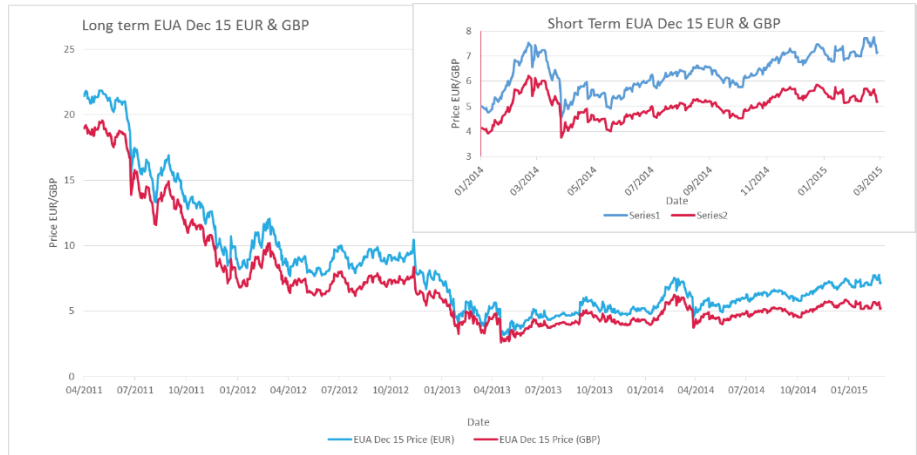


WEEKLY CARBON TRADING MARKET UPDATE – 2ND MARCH, 2015

Market Development

- Carbon price closes up 38c at €7.76 on Monday after EPP MSR compromise agreement released ahead of Tuesdays ENVI vote.
- Amendments pass ENVI Committee with little fuss.
- Prices end the week at €7.15, down 23c week-on-week.
- Further uncertainty on MSR fuels price falls as 8 governments confirm intention to form a blocking minority against early start.
- Weaker clean dark spreads: coal rises outstrip power rises in Europe, EUR weakness exacerbates coal price gains.



Auction Overview

- Full week of auctions with 15.075mt coming into the market

Price Action

Carbon market price action was dominated by the ENVI Committee vote this week. The vote took place on Tuesday and passed with a large majority, however, the price had already moved up on Monday ahead of the vote as news detailing an MSR compromise position agreement between the S&D and EPP parties caused a sharp upward movement on prices.

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.09	0.00%	0.00%
Dec-15	7.15	0.85%	0.85%
Dec-16	7.25	1.40%	2.26%
Dec-17	7.39	1.93%	4.23%
Dec-18	7.56	2.30%	6.63%
Dec-19	7.77	2.78%	9.59%

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.

Weekly Price Changes (EUR)				
Product	20/02/2015	27/02/2015	Change	% Change
EUA Dec 15	7.38	7.15	-0.23	-3.12%
DE Power Cal 16	32.7	33	0.30	0.92%
API2 Cal 16	54.04	56.82	2.77	5.13%

The compromise agreement essentially meant the largest parties in the European Parliament had agreed on the start date and the future of the backloaded and unallocated allowances. The vote on Tuesday was something of a formality as it passed easily by 58 votes to 10. Further analysis on this can be found below. With a 91c range on the EUA Dec 15 contract, volatility again remained high. Monday's bullish price moves were followed up on Tuesday morning before the vote, however, prices tailed off after this to spend most of the rest of the week falling. This can be explained by a number of factors. Firstly some profit taking as those traders who had been long going into the vote headed for the exit as the bullish price moves had run

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their course. Secondly, uncertainty surrounding the next stages of the MSR process weighed heavily on the market as doubts surrounding a 'blocking minority stand-off' arose. It is thought compromise is going to need to be found as the more ambitious MSR member states can block a late start date and at the opposite end of the spectrum those against the MSR can also block ambitious early start dates. The uncertainty, at a minimum, will have caused long position reductions. Thirdly, weakening clean dark spreads can be thrown into the bearish mix as power price rises were outstripped by coal price rises. The weakening EUR means coal, priced in USD, rose by 5% last week. This pushed the clean dark spread levels for 2016 below €4.00 and likely lead to lower demand for carbon from the utilities. *Price Impact: volatility is likely to remain high as information on member state positions and likely compromises breaks cover. With several large member states such as Spain yet to formally state their position, their stance could be crucial to the eventual agreed shape of the MSR.*

Market Stability Reserve (MSR)

We produced analysis of the ENVI Vote on Tuesday, please click [here](#) to read it.

The next step for the MSR EU ETS reform is for Member States to agree their position (meeting to be held later this month) and for trilogue negotiations to take place. Essentially this will require some member state compromise due to the blocking minority uncertainty as described above. A letter sent on behalf of Cyprus, Bulgaria, Croatia, Czech Republic, Hungary, Lithuania, Romania and Poland outlined their collective opposition to an earlier introduction of the MSR than the EC's originally proposed 2021 start date. The letter states the MSR EU ETS reform will have significant economic, social and financial consequences for member states and for industry prone to carbon leakage (despite the leakage compromise contained in the ENVI position). Interestingly, analysts are suggesting the main price driver for carbon markets will be the future of the backloaded and unallocated allowances rather than the start date. It is also worth noting that, with publication of the letter, the bad news is already out there. No news or even good news are the more likely to follow. To receive comprehensive, independent analysis from our partners, Energy Aspects, please register your details [here](#).

The week ahead

The price should find support around the €7 level and just through it at the level of previous lows around €6.80-87. The shallow uptrend established since 13th October is currently under threat. A close eye will also need to be kept on the fuels as further slides in the clean dark spread will put downward pressure on carbon prices. Volatility is likely to remain high as the market digests new information on the MSR process.

Auction Timetable 16th February 2015 - 27th February 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
23-Feb-15	2,918	EEX	EUA	7.20	3.53	10,290,000
24-Feb-15	2,918	EEX	EUA	7.66	2.15	6,272,000
25-Feb-15	1,448	EEX	EJAA	7.35	2.76	4,001,500
26-Feb-15	2,918	EEX	EUA	7.29	2.84	8,282,000
27-Feb-15	3,198	EEX	EUA	6.93	2.02	6,446,000
02-Mar-15	2,918	EEX	EUA			
03-Mar-15	2,918	EEX	EUA			
04-Mar-15	3,123	ICE	EUA			
05-Mar-15	2,918	EEX	EUA			
06-Mar-15	3,198	EEX	EUA			

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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: Argus Emissions Mar 4th-5th 2015 (Amsterdam) - **REDSHAW ADVISORS SPEAKING**
- Europe: World Bank's PMR/IETA/UK DECC Workshop Mar 12th-13th 2015 (London) - Carbon Markets: From current practices to their role in the new climate regime - **REDSHAW ADVISORS SPEAKING**
- Europe: Carbon Expo May 27th-29th 2015 (Barcelona)

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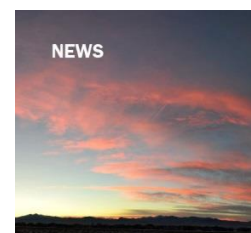
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EU-ETS Compliance: preparing for position management, allocation and completing verification

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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