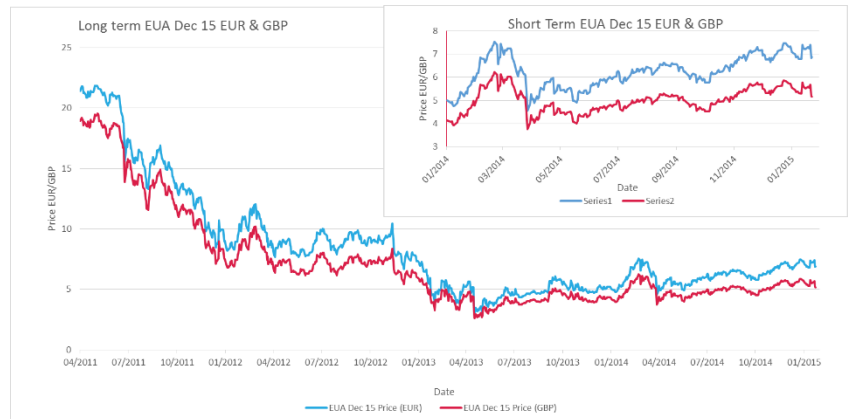


## WEEKLY CARBON TRADING MARKET UPDATE – 26<sup>TH</sup> JANUARY, 2015

### Market Development

- 2 Auctions on Wednesday, largest week for all of 2015
- ITRE rejects 2017 start and backloaded allowances into the MSR/innovation fund. Votes for a 2021 start.
- In a final vote ITRE reject their own 2021 MSR proposal, essentially meaning they do not register an opinion.
- ENVI vote on final shape of MSR Feb 24<sup>th</sup>.



### Auction Overview

- 2 auctions on Wednesday this week, one EUAA and one EUA, as monthly Polish auction takes place.
- Total of 16.3mt allowances will come into the market (14.806mt EUA and 1.494mt EUAA), highest this year (15.08 last week).
- Calendar below.

**EU Registry will close for maintenance on 3<sup>rd</sup> February, 2015**

### Price Action

The week was dominated by MSR headlines. Carbon prices experienced a 4.7% drop last week following a failure amongst the Industry, Research and Energy (ITRE) committee to formulate a position on the MSR proposal, more on this in the MSR section. Prices were weak on Tuesday after the ITRE meetings suggested that early adoption of the MSR would not be plain sailing then on Wednesday climbed ahead of Thursday's ITRE vote to hit a high of €7.55 on the front December contract on Thursday morning. Prices fell sharply following the vote, falling 5% in a matter of seconds. Various headlines caused 10c price swings throughout the morning and further weakness in the afternoon saw prices closing at the lows. The week closed down around the lows at €6.88 having shown continued signs of weakness and a failure to retrace any of the losses seen on Thursday. The market was clearly long (having been caught short the previous week), most surprising was quite how long given the bearish signals from ITRE on Tuesday. Underlying fundamentals remained favourable as German Power and coal experienced moderate weekly moves and the clean darks remained strong. The speed of the move is probably explained by aggressive carbon trading speculative short positions taken immediately after the vote. *Price Impact: the market needs to establish whether EUA volumes for sale at auctions are outweighed by utility buying (or vice versa) without the interference of political*

Weekly Price Changes (EUR)				
Product	16/01/2015	23/01/2015	Change	% Change
EUA Dec 15	7.22	6.88	-0.34	-4.71%
DE Power Cal 16	31.6	31.7	0.10	0.32%
API2 Cal 16	50.26	51.51	1.25	2.48%

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Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	6.8	0.00%	0.00%
Dec-15	6.88	1.18%	1.18%
Dec-16	7	1.74%	2.94%
Dec-17	7.15	2.14%	5.15%
Dec-18	7.33	2.52%	7.79%
Dec-19	7.55	3.00%	11.03%

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.

*machinations. Carbon trading speculative positions are probably neutral after last week's 'wash-out' so price direction early in the week is likely to be the main direction indicator this week. Support should be found at €6.70 on the downside.*

### Market Stability Reserve (MSR)

The ITRE Committee voted last week on their proposal for the MSR. It is fair to say that the vote raised more questions than it answered as the committee essentially failed to give an opinion. The main points of the ITRE vote were around the start date and the future of the backloaded allowances currently being withheld from the market. Firstly, the ITRE rejected a 2017 start date to the MSR, before voting in favour of a 2021 start. Secondly, they voted against placing 600mt of backloaded allowances straight into the reserve and the remaining

300mt into an Innovation Fund. Essentially this left them with a proposal of an MSR introduced in 2021 with all the backloaded allowances having re-entered the market in 2019 and 2020. A bizarre final vote saw this proposal rejected, meaning ITRE failed to register an opinion. The ITRE committee is an advisory panel and as such has no formal influence on the final MSR proposal, however, the votes will, to some degree, be taken into account by the ENVI committee when formulating their proposal and provide a good indication of likely areas of concern and need for compromise. Those commentators in favour of an early start have concluded that a failure of the ITRE to register a formal opinion on the MSR proposal gives the ENVI committee (who are likely to look more favourably at the matter) free reign. You can read more about the outcome and its meaning, as well as some of the political background, in the piece published on our website on Thursday: [here](#). Energy Aspect's next monthly research is due out this week and it will no doubt cover these developments in some detail. *Price impact: volatility surrounding news on the formulation of the ENVI committee proposal and the MSR as a whole.*

Important MSR dates are:

- 24<sup>th</sup> February, 2015 – Environment Committee vote

### The week ahead

Price direction on Monday will set the tone as the carbon trading market looks for new direction following the large falls last week. The market is well supplied this week courtesy of 6 auctions and a total of 16.3mt allowances coming into the market (14.806mt EUA and 1.494mt EUAA), the highest for all of year so far. It should provide a clearer picture as to how the market is coping with the increased auction volume this year as the high volatility experienced so far has made it difficult to get a handle on the underlying demand and supply picture. Turmoil within the Euro zone also continues as the dust settles following the quantitative easing announcement and Greek election yesterday. The Euro has little support and fell sharply against the dollar and pound last week with knock-on effects on Clean Dark Spreads.

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Auction Timetable 19th January 2015 - 30th January 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
19-Jan-15	2,918	EEX	EUA	7.06	4.62	13,468,500
20-Jan-15	2,918	EEX	EUA	7.25	4.28	12,501,500
21-Jan-15	3,123	ICE	EUA	7.21	3.22	10,060,500
22-Jan-15	2,918	EEX	EUA	7.02	3.35	9,774,000
23-Jan-15	3,198	EEX	EUA	6.81	3.36	10,745,000
26-Jan-15	2,918	EEX	EUA			
27-Jan-15	2,918	EEX	EUA			
28-Jan-15	1,494	EEX	EUAA			
28-Jan-15	2,854	EEX	EUA			
29-Jan-15	2,918	EEX	EUA			
30-Jan-15	3,198	EEX	EUA			

### Upcoming Conferences

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

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