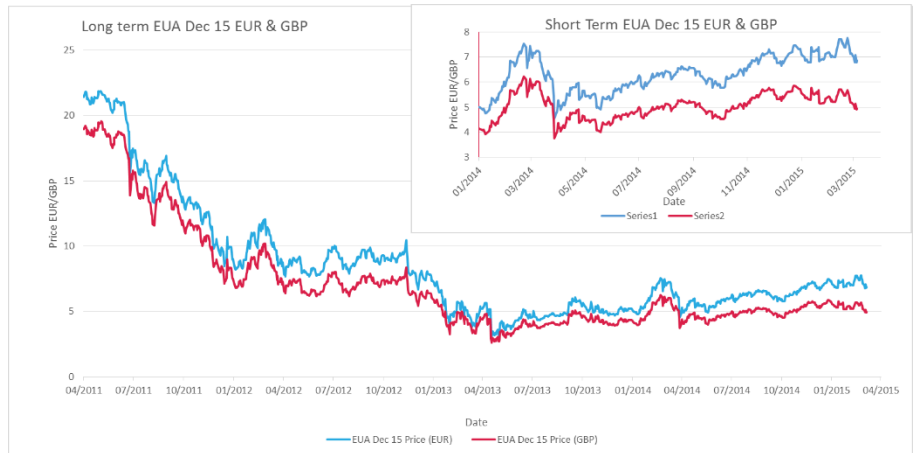


## WEEKLY CARBON TRADING MARKET UPDATE – 9<sup>TH</sup> MARCH, 2015

### Market Development

- Price drifts off through the week to close 4.2% down at €6.85.
- Weaker energy sector as power, gas and coal all experience falls.
- Clean dark spreads fall towards the end of the week.
- Bullish MSR comments from Peter Zapfel of the European Commission at Argus conference briefly buoy prices on Wednesday.
- UK emissions falls 9% in 2014 according to Carbon Brief. Coal use declines and warm temperatures lead to falls.
- As of 3<sup>rd</sup> March only a third of free allocation for this year has been distributed.
- Lack of clarity surrounding the future of unallocated allowances. Unconfirmed whether it features in Latvia's compromise proposal sent out to member states.



### Auction Overview

- EUAA auction on Wednesday in addition to four EUA auctions. 13.446mt coming to the market this week (1.494mt EUAA & 11.952mt EUA)

### Price Action

A bearish week for the carbon market as prices fell 4.2% amid uncertainty on the EU ETS reform proposals. The week ended down 30c at €6.85 as prices fell through support lines and hit a low of €6.66 on Wednesday. Carbon prices had

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	6.8	0.00%	0.00%
Dec-15	6.85	0.74%	0.74%
Dec-16	6.94	1.31%	2.06%
Dec-17	7.07	1.87%	3.97%
Dec-18	7.23	2.26%	6.32%
Dec-19	7.43	2.77%	9.26%

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.

little pick up from then and got very little support from the wider energy sector as power, gas and coal all fell. The clean dark spreads also suffered and it is unlikely the utilities were rushing to the market. The main bearish driver appears to be the continuing uncertainty on the MSR proposal. Although the ENVI Committee vote passed, the road to MSR implementation is still long and winding; typically markets do not like uncertainty. There was a brief respite for falling prices on Wednesday after bullish comments by Peter Zapfel from the EU Commission. He stated his confidence in

Weekly Price Changes (EUR)				
Product	27/02/2015	06/03/2015	Change	% Change
EUA Dec 15	7.15	6.85	-0.30	-4.20%
DE Power Cal 16	33	32.2	-0.80	-2.42%
API2 Cal 16	56.82	54.96	-1.86	-3.27%

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successful negotiations in the first half of the year which translates into some real traction for the MSR by June. Comments aside, there was little to support prices further as the gains were erased at the back end of the week on Latvia's MSR compromise proposal, sent to member states. More on this below. Allocations for 2015 emissions are in the process of being distributed and although only a third of these were allocated by 3<sup>rd</sup> March, the rest will follow shortly, leading to further pressure on the market as supply is plentiful. Carbon Brief also released analysis of the UK emissions total for 2014 which showed a 9% fall in emissions. The main reasons for this were warm weather and declines in the use of coal. *Price Impact: it is hard to see what will cause the prices to rise currently as supply seems to be plentiful. As ever, MSR developments will cause volatility and improvements in the energy sector, particularly the clean dark spreads, will support carbon.*

## Market Stability Reserve (MSR)

Latvia, who will guide the MSR through parliament as current EU Presidents, sent out a proposed MSR compromise to member states at the back end of last week. The proposal calls for an MSR that is ready to be implemented by 2019 and holds the backloaded allowances, however, it does not specify what happens to unallocated EUAs. The future of the unallocated EUAs is important as they are a large contributor to the surplus of allowances the carbon market currently holds. According to market analysts the biggest influence on future prices will be the backloaded and unallocated allowances rather than the start date. The coming weeks will tell us more as member states formalise their position and negotiating stances.

### Important MSR Dates

- 10<sup>th</sup>/11<sup>th</sup> March – EU Parliament working group to discuss ENVI Proposal

### The week ahead

MSR developments are likely to cause large price movements. Support on the downside should be found at the technical €6.66 level and just below.

Auction Timetable 2nd March 2015 - 13th March 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
02-Mar-15	2,918	EEX	EUA	6.90	3.39	9,904,000
03-Mar-15	2,918	EEX	EUA	6.82	4.39	12,822,000
04-Mar-15	3,123	ICE	EUA	6.63	1.84	5,738,000
05-Mar-15	2,918	EEX	EUA	6.96	5.77	16,851,000
06-Mar-15	3,198	EEX	EUA	6.70	2.64	8,443,000
09-Mar-15	2,918	EEX	EUA			
10-Mar-15	2,918	EEX	EUA			
11-Mar-15	1,494	EEX	EUA A			
12-Mar-15	2,918	EEX	EUA			
13-Mar-15	3,198	EEX	EUA			

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## Upcoming Conferences

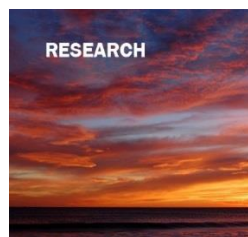
- Europe: World Bank's PMR/IETA/UK DECC Workshop Mar 12<sup>th</sup>-13<sup>th</sup> 2015 (London) - Carbon Markets: From current practices to their role in the new climate regime - **REDSHAW ADVISORS SPEAKING**
- Europe: Carbon Expo May 27<sup>th</sup>-29<sup>th</sup> 2015 (Barcelona)

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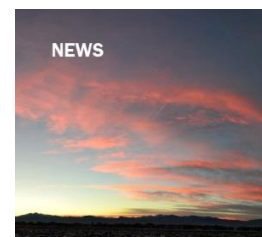
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### Carbon market research and analysis:



### Carbon market news:



## 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 30<sup>th</sup> 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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