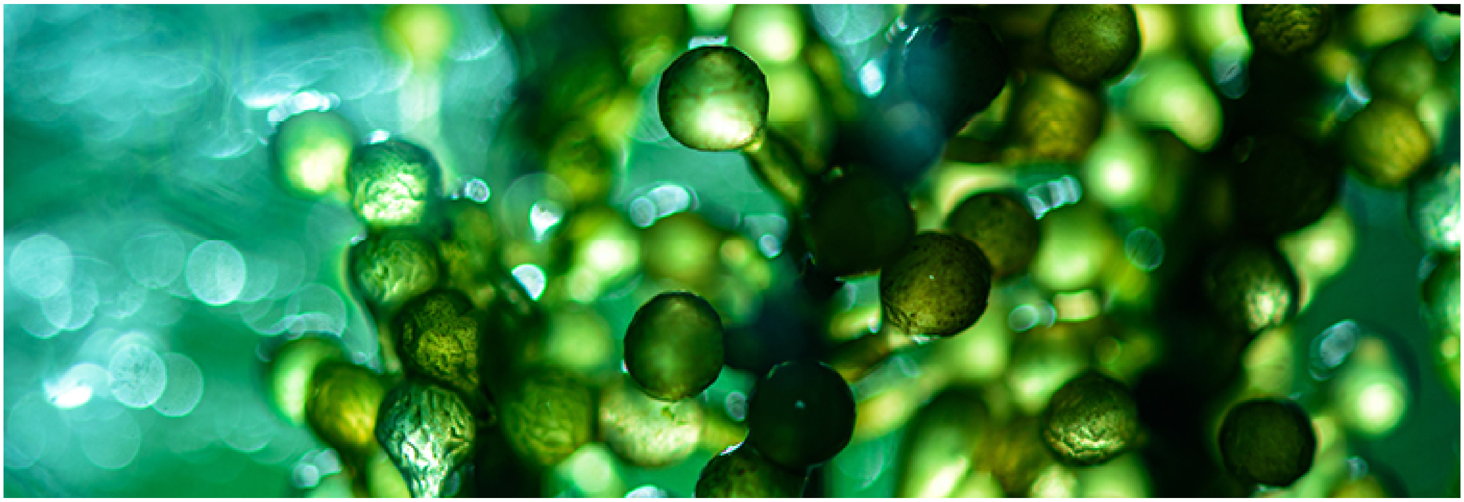

Six commodities predictions for 2022

Commodities Trading Update

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The worldwide turmoil of 2020 is, in many ways, still with us, as the world strives to address the ramifications of the pandemic and the changing climate. But the good news is that alongside the struggles, the commodities realm is seeing an immense number of opportunities: growing activity in renewables, advances in carbon capture and carbon credit generation, and interesting developments at the Commodities Futures Trading Commission (the CFTC).

Here, we take a fast look at the six areas we think the commodities sector should be watching in the year to come.

1. **Carbon credit generation and trading will keep growing.**
   Millions of metric tons of carbon credits were traded between companies in 2021 as businesses and governments worldwide seek to offset their emissions and reach climate targets. Now, the eyes of the world are on Article 6 of the 2015 Paris Climate Accord, which allows for the trading of carbon credits globally and creates a mechanism to trade such carbon credits from emission reductions generated from low-carbon projects. Some critics claim that carbon credits will lead to "greenwashing," allowing organizations to spin the appearance of reducing carbon emissions without actually taking any action to reach those goals.

   Despite such criticism, world leaders at COP26 reached a joint decision to standardize the international carbon trading market. As a result of this new agreement, there will be a centralized system, open to public and private sectors, and a separate bilateral system, both of which will allow countries to trade carbon credits.

The agreement for standardization creates a market standard for the entire carbon credit industry, regardless of the country of origin of those carbon credits. Many, including Dirk Forrister, the Chief Executive of the International Emissions Trading Association, see this standardized system as a way for the private sector to “channel green investment using these new market structures to accelerate the race to net zero.”

This decision to create standardized international carbon trading rules sets the stage in 2022 for the carbon credit industry to continue its massive growth, which is projected to expand as much as $22 trillion by 2050.

2. **Cryptocurrency is seen as a commodity and may be regulated as such.**
   In 2022, the CFTC will continue to move assertively to more closely regulate cryptocurrency. In 2021, the CFTC became an active player in regulating cryptocurrency when it declared the blockchain-backed currencies Bitcoin and Ethereum to be pure commodities, putting them under the CFTC’s purview. This year has also seen the CFTC policing cryptocurrency commodity trading. In just the last few months, the CFTC received a $100 million settlement from an offshore cryptocurrency derivatives exchange and issued a $1.25 million fine against a digital-asset exchange and a $41 million fine against a cryptocurrency issuer. During a recent congressional hearing, CFTC Chairman Rostin Behnam called the underlying violations in these cases the “tip of the iceberg.” Behnam also said the CFTC is ready to be the “primary cop” on the regulation of cryptocurrency, and he called on lawmakers to expand the CFTC’s authority to better regulate the industry.

   As cryptocurrencies grow in value and are increasingly seen as legitimate property, the CFTC will most likely be an even larger regulatory player of this commodity, this year and for years to come.

3. **New CFTC position limits rules in effect for non-core legacy commodities.**
   Earlier in 2021, the CFTC implemented its final rule around federal position limits for 25 core referenced contracts. These federal position limits are designed to prevent a market participant from manipulating the commodities market by limiting the number of referenced contracts for the most liquid commodities. The new limits include federal position limits for 9 legacy agricultural contracts and 16 non-core legacy contracts.

   The CFTC updated the previous formula for finding such position limits, which had triggered massive increases in position limits for all but one of the legacy agricultural contracts (CBOT Oats) when compared to the previous 1999 position limits.

   For the 16 non-core legacy referenced futures contracts which will include any associated referenced contract, these new limits have a compliance date of January 1, 2022. These position limits will not include economically equivalent swaps. Starting next year, these 16 commodities will be, for the first time, subject to federal position limits. However, many of these new limits for these non-core legacy commodities are much higher than the previous exchange limits, which could lead in even greater volume of trading of these liquid commodities.

4. **Key players are transitioning to renewables.**
   2021 saw a massive influx of capital into renewable energy projects from major players in the oil industry, and that trend seems likely to continue in 2022. In 2021, some of the world’s largest producers of oil declared large percentages of their investments would be in renewable and sustainable power sources. Examples include investments into renewable energy storage systems and solar and wind power generation projects. This investment transition is being driven by the industry’s own internal goal toward net-zero emissions.

   Large oil producers are not the only types of companies investing in renewables. Various multinational corporations known for their hydrocarbon production and usage are implementing plans to transition from non-renewables to renewables, and so are a number of governments. Some notable examples of the latter: the country of Malaysia and the Canadian province of Alberta have already implemented plans to meet as much as half of their energy needs with renewables. Iceland and Costa Rica already meet 100 percent of their energy need through renewables. Texas, a state known for its oil production, has already become one of the world’s largest producers of wind-based electricity, and with even more investment transitioning cities to 100 percent renewables on the horizon, it is on the verge of leading the renewable energy boom.

5. **Data mining facilities will seek dedicated electricity sources.**
   For data mining centers, electricity is one of the most urgent needs and one of its highest operating costs. Power outages, such as those seen in 2021’s Winter Storm Uri, can mean not going offline but losing valuable data. Many data centers have in the past used onsite diesel generators during outages, but as the demand for power

soars and the focus shifts to renewables, they are searching for more sustainable onsite power sources. Companies are starting to enter into purchase agreements for hundreds of megawatts of power for their data centers, and there are no signs of this slowing down in 2022.

6. **New hydrogen markets are emerging.**
   Hydrogen, the simplest and most abundant element, can store and deliver usable energy, and many sectors are hoping it will help them attain their goals of zero or near-zero emissions by 2030. Many manufacturers are beginning to use carbon capture technology and are transitioning to hydrogen in hopes of reducing their carbon footprint, and this change will move forward across multiple fronts in 2022.

   Notably, some jurisdictions, such as the province of Alberta and the state of Louisiana, have roadmaps planning to scale up hydrogen production. Meanwhile, expect to see a strong push to expand production of "green" hydrogen, which is not manufactured from fossil fuels.

Contact DLA Piper Commodities

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