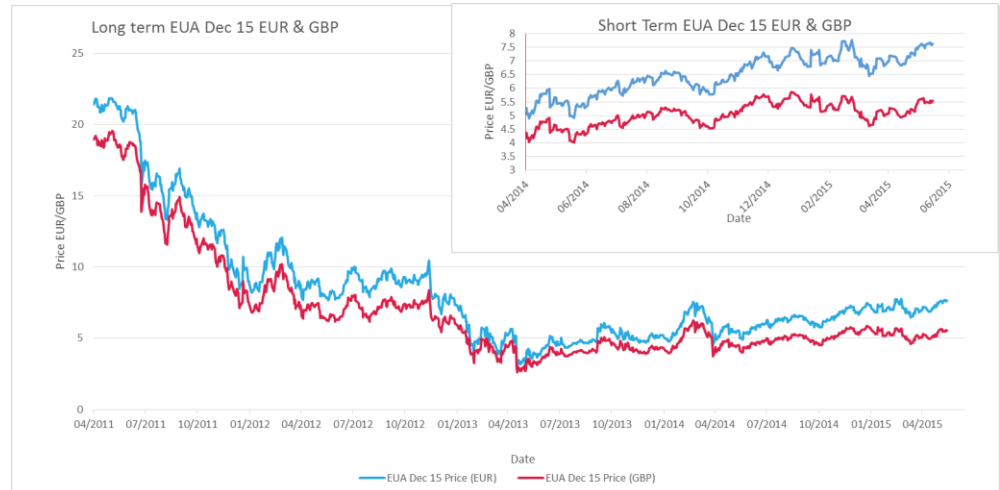


## Weekly Carbon Trading Market Update – 18<sup>th</sup> May, 2015

### Market Development

- Price action limited as week closes at €7.62, a 5c gain week-on-week
- Tight trading range throughout the week
- EU Member states agree to MSR proposal
- Amber Rudd named new Secretary of State for Energy and Climate change
- Power market little changed through the week
- EUR strength helps keep a lid on the coal price



### Auction Overview

- Monthly Polish auction to be held in addition to the usual EU auctions. 14.806Mt to enter the market throughout the whole week.

### Price Action

As predicted in last week's market update we saw another week of subdued price action as the market ended up 5c again at €7.62.

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.59	0.00%	0.00%
Dec-15	7.62	0.40%	0.40%
Dec-16	7.7	1.05%	1.45%
Dec-17	7.81	1.43%	2.90%
Dec-18	7.98	2.18%	5.14%
Dec-19	8.18	2.51%	7.77%

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.

With much of Europe on holiday on Thursday the traded volumes were again low for the week and with a range of just 24c throughout the entire week there was little for traders to get excited about.

There was only a muted reaction to the member state MSR sign off on Wednesday as the scenario is already priced in. The auctions have cleared with healthy demand as it seems there is healthy but not huge demand for allowances. The carbon market is also gaining little directional momentum from the power price as German power is moving very little despite being down near the record lows in most contracts. The strong EUR is helping to keep a lid on EUR denominated coal, which in turn is also keeping the clean dark spreads at good levels. Following on from the Conservative victory in the UK election it was announced the new Secretary of State for Energy and Climate would be Amber

Weekly Price Changes (EUR)				
Product	08/05/2015	15/05/2015	Change	% Change
EUA Dec 15	7.57	7.62	0.05	0.66%
DE Power Cal 16	31.6	31.75	0.15	0.47%
API2 Cal 16	51.42	50.66	-0.76	-1.48%

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Rudd, the previous climate change minister. The announcement was welcomed by market observers and those in favour of EU ETS reform as it is likely Amber Rudd will pursue the same aggressive reforms as the previous administration. *Price Impact: it is hard to see what drives the carbon price substantially higher in the short term, however, the sentiment in the market is positive and with each step the MSR passes to becoming law it strengthens. There is also little incentive for industrials to come out and sell allowances as price forecasts suggest ever increasing prices. With the backloading process also in full flow this is forecast to be the 'shortest' year in the EU ETS until the MSR starts removing large volumes from the market in 2019.*

## Market Stability Reserve (MSR)

Member states signed off on the MSR proposal on Wednesday to quell any fears the blocking minority might disrupt the process further, post trilogue agreement. The proposal needs sign off from member states and the Environment committee before it goes in front of the full plenary on 6<sup>th</sup> July. It would be unusual, but not impossible, for problems to arise in either the member state sign off or the environment committee. Some market participants had feared the blocking minority, led by Poland, might have one last ditch attempt at disrupting sign off. This proved not to be the case despite 6 nations, Poland, Hungary, Romania, Bulgaria, Croatia and Cyprus still objecting to the proposal. Should the bill pass through the environment committee and plenary vote as expected, it will then need final approval at a Council meeting of national ministers before being made law by appearing in the Official Journal of the EU. This could happen by mid-July.

### Important MSR Dates

- 26<sup>th</sup> May – Environment Committee vote on MSR proposal
- 6<sup>th</sup> July – plenary vote

## South Korea ETS – an emerging market

South Korea's ETS is now up and running and Redshaw Advisors are running a workshop on the way carbon markets operate and evolve for the Korean Power Generators Association (the Genco Cooperation Service). To help keep those interested in global carbon markets up to speed we thought it would be interesting to share some key facts about the South Korean ETS and its performance to date. To read the full report, please click [here](#).

## The week ahead

The additional monthly Polish auction this week will possibly create some downward pressure on the price. Clean dark spreads currently remain healthy but a change in trend of the EUR/USD exchange rate could lead to this reversing and a weakening of the clean dark spreads.

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Auction Timetable 11th May 2015 - 22nd May 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
11-May-15	2,918	EEX	EUA	7.50	3.62	10,567,500
12-May-15	2,918	EEX	EUA	7.62	3.23	9,421,500
13-May-15	3,123	ICE	EUA	7.46	1.56	4,880,500
15-May-15	3,198	EEX	EUA	7.48	3.27	10,451,000
18-May-15	2,918	EEX	EUA			
19-May-15	2,918	EEX	EUA			
20-May-15	2,854	EEX	EUA			
21-May-15	2,918	EEX	EUA			
22-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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