

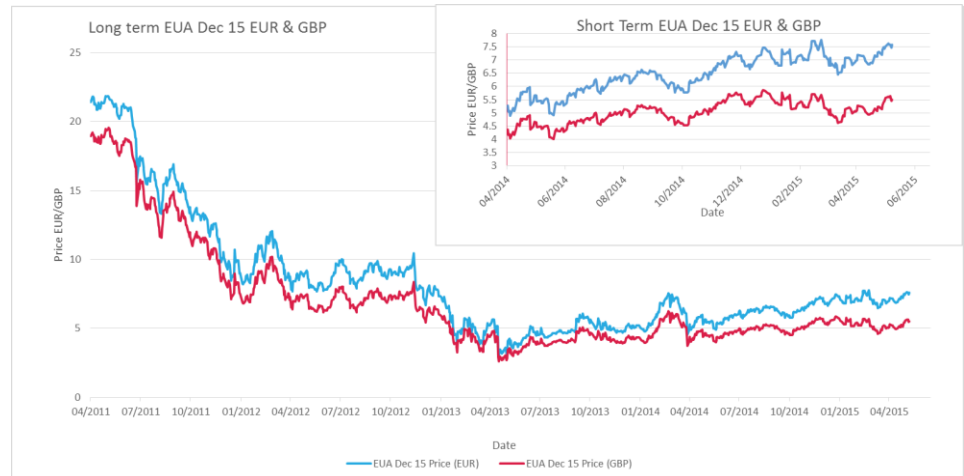
## WEEKLY CARBON TRADING MARKET UPDATE – 11<sup>TH</sup> MAY, 2015

### Market Development

- Prices rise slightly week-on-week to end up 5c at €7.57
- Profit taking causes price to slip from intraweek high of €7.75
- Ambitious MSR reform agreed in trilogue negotiations
- Tight trading range of 34c and lower than average traded volumes

### Auction Overview

- High bid-cover ratios in the auctions last week but clearing prices relatively normal – suggests one or more longs wanting the market to look bid.
- European holiday on Thursday reduces auctions to 4 this week with 12.157Mt EUA entering the market.



### Price Action

MSR trilogue negotiations were the main focus of the market this week. With the blocking minority crumbling, ambitious reform was back on the table and was duly agreed at the trilogue meeting on Tuesday. The positive outcome for reform had largely been priced in so the price action following the agreement was muted. The initial rally to €7.75 on

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.53	0.00%	0.00%
Dec-15	7.57	0.53%	0.53%
Dec-16	7.65	1.06%	1.59%
Dec-17	7.77	1.57%	3.19%
Dec-18	7.95	2.32%	5.58%
Dec-19	8.15	2.52%	8.23%

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.

Wednesday morning, following the announcement after close on Tuesday, was sold back down as traders took profit and reduced exposure. Thereafter prices drifted back off to finish the week at €7.57 on the front December contract, a small week-on-week rise of 5c. With a tight trading range (34c) and lower than average volumes through the week the market remained relatively quiet. In a period of typically high utility hedging the lower than expected traded volumes would suggest either a change in hedging strategy from the utilities or a temporary wait and see approach being taken with MSR market reforms in full flow. With German year ahead power prices down around the record lows it is also possible the utilities are reluctant to sell power at current prices and therefore will not be locking in profits by hedging the carbon exposure at the same time. The auctions through the week were well

Weekly Price Changes (EUR)				
Product	01/05/2015	08/05/2015	Change	% Change
EUA Dec 15	7.52	7.57	0.05	0.66%
DE Power Cal 16	32.05	31.6	-0.45	-1.40%
API2 Cal 16	52.46	51.42	-1.04	-1.98%

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supported with higher than usual bid-cover ratios but clearing prices around the market price as usual. *Price Impact: with trilogue talks completed and MSR agreement reached the process now moves onto the next stage. It is possible the market in the shorter term is driven increasingly by fundamental factors in the absence of political drivers. Given a full deck of positive price factors and no material advances it looks like the market is in no hurry to build on recent price gains. This week is another week of reduced auction volume.*

## Market Stability Reserve (MSR)

The Market Stability Reserve (MSR) moved closer to implementation following agreement in trilogue negotiations on the final draft wording. The agreement is more ambitious than the original EU Commission's proposal. To read a full report on the developments and what this means for the carbon price, please click [here](#).

### Important MSR Dates

- 26<sup>th</sup> May – trilogue meeting
- 6<sup>th</sup> July – plenary vote

## The week ahead

With a European holiday on Thursday and no further MSR developments it is possible we see another quiet week. With prices having drifted sideways over the last week it is hard to see what will cause material price development through the week, unless we see some increased hedging and trade volume from the utilities.

Auction Timetable 5th May 2015 - 15th May 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
05-May-15	2,918	EEX	EUA	7.50	4.70	13,722,000
06-May-15	935	EEX	EUAA	7.25	2.15	2,008,000
07-May-15	2,918	EEX	EUA	7.50	5.33	15,561,500
08-May-15	3,198	EEX	EUA	7.43	3.80	12,159,000
11-May-15	2,918	EEX	EUA			
12-May-15	2,918	EEX	EUA			
13-May-15	3,123	ICE	EUA			
15-May-15	3,198	EEX	EUA			

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## Upcoming Conferences

- Europe: Carbon Expo May 27<sup>th</sup>-29<sup>th</sup> 2015 (Barcelona) – **REDSHAW ADVISORS SPEAKING**
- UN Conference of the Parties (COP 21) November 30<sup>th</sup> – December 11<sup>th</sup> (Paris)UN Conference of the Parties (COP 21) November 30<sup>th</sup> – December 11<sup>th</sup> (Paris)

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