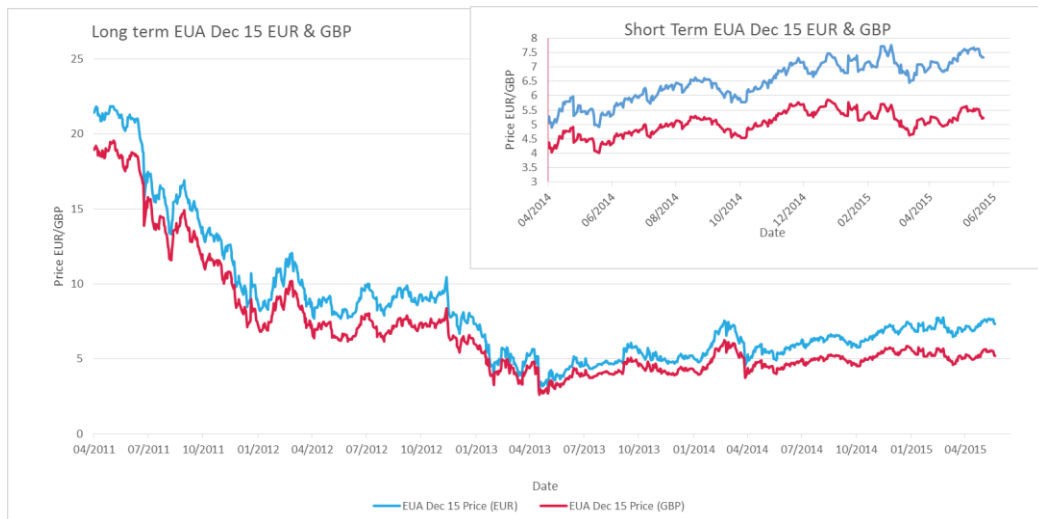


Weekly Carbon Trading Market Update – 26th May, 2015

Market Development

- Carbon price falls 3.7% to end the week at €7.34
- Largest fall in price occurs on Tuesday as EUR weakens against the USD.
- Power price falls through the week to near record lows.
- MSR loophole may reduce effectiveness



Auction Overview

- 4 auctions in the week due to bank holiday on Monday. 12.157Mt enters the market through the week.

Price Action

Carbon prices fell 3.7% week-on-week to close at €7.34. Prices fell throughout the week with the high of €7.67 on Monday and the low of €7.25 on Friday to give a trading range of 42c. The main price move was on Tuesday as the EUR weakened against the dollar on aggressive European quantitative easing. As highlighted in the

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.3	0.00%	0.00%
Dec-15	7.34	0.55%	0.55%
Dec-16	7.42	1.09%	1.64%
Dec-17	7.52	1.35%	3.01%
Dec-18	7.69	2.26%	5.34%
Dec-19	7.89	2.60%	8.08%

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.

previous weeks update, the continued strength of the EUR

had helped keep carbon prices high, however, a reversal in the fortune of the EUR put pressure on the carbon price. The weakening EUR leads to EUR denominated coal becoming more expensive, weakening the clean dark spreads. German power also suffered further losses through the week as the price neared record lows and showed little sign of any pick up. With the carbon price drifting and little on the horizon likely to drive it substantially higher it is likely some traders chose to take off some length and lock in recent gains. *Price Impact: with the carbon expo conference taking place in Barcelona this week between Tuesday and Thursday it is likely the market will be quiet both in trade volumes and price action. With little impact expected from the ENVI vote on Tuesday, save for an unexpected rejection of the proposal, there is little to push prices substantially in either direction. A range bound week seems the most likely outcome. A watchful eye must be kept on the clean dark*

Weekly Price Changes (EUR)				
Product	15/05/2015	22/05/2015	Change	% Change
EUA Dec 15	7.62	7.34	-0.28	-3.67%
DE Power Cal 16	31.75	31.25	-0.50	-1.57%
API2 Cal 16	50.66	51.72	1.06	2.09%

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spreads and it is possible we will see some buying towards the end of the week due to the low auction volume next week when supply drops to ~9Mt.

Market Stability Reserve (MSR)

Reports last week emerged suggesting a loophole in the MSR text could lead to millions of allowances re-entering the market via carbon leakage protection rules. The current MSR text allows the European Commission to decide whether any unallocated allowances, due to go straight into the MSR, should be used for protecting companies from carbon leakage. A decision will be made as part of the review of the EU ETS by the Commission, due by the end of July. Any final decisions will need to be agreed by EU politicians. There is likely to be strong lobbying for generous carbon leakage protection from industrials exposed to competition from outside the EU.

Important MSR Dates

- 26th May – Environment Committee vote on MSR proposal
- 6th July – plenary vote

The week ahead

With the Environment committee due to give approval to the MSR legislation today it is unlikely there is a bullish reaction as a positive outcome is priced in and expected. Trading volumes and price action are likely to be subdued as the major carbon conference takes place in Barcelona.

Auction Timetable 18th May 2015 - 29th May 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
18-May-15	2,918	EEX	EUA	7.54	3.14	9,172,000
19-May-15	2,918	EEX	EUA	7.51	2.91	8,495,000
20-May-15	2,854	EEX	EUA	7.38	3.00	8,556,000
21-May-15	2,918	EEX	EUA	7.30	3.78	11,043,000
22-May-15	3,198	EEX	EUA	7.25	2.48	7,919,000
26-May-15	2,918	EEX	EUA			
27-May-15	3,123	ICE	EUA			
28-May-15	2,918	EEX	EUA			
29-May-15	3,198	EEX	EUA			

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Upcoming Conferences

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

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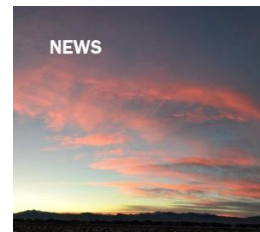
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