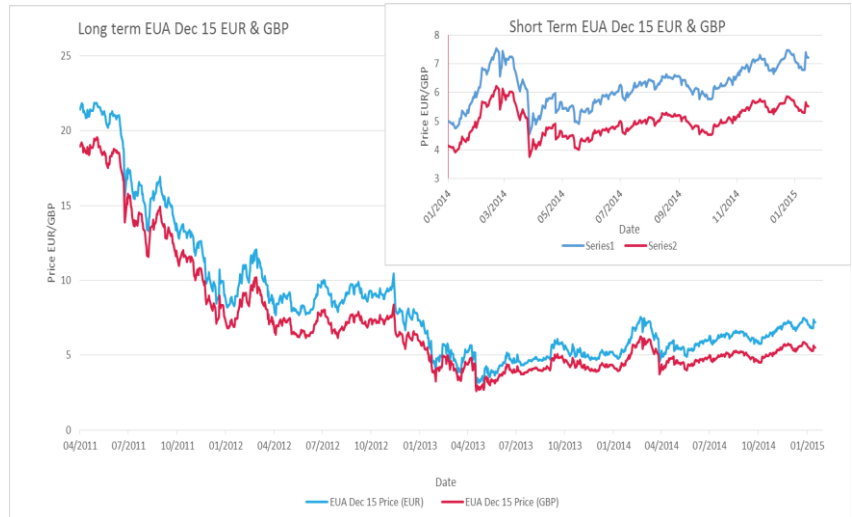


WEEKLY CARBON EMISSIONS TRADING MARKET UPDATE – 19TH JANUARY, 2015

Market Developments

- EUA price action sees carbon jumping by the most in 11 months on Tuesday
- EUA market ends week up 42c
- European Parliament's ITRE committee signals support for an early MSR start.
- ITRE committee meets this week and votes on MSR
- ENVI committee meets this week and votes on MSR
- Sandbag.org forecast a 4.5bn EU Allowance overhang by 2020 and an 8% drop in EU power plant emissions in 2014
- Shenzhen carbon increases 22%
- China launches CCER registry



EU registry set to close for maintenance on 3rd February

Price Action

Carbon prices were strong last week ending 42c higher. On Tuesday prices leapt up 59c, the highest price rise for 11 months indicating that market participants were caught short. With hindsight the warning signs were there as prices had already more or less halted their downtrend by close of business Monday and on the morning of the big rally prices were drifting up before and during the auction, normally a tell-tale sign that the market is short. The downtrend was squarely ended that morning but the announcement that the ITRE committee was considering recommending a 2019 start to the MSR had the remaining shorts clambering over each other for the exit resulting in a sudden ramp of prices in the late afternoon. The market has since digested the comments and drifted slowly back down a little over the rest of the week. Cold weather forecasts also added some buying support but were a minor contributor to the rise. Europe's woes deepened during the week with the Euro reaching it's lowest levels for some

Weekly Price Changes (EUR)				
Product	09/01/2015	16/01/2015	Change	% Change
EUA Dec 15	6.8	7.22	0.42	6.18%
DE Power Cal 16	31.85	31.6	-0.25	-0.78%
API2 Cal 16	52.19	50.26	-1.93	-3.70%
TTF Gas Cal 16	20.15	19.95	-0.20	-0.99%

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.14	0.00%	0.00%
Dec-15	7.22	1.12%	1.12%
Dec-16	7.36	1.94%	3.08%
Dec-17	7.51	2.04%	5.18%
Dec-18	7.7	2.53%	7.84%
Dec-19	7.92	2.86%	10.92%

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.

years against major currencies. Bearish *sentiment* still remains but support for carbon evidently remains despite the higher volume auctions in 2015. Support is also coming from German Clean Dark Spreads (CDS) with power price slipping 25c last week relative to coal's €1.93 slip (see table). *Price Impact: most significant is that price drops last week have failed to overcome Tuesday's rally, there is no clear trade or trend at the moment but continued support from cold weather and the clean dark spreads may lead to continued gains. €7.50 will likely cap rises if it gets there, subject to MSR shocks from meetings this week.*

As our weekly goes to press more leaks suggest certain members of ITRE are increasingly keen to support early implementation of the MSR and the market has reacted.

China launches CCER registry and Shenzhen prices strengthen

The climate change division of the National Development and Reform Commission (NDRC) announced last week the launch of a national registry for Chinese Certified Emission Reductions (CCERs). This will provide a centralised repository for transactions to be completed and recorded. CCERs currently trade at a huge discount to the emission allowances available across the seven Chinese carbon markets.

Shenzhen carbon credits appreciated 22% on the China Emissions Exchange since the 16th January, according to Bloomberg.

Market Stability Reserve (MSR)

The Industry Research and Energy (ITRE) Committee met last week and will meet again this week to vote on the MSR. The ENVI committee meets this week and votes next month. The MSR reserve mechanism automatically adjusts the amount of permits in circulation, removing 100Mt of allowances per year when the surplus exceeds a given limit and returning them if there is a shortage. It appears that the EU Parliament is generally supportive of the MSR. However, rather than have the MSR start in 2021 as initially proposed by the Commission, there is a push by several member states such as Germany, France and the UK to have an earlier start in 2017 and shifting the 900Mt backloaded allowances straight into the reserve.

On Tuesday news reports started to emerge in relation to ITRE's meeting. The suggestion was that the rapporteur, Antonio Tajani, was forced to accept a 2019 start date for the MSR though some of the leaked text partially contradicted this by stating that the MSR would be in place by 2019 but injections into it would only start in 2021. This was enough to cause shorts in the market to rush for the exit because it suggested that the committee most likely to object to the MSR is keen to find a compromise and it suggests that a start date earlier than 2019 is possible.

This morning (Monday 19th) there were more specific leaks from the committee (meeting today) whereby four groups (Socialist, Liberals, Greens and European United Left / Nordic Green Left) want the MSR to start in 2017. ITRE meet today and if there is no agreed position a vote will be held between the position of the parties above and that of the EPP and Conservatives.

Price impact: Expect more news and volatility this week.

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As a reminder the important MSR dates are:

- 22nd January, 2015 – ITRE vote
- 21st/22nd January, 2015 – Environment Committee (ENVI) considers proposal amendments tabled
- 24th February, 2015 – Environment Committee vote

Sandbag predict a 4.5bn EU Allowance overhang by 2020.

Their full report can be accessed [here](#). The overhang being largely driven by EU power emissions' decline. The timing presumably designed to inform the various discussions by ITRE and ENVI.

The week ahead

Keep an eye out for continuing cold weather forecasts and ITRE / ENVI developments. Auction timetable below, note there is a full UK EUA auction on Wednesday.

Total 2015 EUA auction volumes stand at 558Mt (EEX) and 75Mt (ICE). This compares with 462Mt and 63Mt respectively in 2014.

Auction Timetable 12th January 2015 - 23th January 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
12-Jan-15	2,918	EEX	EUA	6.59	3.11	9,069,500
13-Jan-15	2,918	EEX	EUA	6.77	2.54	7,408,000
14-Jan-15	1,494	EEX	EUA	6.99	3.65	5,454,000
15-Jan-15	2,918	EEX	EUA	7.10	3.47	10,123,500
16-Jan-15	3,198	EEX	EUA	7.05	3.60	11,502,500
19-Jan-15	2,918	EEX	EUA	7.06	4.62	13,468,500
20-Jan-15	2,918	EEX	EUA			
21-Jan-15	3,123	ICE	EUA			
22-Jan-15	2,918	EEX	EUA			
23-Jan-15	3,198	EEX	EUA			

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)
- Europe: Carbon Expo May 27th-29th 2015 (Barcelona)

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](#):

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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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