

WEEKLY CARBON TRADING MARKET UPDATE – 09TH FEBRUARY, 2015

Market Development

- 38c price range as market fails to find a clear price direction, support at or above €7.00 found in close each day, ends week at €7.02.
- Disagreement still apparent in Environment committee as Socialists and Democrats stick to 2017 start for MSR while EPP favour a later start date.
- Norway (non EU but EEA member) back MSR but would rather a tightening of the cap and increase in the reduction factor.
- Tony Abbott faces a vote on his leadership of the Australian Liberal Party – could this re-open the debate on carbon emissions trading in Australia?



Auction Overview

- Thursday and Friday auctions have the highest bid cover ratios of the year so far. The number of participating companies also high.
- There is no UK auction this week but there is an EUAA auction so volume for sale is reduced by around 1.6Mt.

Price action

The carbon market traded in a relatively tight range (38c) last week as the market failed to establish a clear price direction. With a high of €7.25 on Monday and the low of €6.87 on Thursday the market drifted off slowly as the week went by. In another week of subdued

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	6.95	0.00%	0.00%
Dec-15	7.02	1.01%	1.01%
Dec-16	7.14	1.71%	2.73%
Dec-17	7.29	2.10%	4.89%
Dec-18	7.46	2.33%	7.34%
Dec-19	7.69	3.08%	10.65%

Annual Rate is calculated by dividing the relevant forward price by the relevant prompt price. The Total Return is calculated by dividing the relevant forward price by the spot price. Note: these rates do not include transaction costs.

carbon emissions trading volumes and a full auction calendar the only thing likely to stir things up were reports out of the Friday ENVI meeting on the MSR but these didn't materialize (see below). The back end of the curve was also quiet again, reflecting reduced clean dark spreads and thus indicating lower utility involvement. Despite this the final two auctions of last week had the highest bid cover ratio of the year so far. This is not necessarily a sign of price support ('false' support bids from long-positioned

Weekly Price Changes (EUR)				
Product	30/01/2015	06/02/2015	Change	% Change
EUA Dec 15	7.15	7.02	-0.13	-1.82%
DE Power Cal 16	32.15	32.6	0.45	1.40%
API2 Cal 16	52.64	55.24	2.60	4.94%

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companies are not unheard of, however, the number of bidders is slightly higher). *Price Impact: With the Environment committee vote still a few weeks away, subject to fuel price moves and weather, it is possible we will continue to see prices drift before activity intensifies again around the vote.*

Market Stability Reserve (MSR)

The scheduled ENVI meeting on Friday 6th Feb gave us no new insight into their thinking. There is still disagreement as Socialists and Democrats stick to 2017 start for MSR while EPP favour a later start date with a compromise not yet apparent. There were reports of the EPP (the biggest political grouping in Europe) having reached agreement at an internal meeting last week on a 2019 start for the MSR and partial injection of backloaded volumes into the reserve. Full backloading and some form of early start still appears to be the most likely outcome.

ENVI's vote is on the 24th February and will provide more insight (and volatility). The process from there is not likely to be smooth as the signs are mixed: there are sufficient member states to form a blocking minority for an early start and Germany and France are apparently steadfast in their demands for a 2017 start. IETA gave an insightful presentation of the politics at work at Tschach Solutions analyst conference in Brussels last week. They have kindly granted us permission to distribute their presentation to interested companies, please get in touch for a copy. Their view on member state positions is below:

Pro early start & BKL in reserve: 11 MS (164 votes, 61.6% of total EU population represented)
DK, FR, DE, IT, LV, MT, NL, SK, SI, SE, UK

Opposed to early start but support BKL in reserve: 5 MS (42 votes, 6% of total EU population)
BE, CZ, EE, IE, LT

Opposed to both early start & BKL in reserve: 6 MS (74 votes, 16% of total EU population)
BG, HR, CY, HU, PL, RO

Blocking minority opposed to early start: 11 MS (116 votes, 22% of total EU population):
BE, CZ, EE, IE, LT + BG, HR, CY, HU, PL, RO

Important MSR dates are:

- 11th February, 2015 - Environment Committee meeting
- 24th February, 2015 – Environment Committee vote

Australia – Abbott in crisis

Tony Abbott faces a vote on his leadership of the Australian Liberal Party this week as rumours are rife on a return to leadership for Malcolm Turnbull, the man he replaced as leader in 2009. With confidence in Abbott sliding, the carbon emissions trading sceptic faces a serious challenge to hold on to his leadership. The main manifesto promise of Abbott's election campaign was the abolition of the carbon emissions trading scheme Australia had been due to start shortly after the election. He succeeded in repealing the emissions trading scheme in favour of his Direct Action plan. Turnbull is an emissions trading supporter, however should he take over the reins it is unlikely we will see a wholesale shift back to an emissions trading scheme, maybe more of a softening of approach to the other environment policies Abbott had sought to repeal. To read more on this from Reuters please click [here](#).

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The week ahead

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There is the possibility of a correction downwards if speculators unwind core length should the market slip below the upwards trending technical support line established from October last year. Apart from a reduced auction calendar (UK is absent this week) there are currently few, if any, obvious reasons for strength this week.

Auction Timetable 02nd February 2015 - 13th February 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
02-Feb-15	2,918	EEX	EUA	7.06	2.70	7,888,000
03-Feb-15	2,918	EEX	EUA	7.06	2.77	8,090,000
04-Feb-15	3,123	ICE	EUA	6.96	2.07	6,458,000
05-Feb-15	2,918	EEX	EUA	6.87	5.31	15,481,000
06-Feb-15	3,198	EEX	EUA	6.92	6.17	19,718,000
09-Feb-15	2,918	EEX	EUA			
10-Feb-15	2,918	EEX	EUA			
11-Feb-15	1,494	EEX	EJAA			
12-Feb-15	2,918	EEX	EUA			
13-Feb-15	3,198	EEX	EUA			

Registry shortcuts

As the 30th April deadline for compliance and the 31st March deadline for CP1 CER use approaches, have you logged onto your registry account recently? Bookmark [this](#) page to easily check your account status.



Upcoming Conferences

- Europe: E-World Feb 10th-12th 2015 (Essen)
- Platts Central and Eastern European Power Feb 17th-18th 2015 (Prague) – REDSHAW ADVISORS SPEAKING
- Europe: Argus Emissions Mar 4th-5th 2015 (Amsterdam) - REDSHAW ADVISORS SPEAKING
- Europe: IETA's Business Partnership for Market Readiness Workshop (London) - REDSHAW ADVISORS SPEAKING
- Europe: Carbon Expo May 27th-29th 2015 (Barcelona)

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Carbon market research and analysis:



Carbon market news:



EU-ETS Compliance: preparing for position management, allocation and completing verification

For those of you who have not read it yet, check out our report on EU ETS Compliance. Please find it briefly below and in full [here](#):

- 1. Preparing for position management** - Towards the end of February, after verification has been finalised, companies will come to market to balance their carbon books for 2014. Getting on top of this activity early is essential to avoid a rush as we get closer to 30th April and to make sure transfers of EU Allowances go smoothly.
- 2. Allocation** - Most companies will know exactly how much they can expect to be allocated already, this is prescribed to 2020. However some uncertainty exists for companies in Eastern Europe (those in the power sector entitled to 'derogated' volumes), for some new entrants and for companies with significant capacity increases or decreases. In addition, companies often don't know what their emissions will be in 2015. Regardless of what you know about your allocation or future emissions, the biggest exposure is not what overall carbon position you are likely to have but what happens to the price of carbon while your position evolves over the course of the year.
- 3. Verification** - The process by which companies achieve compliance with their EU-ETS obligations can be a long and complex one. New entrants in 2014 have a particularly steep learning curve and the first thing to get right is to appoint an *appropriately accredited* verifier. However all installations should take note of the things they themselves must do that may fall outside of their verifier's responsibilities.

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