

WEEKLY RED

MARKET DEVELOPMENTS

- Join us for our Phase IV free allocation webinar – 2nd September at 9:30 a.m. There are 100 places up for grabs so [register as soon as possible](#) to avoid disappointment.
- EUAs continued their recent decline, ending the week more than 5% lower at €26.34.
- The losses all came in a plunge on Monday.
- Remainder of the week sees volatile, indecisive trading centred around €26.50.
- [Clean Dark Spreads](#) remain at the lows as EUA falls were offset by power price falls.
- **News:** EU makes world's biggest 'green recovery' pledge.
- **News:** UK opens carbon tax consultation.
- **News:** Polish minister calls for EU ETS withdrawal.
- For daily carbon market updates sign up for the DailyRed [here](#).

EU ALLOWANCE AUCTION OVERVIEW

- Auction volume slightly lower at 18.5Mt, down from 18.9Mt in the last full week of auction supply before August's half volumes

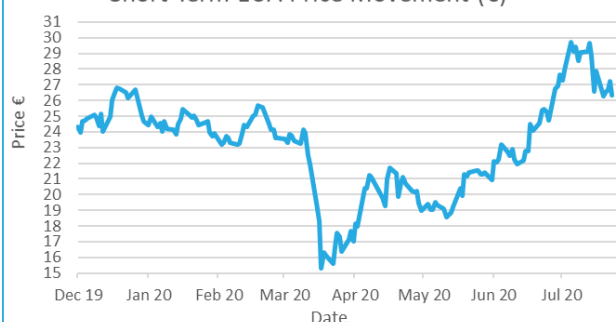
PRICE ACTION

The EUA price fell more than 5% last week as more of the recent froth came out of the market. The declines were mirrored in the wider energy complex and equity markets. The week's declines were essentially all on Monday as the market plunged €1.65 in one-way traffic throughout the day. This was despite the previous Friday's late rally, that appeared at the time to be an effort to 'paint the chart' to present a bullish picture. On Monday the fundamentals kicked in causing EUAs to gap lower on the open then continue to retreat for the rest of the day in sometimes lumpy declines. EUAs dropped to the day's low at

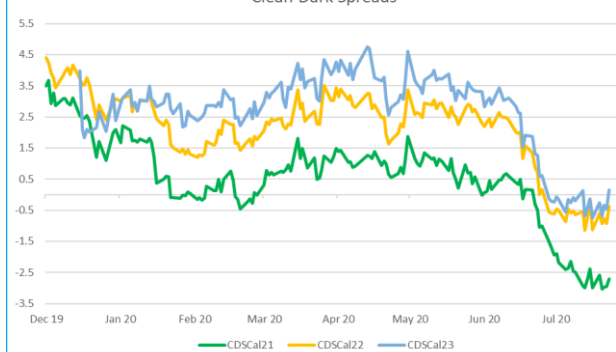
Weekly Price Changes (EUR)

Product	17/07/2020	24/07/2020	Change	% Change
EUA Dec 20	27.9	26.34	-1.56	-5.59%
DE Power Cal21	41.30	39.75	-1.55	-3.75%
API2 Cal 21	52.50	51.02	-1.48	-2.82%

Short Term EUA Price Movement (€)



Clean Dark Spreads



€25.93 by mid-afternoon and the remainder of the day was spent trading around €26, with little sign of the chance of a recovery. Traded volume was above average but modest given the size of the decline. The remainder of the week saw prices revert towards €26.50, however volatility was high as attempts to set the market's direction ran out of steam. For example, on Tuesday, following overnight news that EU leaders had reached agreement on a COVID recovery plan and 2021-2027 budget with climate change action at the heart of it, the EUA price gapped higher. However, the move back above €27 soon found selling interest and then volatility as the bears took a turn to try to set direction (hitting a low of €25.87) but



+44 (0) 203 637 1055



info@redshawadvisors.com



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EUAs recovered much of the lost ground in the final hour to end the day up 28c. It was more of the same on Wednesday; a low of €25.65 led to a higher price at the end of the day. The bulls built on the upward momentum on Thursday as EUAs opened strongly and continued higher to top €27 following a strong and well bid auction. But EUAs dropped back down to where they had started the day until the last hour when 60c was added to the price to close at €27.25. Friday mirrored the week's volatile indecision. Dip buying provided support as all of Thursday's late gains were quickly unwound, but any upward momentum soon petered out as EUAs closed at €26.34. Despite the declines, there was little improvement in the clean dark spreads as power also fell leaving longer dated coal fired profitability in negative territory. *Price impact: traded volumes remained modest throughout last week, only just above average on each day. The general lack of utility and industrial interest suggested that the options delta hedgers were trading with each other, creating costly volatility for little net change in price after Monday.*

WEEK AHEAD

The coming week is the last of the full auction weeks until September as August will see half volumes throughout the month. Auction volume sums to a slightly lower total of 18.5Mt, down from 18.9Mt last week as the smaller Polish auction replaces the UK auction in the Wednesday slot.

Last week's indecision around €26.50 have caused Futurestechs to have a neutral – bearish outlook this week. To the downside a break of €26.04 and €25.60-65 would turn the short-term outlook bearish. The other way a move above €27.45-49 would shift the short-term outlook bullish.

The fundamental picture remains bearish with low gas prices, low power prices and all of the other factors previously mentioned still in play. To add to them all, markets around the world are going to be watching COVID developments in Spain closely following the rise in case numbers last week and the imposition of quarantine measures by several countries for people coming (back) from Spain. Any sign of a second wave could lead to large sell off in wider markets and it is unlikely that EUAs will be immune.

That said, dips found good buying interest last week suggesting that industrials and utilities were catching up on hedging, in part after the scare of prices near €31 and in part to ensure that the risk of price rises in August would not hurt too badly. Aside from last year,

prices have consistently risen in August for around 8 years which should cause any dips in the coming week to find good buying interest.

Assuming the COVID situation is brought under control the coming week is likely to be dominated by dip buying with a shift towards a bullish outlook by the end of the week. Despite last August's disappointment, speculators will be wary of heading into August short and short-covering could play a role towards the end of the week. For the coming week we have a neutral outlook with a good chance of volatility while we wait to see what August has in store.



TECHNICAL ANALYSIS



Analysis provided by the award-winning Clive Lambert at [Futurestechs Limited](#). If you would like to receive his full daily commodities report direct, please [get in touch with Clive direct](#).

- **Short Term Trend:** Neutral - Bearish
- **Medium Term Trend:** Bullish
- **Yesterday's candle:** We confirmed (Wednesday's) Hammer with a green candle on Thursday, but Friday was red as the bulls couldn't see off €27.45-49. So, some mixed messages and I've gone for a grey SkewBar between €26.05 and €27.49 to reflect this lack of clarity.
- **Favoured Trade(s) for today:** As you were? Buy at €26.10, sell at €26.80 and/or €27.40-49?



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OTHER NEWS

EU makes world's biggest 'green recovery' pledge

European Union leaders reached a COVID-19 recovery deal last week that included devoting nearly €550 billion to green projects over the next seven years; the largest single climate pledge ever made. The money represents a 30% share of a package, comprising a €1.074 trillion EU budget for 2021-27 and a €750 billion coronavirus recovery fund. Leaders also agreed that even those parts of the overall package not specifically earmarked for climate spending must “do no harm” to the EU’s goal to become climate neutral by 2050. Hundreds of potential projects could benefit, from low-carbon steel production in Sweden to an electric vehicle battery factory in Poland. Under the new EU deal, the Commission will assess and report annually on climate spending. The package will face further scrutiny from the European Parliament. Our Polish team report that the opportunity to upgrade EUA intensive coal fired units has been welcomed by some.

Article adapted from Reuter’s original

UK opens carbon tax consultation

The UK government have opened a consultation on their plan for a temporary post-Brexit carbon pricing plan should their own ETS not be operational in time. The tax proposal would see emitters exceeding an annual emissions allowance equal to the amount of free allocation they would have received in a UK ETS become liable to pay a tax per excess tonne of CO₂. The tax would initially be set at a level equal to average EUA prices for the year in question which would mean some companies would have a better risk management opportunity than buying at a single pricing point just before compliance. A UK carbon tax would cover the same sectors and power generators as are currently included in the EU ETS, with aviation to be excluded at first and coming in scope later. Sectors such as shipping will possibly be included later as well. The carbon price will be announced in the 2020 and 2021 autumn budgets, based on the average Dec-21 and Dec-22 EUA futures price plus “an uplift”. There will be a downward adjustment if the UK carbon rate turns out to be £1+ higher than the EUA price in that year. Businesses must continue the same monitoring, reporting and verification processes that they have for the EU ETS for the UK carbon tax.

Polish minister calls for EU ETS withdrawal

The Polish environment minister has urged the government to consider the possibility of exiting the EU Emissions Trading System (ETS) and forming its own national scheme to provide carbon price stability in the country. Michal Wos, speaking at a conference examining the impact of the EU’s Green Deal programme on the Polish economy, urged his ministerial colleagues to approach the European Commission over the possibility of a Polish ETS. The scheme would be similar to the EU ETS in design but would allow Warsaw to control the allocation of allowances within it and to provide carbon price stability. Fossil-fuel dependent Poland has been highly critical of high and volatile EU ETS prices over the past two years, having called on EU leaders to intervene in the market and bring forward additional supply. However, the idea of leaving the EU ETS is unlikely to gain traction with participation in the EU ETS mandatory for Europe’s member states.

Article adapted from Argus Media’s original



+44 (0) 203 637 1055



info@redshawadvisors.com



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Auction Timetable 20th July, 2020 - 31st July, 2020

Date	Volume	Auction Platform	Allowance Type	Cover Ratio	Total Bid Quantity
20-Jul-20	3,594,000	EEX	EUA	1.53	5,513,500
21-Jul-20	3,594,000	EEX	EUA	1.31	4,724,500
22-Jul-20	5,727,500	ICE	EUA	2.00	11,455,000
23-Jul-20	3,594,000	EEX	EUA	2.05	7,379,500
24-Jul-20	2,363,000	EEX	EUA	1.65	3,896,500
27-Jul-20	3,594,000	EEX	EUA		
28-Jul-20	3,594,000	EEX	EUA		
29-Jul-20	5,332,000	ICE	EUA		
30-Jul-20	3,594,000	EEX	EUA		
31-Jul-20	2,363,000	EEX	EUA		

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VOLUNTARY CARBON MARKET NEWS

Tech giants Microsoft and Apple shift focus to scope 3 (indirect) emissions

Microsoft is planning to reduce its emissions by more than 50% across its entire business and supply chain by 2030.

Chief Environmental Officer Lucas Joppa confirmed that Microsoft has extended its internal carbon price to "every part" of its operations and supply chain, meaning that it now covers Scope 3 (indirect emissions). An updated supplier code of conduct now mandates all Microsoft suppliers to calculate and report their emissions across all scopes by next July.

Apple is already operating as carbon-neutral across its business operations and facilities. The new target will see Apple make its entire business manufacturing supply chain and product life cycle achieve net-zero emissions by 2030.

Typically, companies have focussed on reducing and offsetting their scope 1 and 2 emissions, however the stance by Microsoft and Apple to tackle scope 3 emissions is part of an increasing trend as supply chains are forced to play their part.

Scope 3 emissions

Scope 3 emissions are those that occur in the value chain of the reporting company, including both upstream and downstream. For example: waste disposal, employee travel, purchases, product transportation, packaging etc.

Voluntary Markets Indicative Pricing (EUR)				
Level	Standard	Volumes	Project Type Example	Price Range
Bronze	VCS	>5K	Large scale renewables	€0.50-0.70
Silver	GS	>5K	Large scale renewables	€1.40-1.60
Gold	GS/VCS	>5K	LDC small scale renewables	€3.00-5.00
Platinum	GS/VCS CCBA	>5K	Clean Cook Stoves/Forestry	€5.00-8.00
VCS – Verified Carbon Standard, GS – Gold standard, CCBA – Climate, Community, Biodiversity Accreditation				



Find out more from Bill Goldie, our head of Carbon Offsetting:
bill.goldie@redshawadvisors.com



RENEWABLE ENERGY NEWS

Dutch GOs in June

2.11TWh of GOs were issued to all Dutch technologies for June 2020, an increase of 11% compared to May. Despite the increase in supply, the price of GOs from Dutch wind rose by 17% compared to May. However current year prices are still 29% lower than last year's average price of €1.75.

Irish Optimism

Ireland has received EU State aid approval to operate a new Renewable Electricity Support Scheme (RESS). The RESS, with an estimated total budget of between €7.2 and €12.5 billion, will run until 2025 and allow renewable energy projects including, solar photovoltaic and wind to receive state funding.

Historic milestone for Europe:

Renewables (driven largely by wind and solar) generated 40% of EU electricity in the first half of 2020, beating fossil fuels, which accounted for only 34%, for the first time.

Renewable generation rose by 11% in the first half of 2020. Wind and solar generation hit a record 21% of Europe's total electricity generation as new capacity and mild, windy weather pushed up the renewable share.

Meanwhile, AIB GO prices remain unchanged at an average of around €0.17.



Find out more from Anil Akalin, our head of Renewable Energy:
anil.akalin@redshawadvisors.com



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