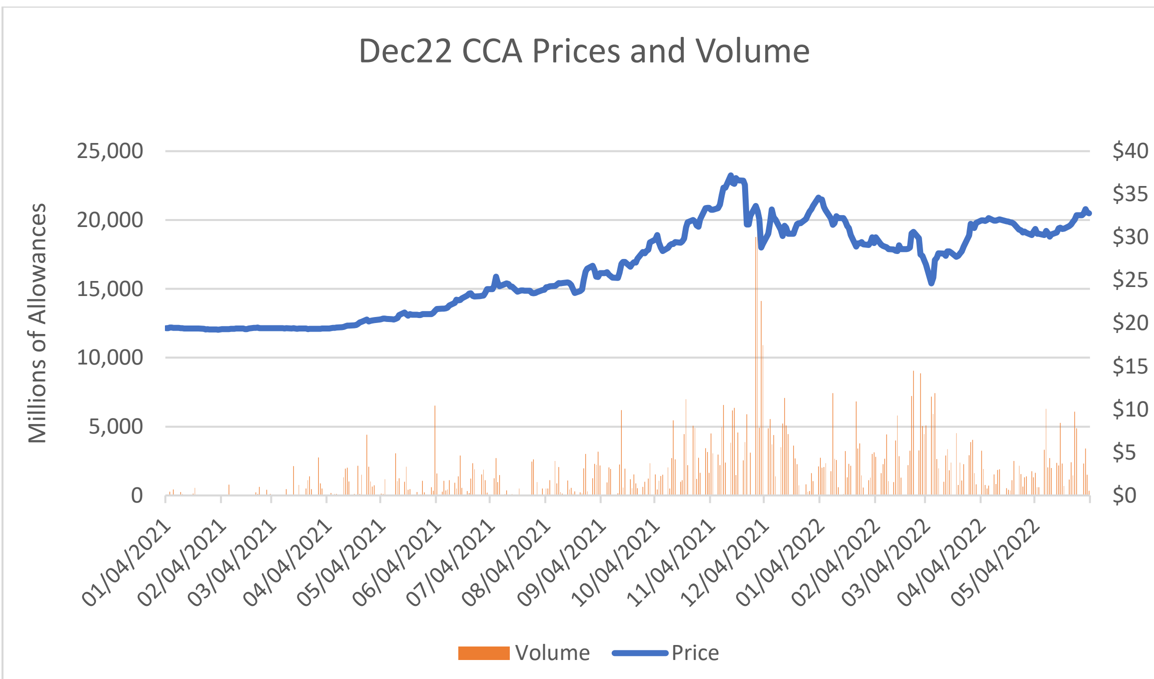
Clear Sky Advisers, LLC – Carbon Weekly Newsletter

June 6, 2022

TRADING

CCA

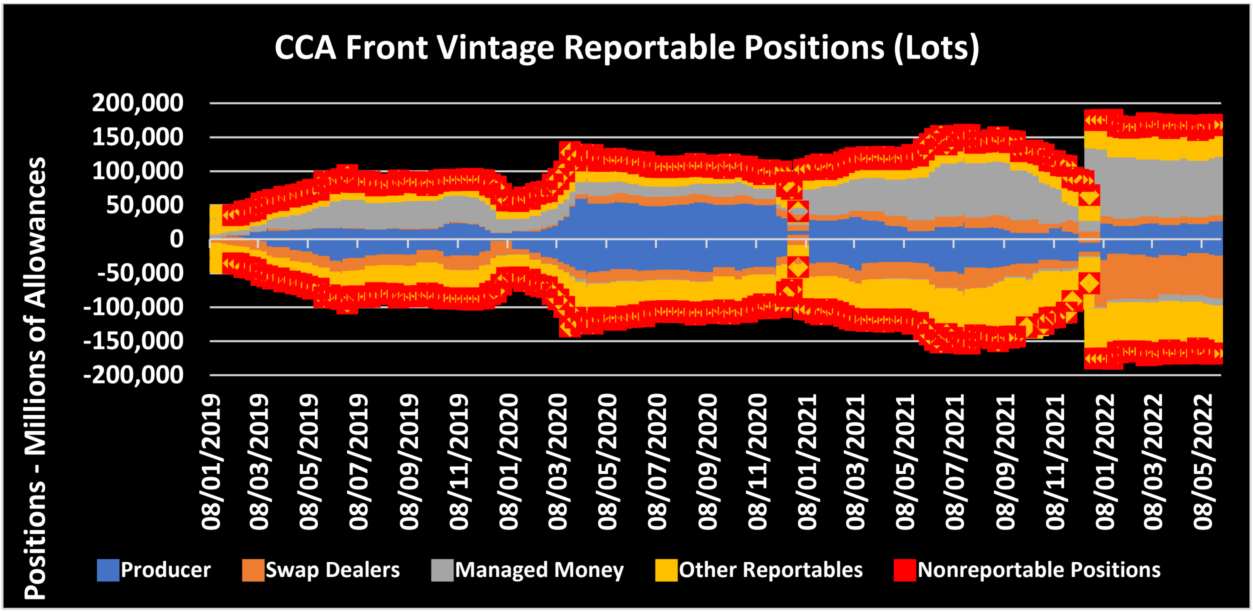
- California Carbon Allowance (CCA) prices closed slightly higher on the shortened trading week. The Dec22 contract closed the week at $32.80, up 0.77% on the week. The market climbed to $33.28 Wednesday before selling off Thursday and Friday on light volume. Wednesday's settlement marked the highest price for CCAs since early January. According to the latest CFTC data, speculators are once again adding to their futures positions, likely leading to the recent upward momentum.



**Source ICE*

- Weekly volume came in at 34.2mm allowances, more than double the volume of the five prior trading days.

- According to the CFTC Commitment of Traders report on May 31, regulated entities reduced their futures holdings by 1.1mm CCA futures and options on the v21-v23 contracts from May 14-31. However, regulated entities picked up 58mm allowances in the quarterly auction, accumulating length in the physical market. Speculators, or managed money, acquired 1.8mm futures and options over the same period, their highest increase since early February.



**Source Nodal and CFTC*

RGGI

- RGGI allowance prices remained range bound all week prior to the auction results on Friday. The market traded between $13.90 and $14.05, before trading slightly higher Friday, closing the week at $14.16 for the dec22 contract.

RGGI AUCTION HIGHLIGHTS

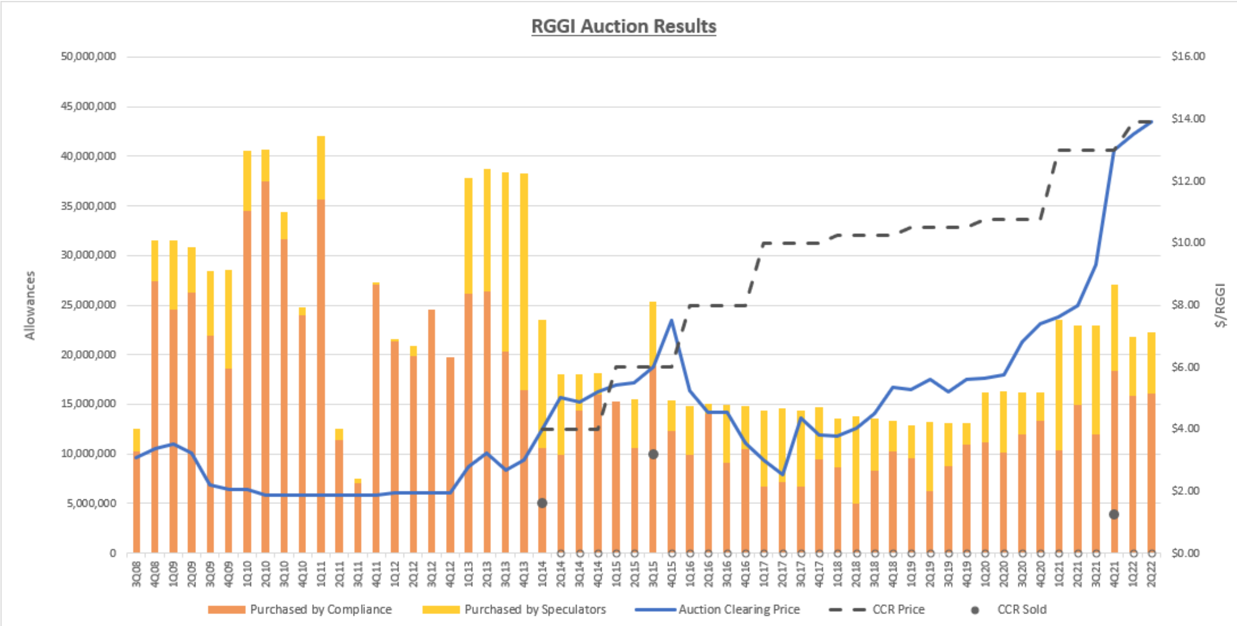
- Held on June 1, with results announced on June 3
- 69 entities (6 fewer than Q1) participated in the auction
  - 59 bidders were successful in buying allowances
  - Largest bidder bought 3mm allowances
  - Following the auction, 44% of physical allowances will be held by compliance entities; remaining physical allowances will be held by general market participants with no compliance obligations
  - 2 new entities participated in the June auction, including the Lucid Clarity Master Fund, LP
- All 22.28mm available allowances sold at $13.90, $.01 under the Cost Containment Reserve (CCR), the price at which additional allowances are released
- Bid to cover ratio of 2.6
  - Total bids were almost 58mm allowances
  - 36.2mm bids went unfulfilled at the auction

- Regulated (or compliance) entities set the clearing price, procuring 72% or 16.04mm allowances (compared to 73% in Q1 2022
- 6th straight auction clearing at a record high

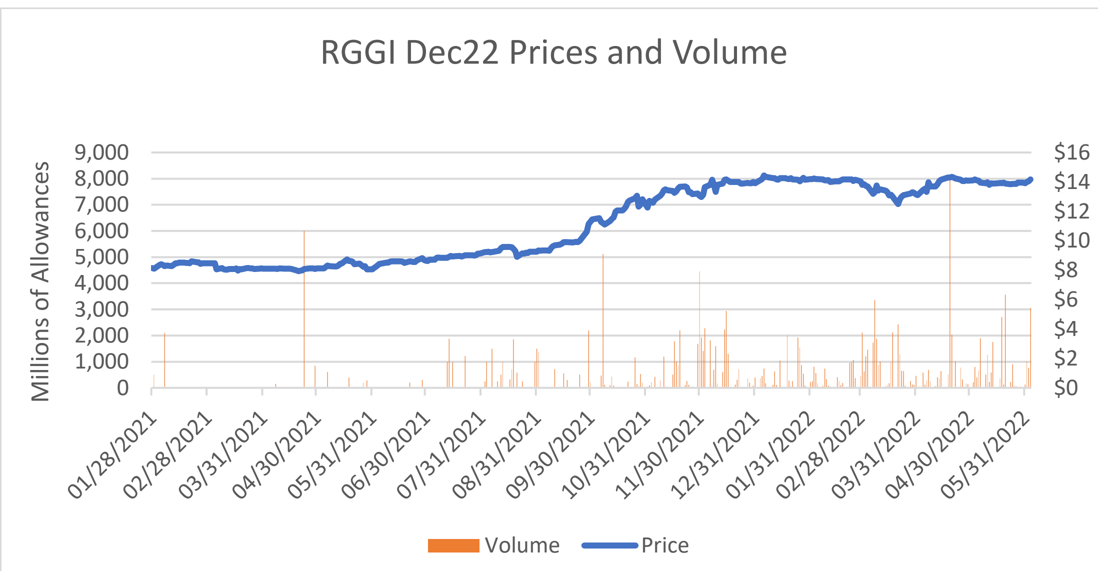
MARKET REACTION

- The market traded slightly higher following the auction results, up around $.05 as of 1pm Friday

Key Auction Statistics	June Auction	Average - Previous 4 Auctions
Clearing Price	$13.90	$10.94
Floor Price	$2.44	$2.40
ECR Price	$6.42	$6.11
CCR Price	$13.91	$13.23
% Over ECR Price	116.51%	79.24%
Allowances Sold	22,280,473	23,675,353
Bid to Cover Ratio	2.60	2.43
Compliance %	72%	64.50%
General Participation %	28%	35.50%
Compliance Purchases	16,041,941	15,282,391
General Participation Purchases	6,238,532	8,392,962



Sources: RGGI.org, ICE



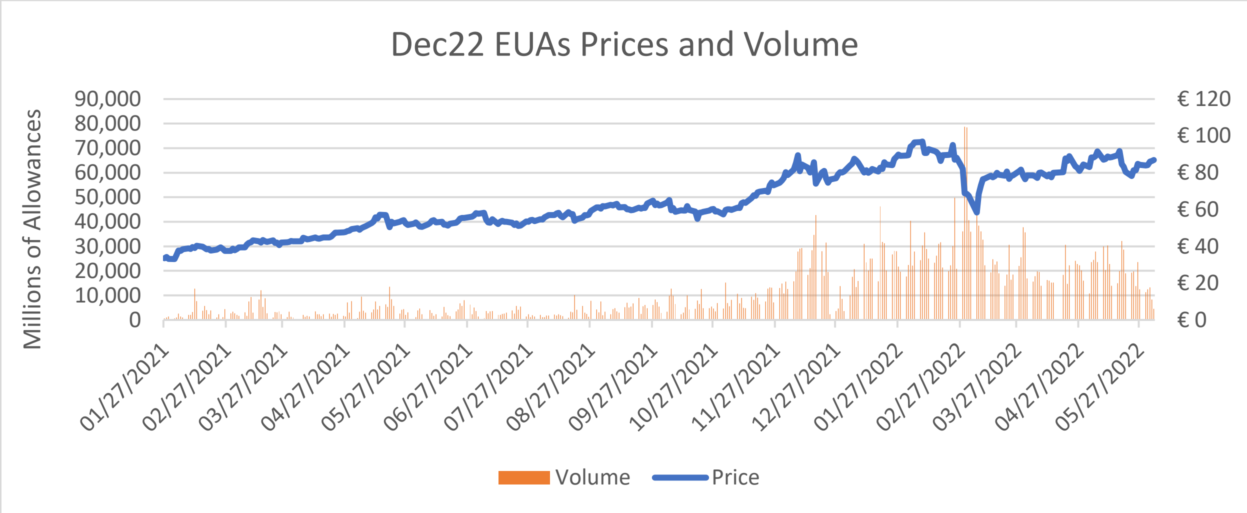
**Source ICE*

- Weekly ICE volume came in very light, prior to the auction results announcement Friday with 1.9mm allowances trading from Friday, May 27 through Thursday. Volume picked up Friday following the auction results, with over 3mm allowances trading in the dec22 futures contracts.

- According to the CFTC data, Regulated Entities' futures and options positions decreased by 673,000 allowances, taking their net long position to 24.2mm allowances. In contrast, Managed Money increased its net long holdings by 364,000 allowances, bringing their net length to 6.1mm allowances.

EU-ETS

- EUAs ended the week up over 3%, with Dec22 settling Friday at EUR 86.87. After trading lower early in the week, the market moved higher Wednesday after Peter Liese, the German MEP leading the EUA reform package through Parliament, told reporters that an alliance of lawmakers agreed to vote on a 63% emissions reduction target by 2030, a compromise between the proposed 61% goal and the 67% target adopted 2 weeks ago by the ENVI committee. Liese also added if Parliament votes to approve the latest proposal to sell EUR 20 billion worth of EUAs from the MSR to fund the RePowerEU initiative, it will be on the condition that the allowances are returned to the reserve by 2030.



**Source ICE*

- Weekly volume for the December 2022 futures contract came in just under over 50mm allowances on the week, down from over 90mm, due to UK bank holidays Thursday and Friday.

- ICE and EEX published the commitment of traders report for the week ending May 27th. Overall fund holdings fell by 5.9% to 47.1mm allowances. Investment funds and credit institutions reduced their net short position by 1.9% to 505mm allowances. Commercial undertakings reported a 2.6% decrease in their net long position to 437.3mm allowances, offsetting a similar gain from the prior week.

POLICY & NEWS

US

- On Thursday, June 3, the CFTC held a meeting on voluntary carbon markets at its headquarters in Washington, D.C. featuring a number of panels consisting of industry stakeholders including offset developers, corporate buyers, government regulators, exchanges and financial purchasers of offsets. Two themes recurred throughout the event: transparency regarding the retirement of offsets to meet corporate climate goals, and the integrity of offsets with respect to quantification, permanence and additionality of the reductions they represent. There was general agreement that the CFTC has a role in addressing these concerns, and panelists suggested areas of focus but few specific policy recommendations. NGO participants repeatedly raised issues of permanence and double-counting, in response to which the government panel defended the integrity of forestry credits based on buffer pool programs and improved carbon inventory methods. A number of panelists (including corporate purchasers) also argued that the use of offsets should be secondary to, and must not be used in place of, reducing direct emissions in line with a "1.5° compatible pathway" for the relevant industry. Finally, several government and agriculture industry panelists raised equity concerns and argued for farmers and rural areas to have a stake in carbon credits generated from their industry.

Sources: ICE, EEX, Nodal, Carbon Pulse, CFTC, ESMA, the California Air Resources Board, RGGI.org, Carbon-Pulse, Incubex, Cal EPA, Some of the information contained in this CWN has been obtained from sources other than Clear Sky. While Clear Sky believes such information to be reliable for the purposes of this CWN, neither Clear Sky or any of its affiliates, nor its or their respective members, partners, officers, or employees, has independently verified such information. Accordingly, none of the foregoing can guarantee the accuracy of such information.

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