

# Carbon Market Report

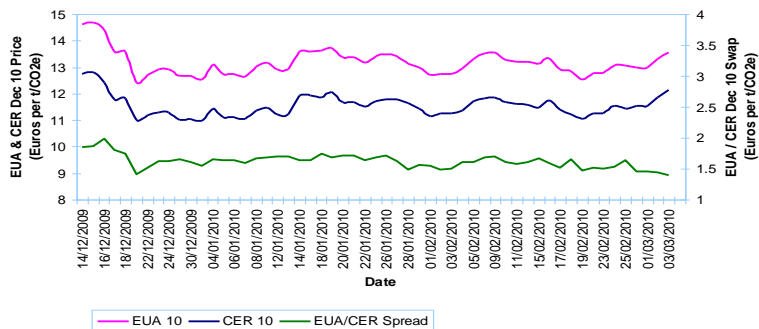
No fees\*, no commission\*, no minimum volumes, no complex contracts

## » Latest News

- Tougher global climate action is needed before the EU will tighten its emissions cut for 2020. Teresa Ribera, Spain's climate change secretary, said stronger commitments from other major countries would help the 27-nation bloc to deepen its own law to reduce emissions 20 per cent under 1990 levels by 2020.
- Poland sold Kyoto emission rights worth €28 million (\$38.24 million) to a Japanese company. Neither the volume nor the price of the AAUs has been revealed.
- De Boer, who announced his resignation on 18 February, will officially step down from his post on 1 July – five months before this year's main climate summit in Mexico. De Boer's resignation is widely viewed as a setback to international climate talks but the UN has said it will try and pick a successor as soon as possible.
- Regulation of the largest US GHG emitters won't start until 2013, the EPA's top official said. Opponents to EPA regulation of greenhouse gases, meanwhile, said they would not let up in their quest to prevent the agency from driving down emissions.

## » EUA Emissions Prices

EUA & CER Dec 10 prices & EUA / CER Dec 10 Swap



### Price Development Summary

- EUA and CER December 2010 contracts rise to €13.55 and €12.00
- Carbon prices retreat slightly today on falling German power
- The EUA / CER Dec 10 spread falls to its lowest this year
- The EUA / CER spot spread falls further
- CER spot to Dec 10 and to Dec 11 contract backwardation eases

## » Market Commentary

Despite a mixed energy complex carbon prices have been rising over the last week with the December 2010 EUA and CER contracts now trading around €13.40 and €12.00 respectively which is an increase of approximately 50 eurocents. In part this is due to an increase in Brent crude prices following positive US inventory data and leaked EU commission documents suggesting a price floor to carbon which sent bullish signals to the market. The December 2010 EUA / CER spread has narrowed to its lowest point this year although some analysts believe that this can easily reverse depending on the political outcome of the CDM market; if no other country outside of the EU ETS joins CDM then demand for CERs will drop at a time when demand is already falling as more AAUs come to market (for example Poland has an excess of 500 million and has sold to Japan recently and is in talks with Ireland) putting bearish pressure on price. Conversely demand for EUAs will increase as utilities (which have no free allocation post-2012) will need to start buying three years ahead and the threat of a cap increase from 20% to 30% persists. The potential for price spikes will be dependent on the timing of government auctions, industrial selling and investment in renewable projects all of which create a very uncertain picture for price. Germany continues its auctions with 570kT of December 2010 clearing at €13.46. An earlier auction this week cleared at €13.08.

## » A Look Ahead

- Point Carbon analysts reckon primary CERs will sell for as much as €14 in 2013. The highest prices will be paid for carbon credits from registered clean development mechanism (CDM) projects that are located in the poorest countries and eligible to be imported into the EU and US markets, according to a report.
- EU carbon prices will likely remain in a €11-14 range until trade rules become clear beyond 2012. Traders expect carbon market prices to become more volatile once there is a clear indication of the supply-demand balance in the third phase of the EU emissions trading scheme, which runs from 2013 through 2020.
- China could lose interest in CDM due to registration issues, a project developer warned. China accounts for some 36 per cent of the 2,065 registered clean development mechanism projects, making it a leading player in the multi-billion dollar market for UN-backed emission offsets, according to UN data.
- Ukraine could sell around 4 million Kyoto emission rights through a new scheme. The eastern European country wants to sell assigned amount units (AAUs) through project developers that seek to cut emissions in the country under the joint implementation (JI) mechanism, a JI Supervisory Committee (JISC) member told a conference in Amsterdam today.
- California Attorney General Jerry Brown announced he's running for governor. Brown, a lifelong environmentalist, supports the enactment of a cap-and-trade programme in conjunction with other states to bring the state's emissions back to 1990 levels by 2020.

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## » Act now on your 2009 compliance / 2010 allocation

As you know, the EU ETS is approaching its busiest period in the calendar year with allowances to be issued for 2010 and installations preparing to surrender allowances for 2009 compliance. What does this mean for you? If you know you have excess allowances to sell or a deficit to cover, you can act now and remove price uncertainty with regard to market movements. So why wait until April and risk that the price moves against you in the meantime? Even if you think prices are likely to move down in the next few weeks, as predicted by many analysts, or you need to monetise assets, you can also sell 2009 allowances and cover the shortfall by borrowing from your 2010 allocation. And remember that, if you have already sold a few too many or bought a little too much, you can always buy or sell any quantity of allowances back with no minimum volume. Please give us a call to discuss your requirements.

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