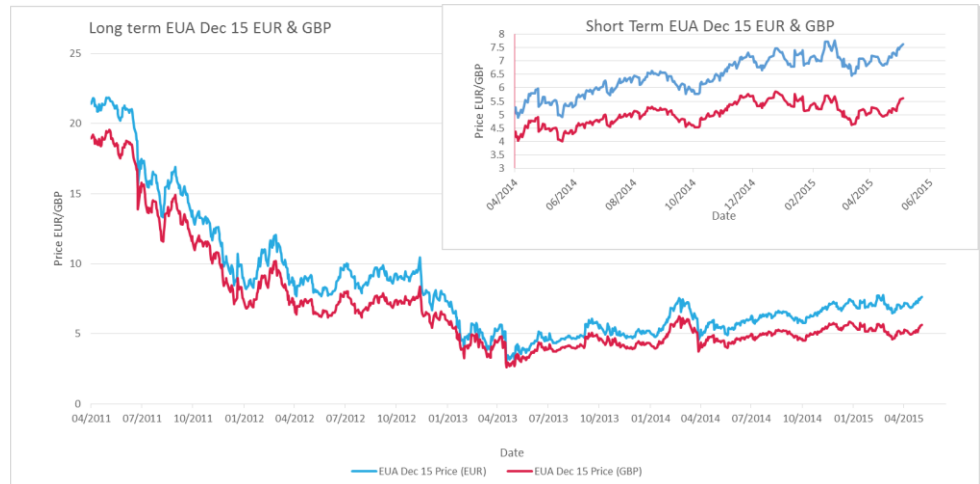


WEEKLY CARBON TRADING MARKET UPDATE – 5TH MAY, 2015

Market Development

- Prices continue to rise as week closes at €7.52
- Upwards momentum generated on Tuesday amid speculation of MSR blocking minority resolve weakening
- MSR trilogue mandate given to Latvia on Wednesday as EU Council agrees to earlier start date
- 255Mt of offset use in 2014 as compliance entities beat the CP1 offset deadline
- Shipping emissions to be monitored from 2018



Auction Overview

- Second week of reduced auction volume with only 9.969Mt (0.935Mt EUAA & 9.034Mt EUA) entering the market.

Price Action

Price action this week was dominated by the MSR developments. The week ended up 2.7% at €7.52 as Latvia got the green light to resume trilogue talks after the EU Council agreed to the latest 2019

Friday's EUA Implied Funding Rate			
	Price	Annual Rate	Total Return
Spot	7.48	0.00%	0.00%
Dec-15	7.52	0.53%	0.53%
Dec-16	7.6	1.06%	1.60%
Dec-17	7.72	1.58%	3.21%
Dec-18	7.89	2.20%	5.48%
Dec-19	8.08	2.41%	8.02%

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.

start. You can read more on this in our MSR section below. Prices were buoyed before the meeting on Wednesday amid speculation the blocking minority of Central and Eastern European states had crumbled. Initial rumours that the Czech Republic had softened their stance turned out to be true and later several other countries joined in. Tuesday ended up 20c on the back of the speculation and there were further gains on Wednesday as it was confirmed. The week high of 7.64 came on Thursday before prices softened on profit taking ahead of the weekend. Friday was a holiday in Europe so trading was very thin but with no auction it still managed to post the highest close of the week at €7.52. The year ahead clean dark spread was pressured through the week as carbon and coal prices rose week-on-week and the power price for the year ahead fell slightly. The EUR strengthened against the USD through last week to keep a lid on the EUR

Weekly Price Changes (EUR)				
Product	24/04/2015	01/05/2015	Change	% Change
EUA Dec 15	7.32	7.52	0.20	2.73%
DE Power Cal 16	32.12	32.05	-0.07	-0.22%
API2 Cal 16	52.93	52.46	-0.47	-0.90%

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denominated coal price to ease the pressure on the clean dark spreads. FX, coal and power prices are probably in the driving seat this week now that carbon's 'positive' news is all but done. *Price Impact: with trilogue talks on Tuesday it is possible there is some more MSR based volatility, however, with the largest stumbling blocks apparently out of the way it is hard to see any real price direction coming from the talks. The pressure on the clean dark spread will need to be watched as an indicator to underlying utility involvement in the market. Countering this is another week of low auction supply with only 9mt of EUAs coming to market.*

Market Stability Reserve (MSR)

MSR negotiations took a big step forward on Wednesday as Latvia got the go ahead to resume trilogue talks with the EU Council, EU Parliament and the Commission. Wednesday's meeting ended with a softening in the stance of the EU Council on the start date so the trilogue talks resume on 5th May with a much stronger common position. To read a full report on the developments and what this means for the carbon price, please click [here](#).

Important MSR Dates

- 5th May – trilogue meeting
- 26th May – trilogue meeting
- 6th July – possible plenary vote

Offset use in 2014 hits 255mt

Offset use in 2014 increased to 255mt as compliance installations looked to beat the CP1 offset use expiry deadline on 31st March, 2015. With cheaper CP1 offsets becoming ineligible in the EU ETS there was a rush to get the maximum number of allowances converted into EUAs before the deadline to maximize savings from offsets. The increase means there is only ~125mt of offset use permitted throughout the rest of the phase (to 2020). The figure was at the higher end of the analysts' forecasts and is potentially a bearish signal to the market as it increases the number of unused EUAs in circulation. That said, in a market with a reported over-supply of 2.1bt it is likely to have a limited impact and it means there will have to be more EUA buying from now on as offset use is essentially exhausted.

Shipping emissions must be monitored under EU Law from 2018

From 2018 shipping emissions must be monitored under EU Law. The regulations will mean that emissions and fuel efficiency will have to be monitored and reported for vessels in EU waters over 5,000 tonnes. The law will apply to any ship entering EU ports. For the time being no allowances will have to be surrendered against the reported emissions but an eventual EU ETS link up is possible.

The week ahead

With the MSR trilogue negotiations expected to be a smooth process it is unlikely there are any material price drivers coming from the negotiations. On the fundamentals the clean dark spreads will provide a litmus test for underlying utility demand, weakening could soften EUA demand. In a week of relatively low supply it is hard to see large downside moves unless there is wholesale profit taking by long investors.

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Auction Timetable 27th April 2015 - 8th May 2015						
Date	Volume('000 tonnes)	Auction Platform	Allowance Type	Clearing Price (EUR)	Cover Ratio	Total Bid Quantity
27-Apr-15	2,918	EEX	EUA	7.33	1.75	5,118,500
28-Apr-15	2,918	EEX	EUA	7.16	2.07	6,040,500
29-Apr-15	3,123	ICE	EUA	7.34	1.23	3,854,000
30-Apr-15	2,918	EEX	EUA	7.52	2.05	5,968,000
05-May-15	2,918	EEX	EUA			
06-May-15	935	EEX	EUAA			
07-May-15	2,918	EEX	EUA			
08-May-15	3,198	EEX	EUA			

Registry shortcuts

Please click on the image for registry shortcuts.



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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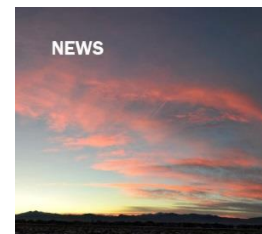
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