The Role of Hedgers and Speculators (UDE)

As the EU ETS has matured, financial actors have increasingly participated alongside compliance entities, raising concerns about the balance between hedging and speculative activities. Our project addresses the critical issue of distinguishing between these two types of market behavior and understanding their respective impacts on market dynamics, especially on monthly futures.

Our central **research question** is how do hedgers and speculators behave in the EU ETS futures market, and what are the implications of their actions for market liquidity. To explore this question, we use the weekly Commitment of Traders (CoT) reports and derive a set of metrics from the position changes of each trader category. We use these metrics to evaluate the extent and nature of their trading behavior.

Methodologically, we apply econometric models to estimate the relationship between position changes and market returns. These models are used to evaluate whether different types of participants (i.e., banks, funds, and commercials) engage in momentum trading, provide liquidity, or respond predictably to market signals.

The following **results** have been obtained thus far: The T-index from Working (1960) confirms a growing share of financial actors. The development of open interest shows that speculative activity is predominantly concentrated in front-year December futures contracts, while hedging is more common in March and other December contracts. Changes in fund positions significantly affect short-term returns, suggesting a role in liquidity provision.

Depending on future results, possible **policy implications** could include the need for regulators to consider targeted oversight mechanisms to prevent speculative activity from undermining the environmental and economic objectives of the EU ETS. Allowing for a more specific distinction between hedging and speculative positions requires additional data and enhanced transparency in market reporting.