected that the legislative proposals will take up to two years to process, the MSR reform be fast tracked separately. Even though there were few surprises, the climate package is supportive of a gradual tightening of the emissions allowance market.

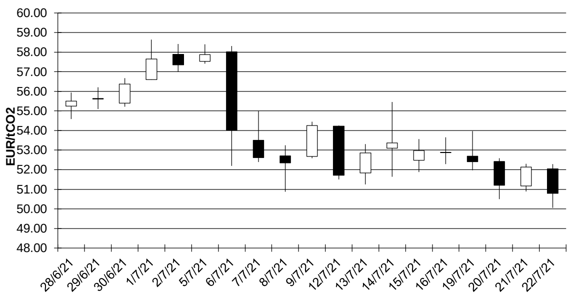
Following last week's political drivers, the market is also being steered by the gas and coal markets. Prices have been rising with regard to both fuels and in respect of the coming winter, coal is currently cheaper than gas. If this situation continues, it will mean a greater need for emission allowances. Low stocks and lower than normal gas imports into Europe have maintained the strength of the European gas market. The agreement reached between the USA and Germany on the Nordstream gas transmission pipeline has not been reflected in the price of gas. The agreement reached by Opec+ countries slightly softened oil prices and a resurgence in coronavirus infections has put downward pressure on the emission allowance price. Support provided by a halving of auction availability in August will slow the progress of EU ETS free allowance allocations even though many free allocations in many countries won't take place until the autumn.

The emission allowance price is technically falling and has partly broken the rising trend range. Market volatility has increased and if technical support levels are broken this would also allow a change in market direction. The support level is currently at the June floor of €49.26/t and the resistance level is €55.46/t. We expect the emission allowance price to fall and to test recent floors.

Gasum Emission Trading Weekly 29

23.7.21

EUA Dec 2021, last 20 days



Black candles indicate days with closing price below opening price.
White candles indicate days with closing price above opening price.

CDM pipeline	23.7.2021 14:36	
	Amount	Change
Number of projects**	8374	-6
Registered projects*	7808	0
Volume of the pipeline by the year 2020, MtCO2e**	515	0
Issued CERs, MtCO2e*	2000	15

*Change compared to the previous report.

**Pipeline: UNEP/Risoe is updated monthly. Registered projects and issued CERs: UNFCCC

Upcoming events

Date	Event
July 14, 2021	Next UK ETS auction
July 14, 2021	Presentation of law package of climate law and EU ETS reform

Contacts:

Markus Herranen

Toni Sjöblom

Laura Pokka

E-mail: firstname.lastname@gasum.com

Sources:

2 Montel News

3 Carbon Pulse News

4 Carbon Pulse News

On Agenda: Europe

Refinitiv assesses the Fit for 55 legislative package will only slightly raise the emission allowance price with regard to 2030 but reform means the rise will start much earlier and more steadily than without reform. The most significant factors are the reform of MSR and the annual cut in the emissions cap by 4.4% instead of 2.2% as earlier. Refinitiv expects the emission allowance price to rise north of €90/t by 2030. 2

The carbon tariff in the EU Fit for 55 package be brought into use in a number of sectors in 2026. Importers would pay an amount of emission allowances corresponding to emissions. The proposal is to gradually remove free allocations from the same sectors in the EU. The UN has warned the EU that the imposition of carbon tariffs would conflict with free trade and could result in retaliation measures. 4

On Agenda: Global

The IEA warns governments that current stimulation packages will increase CO2 emissions to record figures in 2023. Coronavirus recovery packages are strongly stimulating economies, but an insufficient share of the money has not been allocated to investments in clean energy and technology. 3