

Q1 2024



Agri Intel

Quarterly Carbon Newsletter

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Kia Ora Everyone,

The first quarter of 2024 has drawn to a close, bringing with it notable developments in the NZ carbon market. Let's reflect on the recent happenings and consider their implications for the remainder of the year, starting with our NZU price and market analysis for Q1.



NZU Price Analysis & Market Commentary

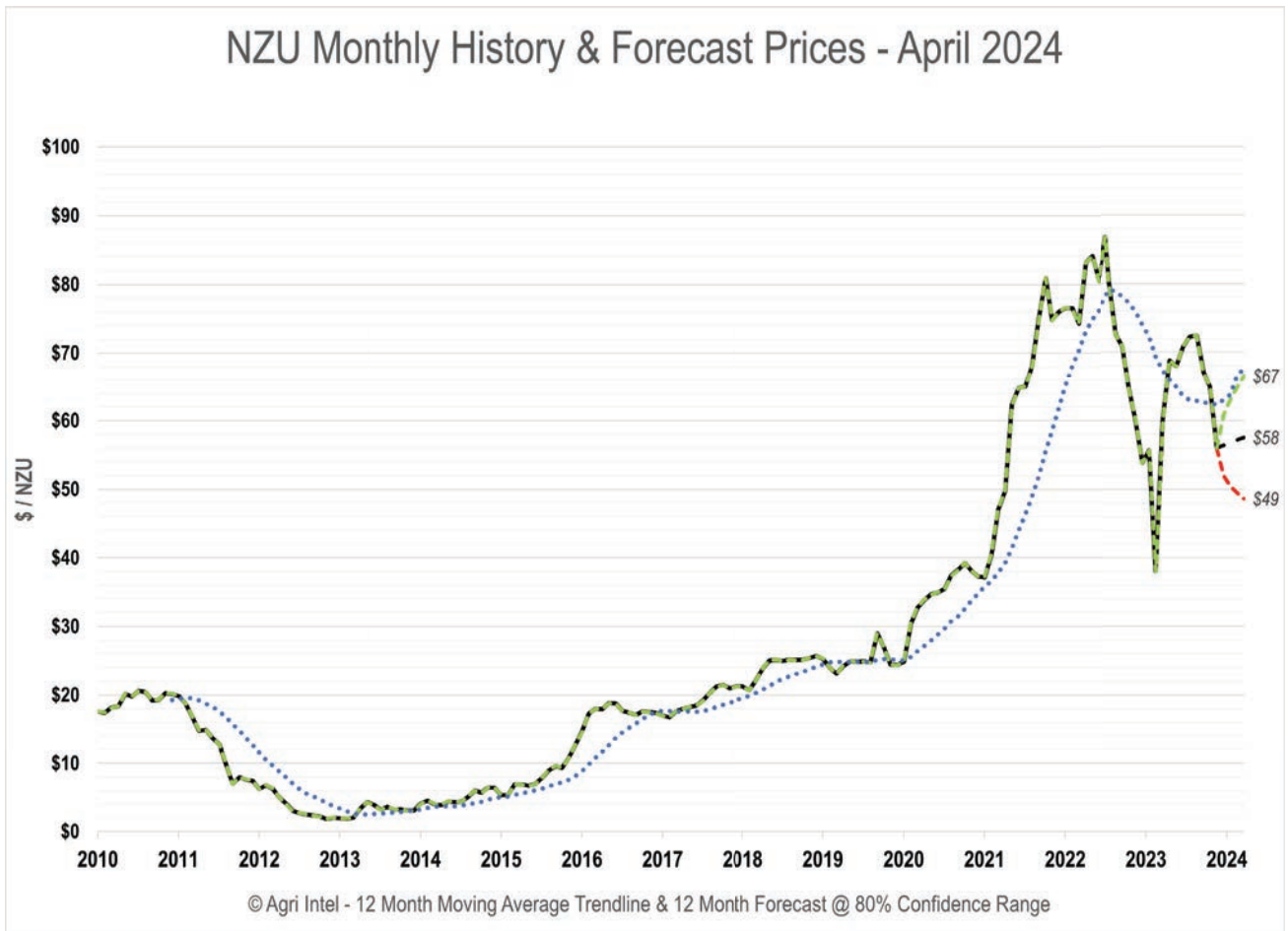
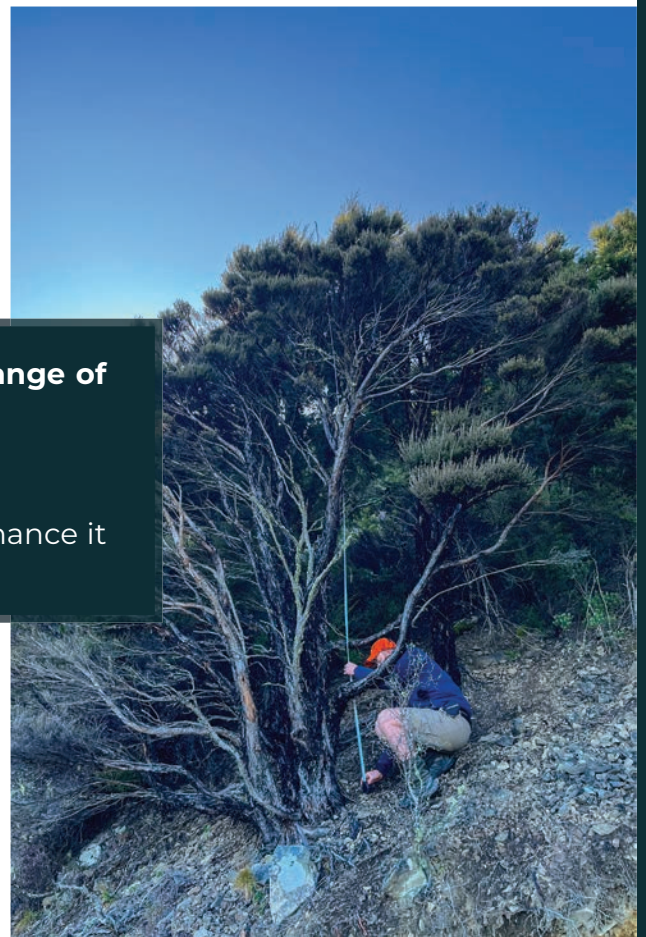


Figure 1: NZU price analysis – price history and Agri Intel 1-year forecast model 28h Apr, 2024.

The current NZU price in the secondary market has dropped to \$56/NZU as this is written (28 April 2024). Our Agri Intel NZU Price Analysis Chart above summarises the actual historical prices (green line) and the smoothed 12 month moving average of these prices (blue line). As always, the 12-month price forecast needs to come with a 'health warning' but our price model in **Figure 1** suggests that in 12 months' time, there is:

- An **80%** chance that the NZU price will be in the **range of \$49 - \$67**
- An **expected price** (50th percentile) of **\$58**
- A **10%** chance it will be more than **\$67** and a **10%** chance it will be less than **\$49**

We compared the Q1 2024 forecast with our initial forecast model from Q2 2023, nearly 12 months apart. The model closely aligns with its earlier predictions. Back in Q2 2023, it projected that the NZU price 12-months ahead would fall within the range of \$40-54/NZU, a forecast that is very close to current pricing.



Quarter one of 2024 had reasonable price volatility. Prices throughout the earlier stages of the year were proving to hold firm, with gradual increases occurring as high as the mid \$70s. However, leading up to the first Government quarterly auction in March, trading activity began to decrease as assumably traders started to wait and watch for an auction outcome. Within this period, the Climate Change Commission (CCC) provided their advice for the ETS price settings for the next reporting period (2025-2029), as well as suggested key amendments around NZU volumes. Although their price setting recommendations were high, interestingly, this didn't seem to have an effect on the secondary market spot price. It wasn't until the Government's first quarterly auction clearance, that NZU prices began to fall. Prices now are remaining around the mid \$50's with a slowly increasing trend.

Let's discuss some key changes and common train of thought on what might be driving current NZU prices:

Government Q1 2024 NZU Auction Results

Firstly, after four failed NZU auctions in 2023, the Government were swift to change their method of calculating their auction Confidential Reserve Price (CRP) to try to increase auction succession. After implementing a revised methodology for calculating the CRP, the CRP was observed to be fixed at the price floor (\$64/NZU). A lot of traders speculated that the new method would see bids no higher than the price floor in 2024's first quarterly auction in March, which is exactly what happened. While this had a positive effect on ensuring the auction succeeded by reaching the price floor, that is all that happened, an improvement none the less to 2023's auctions.

The first auction in March 2024 partially cleared, with 84% (2.97 million NZUS) of available units selling at the \$64 reserve price to emitters. Since then, NZUs have fallen to the current price of \$56. A result like this could signal that the Government needs to carefully consider the CCC's advice regarding future auction price and volume settings. On the other hand, there's an argument that such advice might have contributed to weak demand from emitters, following the CCC's announcement before the auction which emphasised on a substantial stockpile of NZUs that is still out there – did this have an impact on emitters buying NZUs now they know there's an oversupply?

So, what did the CCC announce before the March auction?



Climate Change Commissions NZU Price and Volume Settings for 2024-2029

Before the March auction, the CCC released its advice to the Government with two key focuses: adjusted limits on the number of NZUs in the scheme and, the auction price control settings. The CCC advice is updated regularly based on how well they think the ETS is operating to meet our agreed climate targets.

They highlighted the following current key issues with the ETS:

- There are too many units in the NZ ETS: this increases the risk that the Government will not achieve the targets.
- New unit limit settings recommended to the Government reduce this risk by reducing future auction volumes as soon as possible.
- NZ ETS auctions are not a reliable source of income for Government to fund the Government expenditure arising from the ETS.
- The price control settings remain fit-for-purpose, with inflation adjustments.
- Uncertainty about Government priorities and plans is affecting market and investor confidence.



The Government's next plan for reducing greenhouse gas emissions (due out this year) is a good opportunity for it to address these highlighted policy issues.



Figure 2: Out on farm with the ASB Rural Banking Group discussing the management of the current farming climate.

The CCC's new recommendations on auction volumes and price settings are in **Table 1** below which they have suggested will help to mitigate the issues noted above. The overall theme here is NZU price floor increases and lower NZU sales within the Government auctions to increase future NZU prices. The only time more NZUs could be entered is if sales exceed the trigger price, which is grossly higher.

Table 1: The CCC's latest advice to the Government on their quarterly auction NZU volumes and price settings, 2024.

Proposed auction volumes

Million units	2025	2026	2027	2028	2029	Total
NZU auction volumes (excluding CCR volumes)	5.9	5.0	4.9	3.9	3.0	22.7

Recommended unit limits and price control settings

Million units	Updated recommendations					Total
	2025	2026	2027	2028	2029	
Limit on the New Zealand units available by auction (including CCR volumes)	13.0	11.5	10.8	9.2	7.7	52.2
Limit on the approved overseas units used	0.0	0.0	0.0	0.0	0.0	0.0
Overall limit on units	18.9	17.3	15.8	14.1	12.5	78.6

Cost containment reserve	No changes		Updated recommendations		
	2025	2026	2027	2028	2029
Tier 1					
Trigger price	\$194	\$205	\$216	\$227	\$238
Reserve volume, million NZUs	2.6	2.3	2.1	1.9	1.7
Tier 2					
Trigger price	\$243	\$256	\$270	\$283	\$298
Reserve volume, million NZUs	4.5	4.2	3.8	3.4	3.0
Total reserve volume	7.1	6.5	5.9	5.3	4.7

Auction reserve price	No changes		Updated recommendations		
	2025	2026	2027	2028	2029
Auction reserve price	\$68	\$72	\$76	\$79	\$83

We agree with the latest CCC recommendations because it seems to be the uncertainty around Government intervention and future policies that primarily drives market volatility.

NZU Surplus Stock Piling Issue – A Deeper Dive

In our last newsletter in December 2023, we discussed the failure of all four Govt quarterly auctions in 2023 and how this led to 15 million NZUs of potential new supply being removed from the market. The market expected this to have a positive impact on NZU prices in 2024, however, the CCC has now released new information on the surplus stockpile held by private account holders which was larger than expected. According to the CCC's latest assessments, this stockpile is estimated to range between 50.8 to 84 million units! If true, this stockpile would suffice to offset expected emissions for 2–3 years.

These latest stockpile estimates also do not consider the growing NZU supply of new afforestation and native regeneration in progress. However, the fundamental economics of afforestation imply that forestry will persist in expanding as a net NZU supply source. We need as many offsets and gross emissions reductions as we can get to meet the ambitious 2030 and 2050 targets NZ has signed up to under the binding Paris Accord agreement.

ETS & Forestry Related Updates

MPI Processing Time Update for Our Submitted Clients

We recently updated our clients on lengthy application processing times, starting as early as August 2023 with the launch of Tupuake, MPI's new online system. We met with MPI leaders in Wellington earlier this year to discuss various points. They claimed they had reduced their application processing times from 130 working days (6 months) to 100 working days. However, more recently, they informed us of a recent surge in applications, extending processing times to 140 working days.

Additionally, their GIS system still has had unresolved bugs which has stopped us from submitting new applications without significant workarounds for the last 2 months. Despite the anticipation of an efficient process with the new fees in 2023, we're essentially back to square one. We empathise with our clients facing uncertainty and prolonged wait times to join the ETS. It's disheartening that despite significant taxpayer and user investment in new technology, we're arguably still worse off at this stage.



Figure 3: Sam presenting to the Rangitikei Catchment Collective near Taihape on on-farm carbon opportunities

MPI's Proposed Fees are Now On-Hold Under Judicial Review

Good news for participants! The proposed ETS fees, primarily MPI's charge of \$30.25/ha for registered forestland, have been put on hold. Thanks to a Judicial Review, the Minister has temporarily suspended these fees until the review concludes. The forestry sector, along with private entities (including Agri Intel) have pooled together to fund the legal fees. We're committed to assisting New Zealand farmers and advocating for a fair and effective ETS. We anticipate the review will result in re-negotiated fees that are equitable and sensible.

Carbon Opportunities Are Still Significant for Kiwi Farmers

We have approx. 5,000 hectares of ETS forestland submitted and/or registered for farmers in NZ. The opposite map illustrates the locations of all our carbon clients.

Our approach enables us to operate nationwide and ensures optimal outcomes for ETS assessments. This achievement represents a fraction of the potential carbon opportunities available, particularly for hill country farmers with naturally regenerating native forests. Within the next five years, we anticipate that most farms will have realised the financial benefits offered by carbon farming.

Agri Intel's carbon services have rapidly evolved into comprehensive ETS management and compliance solutions, gaining significant popularity. Key services include:

- ETS assessments and registration.
- Forestland and compliance management.
- Carbon stock measurements.
- Carbon credit brokering.



Summary

In overview, the NZU market has had a disappointing start for many in 2024 with lower-than-expected prices driven by uncertainty around future Government policy around the ETS settings.

It's very clear that the scheme needs some Government intervention to address the main issues raised by the CCC on oversupply of NZUs. Once these issues are addressed, we believe participants confidence in the scheme and market prices will rise and continue forward with the desired slow exponential trajectory. The widely held belief is that a shift in the behaviour of New Zealand polluters will only occur once the carbon price hits approximately \$130/NZU.

Market volatility will persist and for this reason, market timing will remain a loser's game. What works is a patient and disciplined approach to selling NZU's over time to average out this market volatility rather than trying to forecast market prices and "beat the market".

Get in touch with us if you have any questions.



If you've had a positive experience working with us, we'd greatly appreciate a brief written review from you [here](#). Even a single sentence would be fantastic!

As a token of our gratitude, for each review received, we'll reciprocate with a \$20 voucher for either Joe's Garage or Robert Harris, so you can treat yourself to lunch on us one day.

Kind Regards,
The Agri Intel Team



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