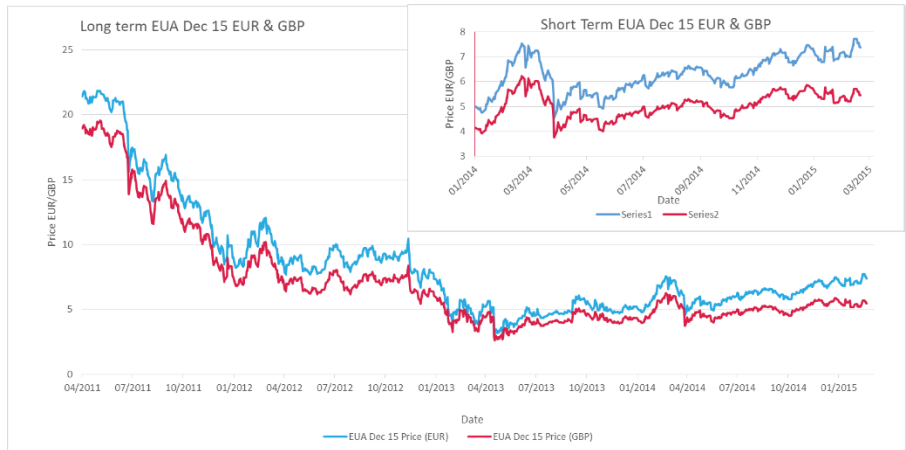


WEEKLY CARBON TRADING MARKET UPDATE – 23RD FEBRUARY, 2015

Market Development

- Carbon price continues to rise on Monday morning and hit a high of €7.90. Thereafter price fell through the week.
- German power and coal follow similar pattern as prices strong at the start of the week before suffering sizeable losses.
- Clean dark spread remains relatively unchanged as prices fall in the 3 contributing commodities.
- Further reports of disagreement on the MSR proposal lower prices as positive sentiment deflated
- Fate of the unused EUA allowances to be the main price driver in MSR policy changes according to Tschach Solutions.



Auction Overview

- EUA auction takes place on Wednesday to contribute to total of 13.4mt entering the market this week (EUA – 11.952mt, EUAA – 1.448mt)

Price Action

Carbon prices fell 4.28% (33c) week-on-week as the market retraced some of the previous week's gains. Weaker fuels contributed to the carbon sell off as German power and coal suffered sizeable losses through the week. The positive sentiment from the previous week carried over into Mondays

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.32	0.00%	0.00%
Dec-15	7.38	0.82%	0.82%
Dec-16	7.49	1.49%	2.32%
Dec-17	7.64	2.00%	4.37%
Dec-18	7.81	2.23%	6.69%
Dec-19	8.03	2.82%	9.70%

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.

trading as the price hit a 2 year high of €7.90 on the front December contract. Buoyed by strong German power prices it looked like prices were destined to hit €8. However the tide turned in other markets and from there on the price fell through the rest of the week as the market experienced an orderly sell off, support was initially provided by the psychological €7.50 level but it failed to hold. It is probable that there was some profit taking as prices neared €8 having reached their highest since 2012. The clean dark spread has remained relatively unchanged through the week as power price falls were mirrored by coal,

Weekly Price Changes (EUR)				
Product	13/02/2015	20/02/2015	Change	% Change
EUA Dec 15	7.71	7.38	-0.33	-4.28%
DE Power Cal 16	33.7	32.7	-1.00	-2.97%
API2 Cal 16	56.01	54.04	-1.97	-3.51%

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however, it is unlikely utilities were rushing to sell power in a falling market so demand for carbon from them is likely to have been relatively low in the latter part of the week. Further carbon falls can be attributed to reports of disagreements on the MSR proposal to be voted on in the ENVI committee on Tuesday 24th February as well as traders reducing long positions ahead of the expected volatility. More on this in the MSR section below. Needless to say, with the vote on Tuesday, the market remains more sensitive than ever to MSR developments. *Price Impact: much will depend on the MSR vote on Tuesday as the market looks to it to provide direction. A positive vote outcome should lead to support for the market and some price gains, however, a negative outcome could lead to large falls in price as carbon market traders head for the exit citing a lack of political support for material reform.*

Market Stability Reserve (MSR)

Reports suggesting there was not uniform support for the MSR proposal from Belet weighed on prices as the positive sentiment towards reform was deflated. The current proposal suggests an MSR start sometime within 2018 (likely to be the very end of the year), the reports suggested the proposal was not good enough for the Greens and Socialist and Democrats who are still pushing hard for a 2017 start. Previously it was thought they would support the proposal, however, the reports put this in doubt as it is possible they will vote against the current proposal.

Further analysis of the MSR proposal has cited the fate of the backloaded allowances and unused EUAs as the main driver to future price evolution. According to Tschach Solutions a 2017 v 2019 start will only alter price forecasts by €2 whereas placing all 1.6 billion surplus allowances straight into the reserve has the power to drive a fivefold increase in prices to €35 (€35.80 to be precise!) The surplus allowances are made up of 900mt of backloaded allowances, the New Entrant Reserve (NER) allowances and also any unallocated allowances held back from the market to cover closures of compliance entities. To read the full article please click [here](#).

*Price Impact: volatility centered around the Environment committee vote on Tuesday. We will send out separate analysis of the outcome tomorrow. **As we go to press the carbon price has risen to €7.68, up 40c from today's low on latest EPP proposal which guarantees full transfer of backloaded allowances to MSR, but keeps MSR start date by 31 Dec 2018.***

Important MSR dates are:

- 24th February, 2015 – Environment Committee vote

The week ahead

All eyes focus on Tuesday now as the main driver for price direction in the week to come. A close eye must also be kept on power as further slides in price will have a detrimental impact on carbon prices.

Auction Timetable 16th February 2015 - 27th February 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
16-Feb-15	2,918	EEX	EUA	7.66	3.21	9,379,000
17-Feb-15	2,918	EEX	EUA	7.62	5.60	16,344,500
18-Feb-15	3,123	ICE	EUA	7.44	1.85	5,790,500
19-Feb-15	2,918	EEX	EUA	7.37	3.32	9,695,000
20-Feb-15	3,198	EEX	EUA	7.26	2.91	9,292,000
23-Feb-15	2,918	EEX	EUA			
24-Feb-15	2,918	EEX	EUA			
25-Feb-15	1,448	EEX	EUA			
26-Feb-15	2,918	EEX	EUA			
27-Feb-15	3,198	EEX	EUA			

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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

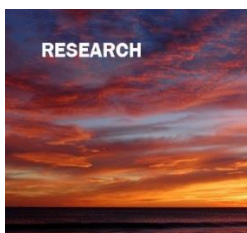
- Europe: Argus Emissions Mar 4th-5th 2015 (Amsterdam) - **REDSHAW ADVISORS SPEAKING**
- Europe: IETA's Business Partnership for Market Readiness Workshop (London) - **REDSHAW ADVISORS SPEAKING**
- Europe: Carbon Expo May 27th-29th 2015 (Barcelona)

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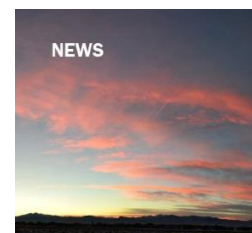
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EU-ETS Compliance: preparing for position management, allocation and completing verification

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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