

Carbon Market Report

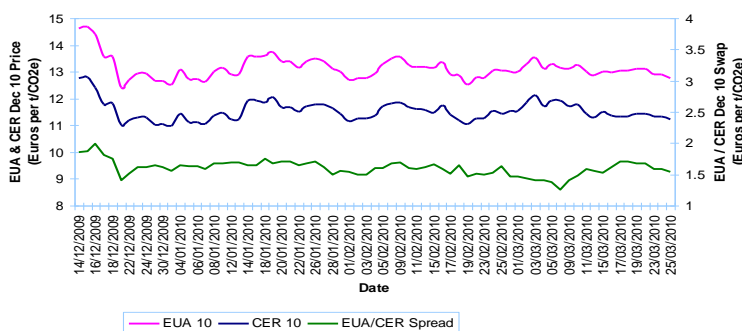
No fees*, no commission*, no minimum volumes, no complex contracts

» Latest News

- Estonia is keeping up its claim for extra EUAs despite Poland giving up on a higher emission cap. The two countries have been in talks with the commission over their caps since last December, when the EU executive cancelled the Estonian and Polish national allocation plans (NAPs) in accordance with a court ruling. A spokeswoman for the Estonian government declined to reveal how many extra EU allowances (EUAs) Estonia is aiming for.
- European steelmakers produced almost a third more steel in February than a year earlier. The bloc's steel production was 13.4 million tonnes in February, up from 10.4 million in February 2009, according to data from the World Steel Association today.
- Denmark's action to prevent VAT fraud has seen its carbon registry shrink by 80 per cent. The number of accounts in the Danish registry has fallen to 240 from 1,200, following new measures taken to prevent value-added tax fraud in carbon trading in December, according to government documents seen by Point Carbon News.

» EUA Emissions Prices

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



Price Development Summary

- EUA and CER December 2010 contracts fall to €12.75 and €11.2
- Spot EUA / CER swap narrows to €1.06
- December 2010 EUA / CER swap narrows to €1.54
- CER curve persists in backwardation and spot to December 2010 widens to 30 euros

» Market Commentary

EUA and CER December 2010 contracts have continued sliding in the last week on the back of a weak energy complex with German baseload power for 2011 hitting its lowest point since March 2009. EUAs and CERs are now trading at €12.75 and €11.20 respectively. However, it has been noted that other commodities have not fallen as far which may result in a slight pick-up in carbon prices soon. Nevertheless carbon is still trading within the same narrow range we have seen for some months. Traded volumes remain high. Most exchanges have introduced new rules with regard to recycled CERs and IETA continue pressing countries to stop trading recycled CERs as oversupply will put downward pressure on price. Some governments are looking at circumventing criticism by retiring AAUs when selling recycled CERs but, with so many AAUs as a result of the 1990s economic downturn in Eastern Europe, this will still have a negative effect on price. In contrast ECX has announced that large hydro CERs will not be permissible on its exchange due to the fact that harmonisation amongst Member States on their treatment for compliance is not legally binding and therefore creates confusion. This will reduce further liquidity and supply in CER trading which may have a slight positive effect.

» A Look Ahead

- The Czech government will in two weeks decide on the fate of a controversial power plant. Newly appointed Environment Minister Jakub Sebesta will in 10-14 days decide whether to allow an upgrade to the Prunerov coal-fired power plant, a government spokesperson said. In 2008, the power station emitted 9.5 million tonnes of carbon dioxide, which was more than 10 per cent of the Czech Republic's traded-sector emissions.
- Hungary's main opposition party has called on the government to hold a probe into its CER deals. Mihaly Varga, a key politician with centre right party Fidesz, told journalists that the government should stop selling recycled certified emission reductions (CERs) and run security checks on all intermediaries involved in CER sales. The statement was made shortly after Hungary's chief of the ministry of environment, Jozsef Molnar, said that the country would push ahead with further sales of spent CERs. However, the Hungarian government said that it would stall on sales until security measures preventing the transfer of credits between EU countries were put in place.
- The UK will launch a £2 billion green bank to help fund a transition to a low carbon economy. In his 2010 budget speech, Chancellor of the Exchequer Alistair Darling said the money would be focused on green transportation and sustainable energy, particularly offshore wind. It is hoped that the government's £1 billion (\$1.49 billion) contribution, to be funded by the selloff of assets, will be matched by £1 billion of private equity investments.
- Investment in the clean development mechanism (CDM) could dry up, Barclays Capital warned. Countries will probably stop buying CERs, which are generated through the CDM, because of the woolly nature of last year's climate agreement in Copenhagen. This will leave the EU emission trading scheme as the primary market, which allows around 1.8 billion of carbon offset use from 2008 to 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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