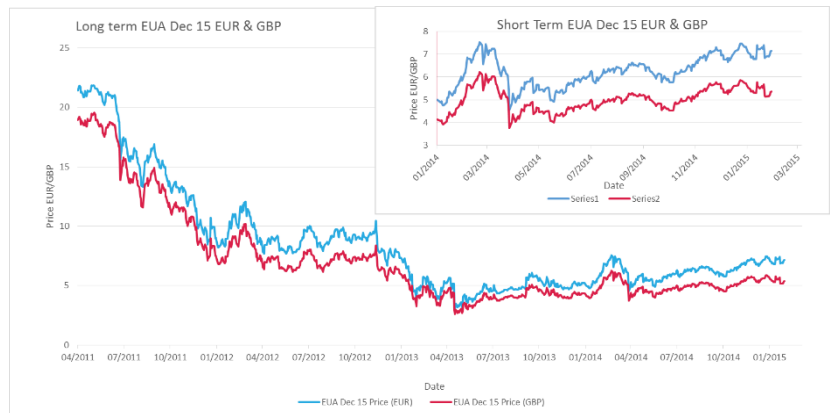


## WEEKLY CARBON TRADING MARKET UPDATE – 02<sup>ND</sup> FEBRUARY, 2015

### Market Development

- Subdued price movement early in the week as the market took a 'wait and see' approach after last week's big sell off.
- Low volume in Dec '16 to '18 suggests subdued utility hedging
- Wednesday's double auction cleared at market. The volume on offer was easily absorbed by buying interest, week finishes near highs (€7.15)
- MSR meeting between EU Government representatives suggests EU nations open to the idea of the backloaded allowances entering the reserve, but less so a 2017 start.
- Talks will continue on 6<sup>th</sup> February



### Auction Overview

- Full week of auctions with 15.075mt of EUAs to enter the market. Around 1Mt less than last week.

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

### Price Action

It was a week of relative calm in the carbon markets as price action and volume were subdued. Speculators seemed to be taking a wait and see approach after the large falls seen the week before. Expectations of a follow-through lower didn't materialize and buoyed by the continuing colder weather forecasts, carbon staged a partial recovery. Front December contract prices drifted higher, finishing the week at €7.15, a week on week rise of 27c (3.92%). Volumes in the later dated contracts were particularly thin, a lack of action towards the back end of the curve suggest limited utility hedging\* which ordinarily might lead to more price weakness, however, the cold weather has those companies focusing on physical hedging demand created by additional power demand. *Price Impact: another full week of auctions will test the ability of the carbon markets to soak up the increased auction*

Weekly Price Changes (EUR)				
Product	23/01/2015	30/01/2015	Change	% Change
EUA Dec 15	6.88	7.15	0.27	3.92%
DE Power Cal 16	31.7	32.15	0.45	1.42%
API2 Cal 16	51.51	52.64	1.13	2.19%

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.07	0.00%	0.00%
Dec-15	7.15	1.19%	1.19%
Dec-16	7.28	1.76%	2.97%
Dec-17	7.43	2.06%	5.09%
Dec-18	7.6	2.29%	7.50%
Dec-19	7.82	2.89%	10.61%

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.

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volume this year. The weather seems to be propping up prices for now. Expect further volatility around the MSR as another meeting of representatives is scheduled for Friday.

\* The utilities typically hedge forward power sales up to 3 years out so will hedge with forward dated carbon contracts.

## Market Stability Reserve (MSR)

In a relatively quiet week on the MSR front, the only news of any substance to emerge was on Monday from a meeting of member state representatives. It has been reported that there was general consensus for an MSR fix that included putting the backloaded volumes into the MSR. Less favoured was a 2017 start date with the most likely outcome still 2021. With the Industry, Research and Energy committee (ITRE) having failed to register any opinion of note the previous week, the ball is now firmly in the court of the ENVI committee. A further meeting of the member state representatives is scheduled for Friday and may provide more clarity on the likely final outcome for the MSR. *Price impact: between now and the ENVI vote on the 24<sup>th</sup> February, it is likely the carbon markets will react to news and information on the possible vote permutations with price volatility.*

Important MSR dates are:

- 6<sup>th</sup> February, 2015 - meeting of EU nation representatives
- 24<sup>th</sup> February, 2015 – Environment Committee vote

## Price forecast news

Energy Aspects have adjusted their price forecast (please [contact us](#) if you are not already receiving their research from us). Pointcarbon also modified their price forecasts making early reserve injection (the back-loaded volumes) and an early start their base case. Read more [here](#).

## The week ahead

The momentum from last week's price rises and continuing cold weather make it reasonably likely we will see minor price gains. Last week's auctions were relatively well covered, both in terms of bid-cover ratio and number of bidders which helps price in a week full of auctions. Friday's meeting of member state representatives is likely to lead to some price volatility, however, speculators are likely to be lightly positioned after the big drop so it will be limited. To the upside, €7.50 has become a major hurdle, to the downside support is expected at €7.00.

Auction Timetable 26th January 2015 - 06th February 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
26-Jan-15	2,918	EEX	EUA	6.76	3.85	11,241,000
27-Jan-15	2,918	EEX	EUA	6.82	3.58	10,439,000
28-Jan-15	1,494	EEX	EUA	6.56	3.88	5,790,000
28-Jan-15	2,854	EEX	EUA	6.76	5.18	14,796,000
29-Jan-15	2,918	EEX	EUA	6.92	3.02	8,818,000
30-Jan-15	3,198	EEX	EUA	6.96	3.77	12,061,000
02-Feb-15	2,918	EEX	EUA			
03-Feb-15	2,918	EEX	EUA			
04-Feb-15	3,123	ICE	EUA			
05-Feb-15	2,918	EEX	EUA			
06-Feb-15	3,198	EEX	EUA			

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## Registry shortcuts

As the 30<sup>th</sup> April deadline for compliance and the 31<sup>st</sup> 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 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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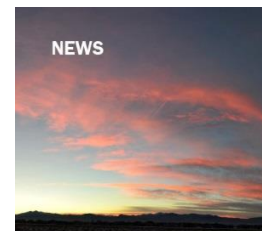
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## **The EU-ETS: 5 critical things to watch out for in 2015**

For those of you who have not read it yet, check out our summary of the 5 most important carbon market influencers of 2015, briefly below and in full [here](#):

### **1. The Market Stability Reserve (MSR) is well supported and an early start is increasingly likely**

The MSR will have a significant effect on the market. A 2017 start will cause prices to go up as soon as legislation looks likely to be passed and by as much as 300% by 2020.

### **2. International offsets: cheaper CP1 credits must be used by 31 March 2015**

After this deadline only CERs generated from 2013 (CP2 CERs) will be eligible for compliance. They are currently trading at up to ten times the price of CP1 CERs

### **3. Analysts predict spiralling carbon prices starting in Q1 2015 despite weaker energy prices**

German emissions look to have fallen by 5% in 2014, economic growth in Europe is uncertain and commodity prices remain weak yet no major analyst is predicting a lower price for carbon in 2015.

### **4. Europe heading for recession – will this lead to lower carbon prices?**

OECD economic outlook highlights the risks of Europe slipping into a period of persistent stagnation. However a 300Mt reduction in auction volumes in 2015 offsets even the most bearish predictions.

### **5. Allocations in 2015 are at their smallest and they are falling**

Around 9,800 installations in Europe (out of around 12,000 in total) will have a smaller allocation in 2015 than in 2014. No one gets more in 2015 and utilities get no allocation at all.

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