

COLDER WEATHER IN EUROPE STRENGTHENED EMISSIONS



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During the last week the main European emission allowances strengthened by 15 pc. After several weeks of bearish market, which in mid-January reached its historical minimum of € 6.3, EUA dec12 returned to €8 level. Even though macro-economic data in Europe remain in negative zone, colder weather in Western and Central Europe, together with rising energy commodities prices strengthened the emissions, rising to its one month maximum of € 8.21 on Friday, 27th. However, market fundamentals are still not conducive to price increases. Yet with the advent of freezing weather in Central and Eastern Europe in the forthcoming days we expect the prices in the spot market to stabilize between € 7.25 and € 7.75.



the debt crisis at the EU wide level, EUAs may once again fell below € 7.

A wave of cold weather in Europe, however, may support allowances for a while. With decreasing temperature in Germany demand returned to the emission markets with increased activity from the German utilities. On Tuesday, prices of the front year German electricity contracts strengthened by € 2.35 to € 52.60 MW/h. Another significant price driver for emissions was British gas. Prices of the "first season" NPB increased in two weeks from 50.65 p / therm to 58.65 p / therm. Although gas prices are on

even more strengthen the prices of gas in Asia. As a result, LNG exporters may divert more gas away from Europe.

Energy Complex

Despite the coal prices strengthening over the last 10 days by \$ 2, recent months saw price of coal in terms of euro hold steady in the range between € 81 to € 86/t. Likewise, Brent prices stabilized in the recent weeks, moving between \$ 110-115/barel. In spite of unfavorable economic developments in the world, oil continues to hold above \$ 100, affected by social unrest in Nigeria and the international pressure on Iran. After last week's approval of the EU sanctions on Iranian oil, Teheran threatened that it could halt oil supplies to Europe immediately. This would adversely affect countries in the southern Europe. Italy imports from Iran 13 pc of its needs, while Greece 34 pc. Iran, however, needs to sell oil and such a move could jeopardize its reputation as a reliable oil exporter.

Carbon Markets

Higher prices of energy commodities limited EUAs' downsides. EUA prices dec12 strengthened from € 6.99 to € 8.23 during the past week, even though EUAs auctions by Germany, Greece and Lithuania flooded market with 2.6 million new emissions. Surprisingly, these auctions reached good prices and showed that the market is still able to absorb some more EUAs.

The prices of CERs largely

tracked the movement of EU allowances. Yet they responded slowly to the market developments, what extended the EUA-CER spread to almost € 4. In the first weeks of 2012 was issued almost 36 million new CERs, while the price moved between € 3.6 and € 4.

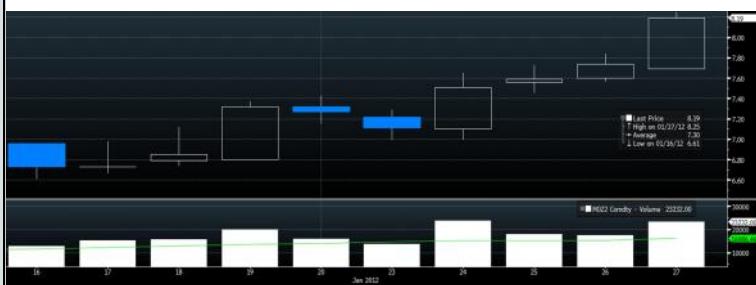
EU ETS

Growing supply of credits in the EU ETS raises concerns among many policymakers. There is growing support for the withdrawal of allowances from the EU ETS cap, but given the current economic situation in Europe, higher prices of carbon can be hard to digest by some national politicians. However, even the EU admits that current prices do not incentivize companies to invest in the decarbonisation and green investments. As it also admits, current overallocation in the EU ETS might reach between 2008 and 2020 almost 2.4 billion tons and hence removing some EUAs from the overall cap seems to be inevitable.

So far there are two most discussed alternatives how to withdraw EUAs from the market. The first proposal is to remove EUAs from the overall cap in 2013-2020 through the Directive on energy efficiency. This was discussed by the EP in December 2011. Proposals to withdraw either 1.4 billion ton or significant amount of EAUs are waiting for further discussion and consent from the Industrial committee of the EP. The second option is related to deepening the EU's commitment to reduce emissions from 20 pc to 30 pc by 2020, what is partially supported by 8 EU countries. Both options, however, require a lengthy legislative process.

Macroeconomic development

Economic and political situation in the EU kept limiting EUAs' upsides. Much was driven by the prevailing uncertainty related to the protracted negotiations on sovereign debt restructuring in Greece. In the event that negotia-



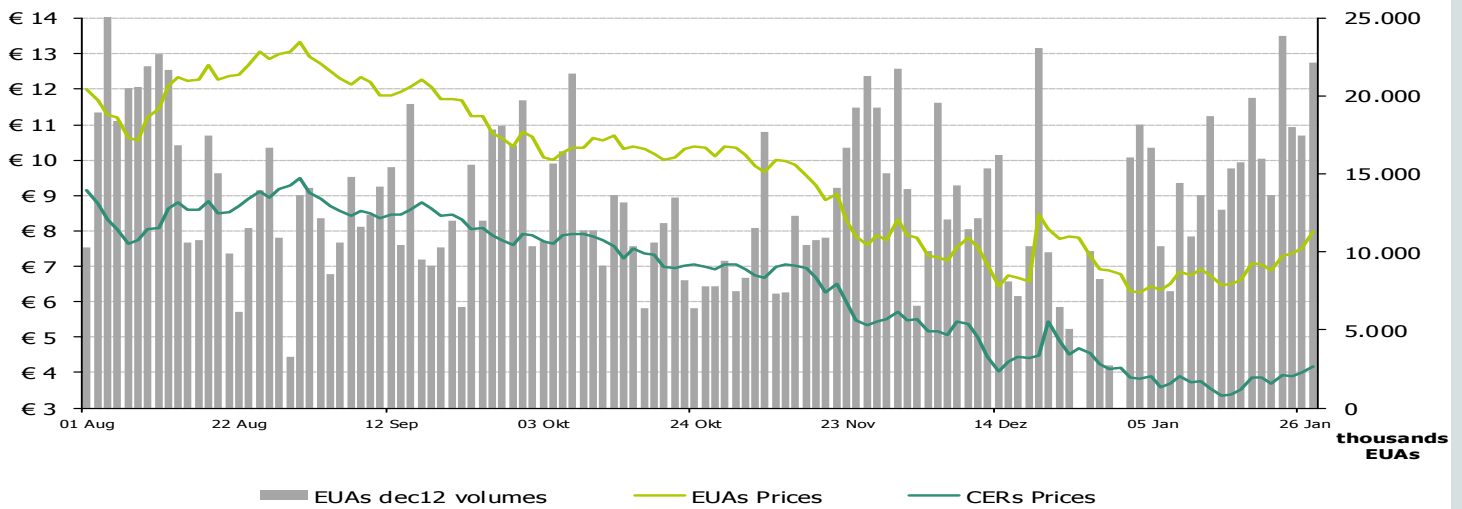
tions broke down or won't be sorted out by March (when Greece has to repay bonds worth € 14.4 billion), Athens faces real risk of defaulting on its financial obligations. Threat of possible bankruptcy of the first developed country in over 60 years, accompanied by the meager economic developments in the EU weakened euro, which in January 2012 slid at its several months low against the dollar. If the European summit earlier this week will not shed more light on the solution to

the European spot market relatively low, according to several estimates, however, they might increase in the next few months. This is due to the strong demand from Asian countries, especially from China and Japan. After the disaster at the Fukushima-Daiichi nuclear power plant, Japan temporarily closed more than 2 / 3 of its reactors and during this year it can shut down virtually all its nuclear power capacity. This would lead to greater reliance on gas in the Japanese energy mix and

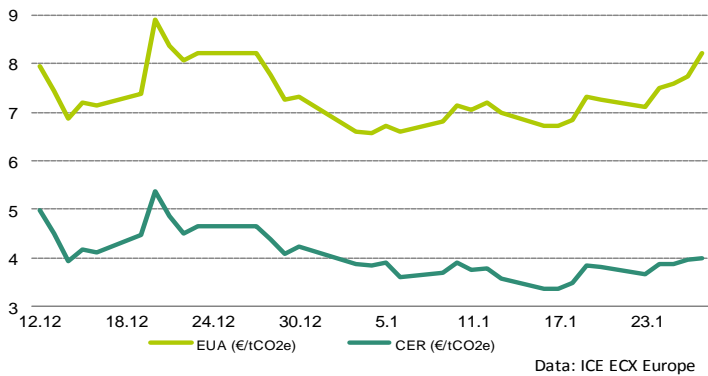


Marile Glöckhofer
greenmarket

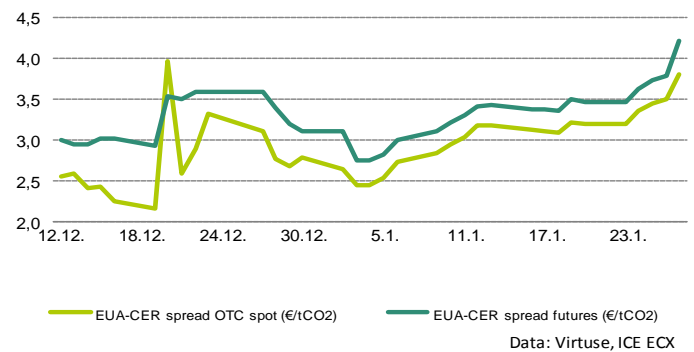
OTC EUAs and CERs Spot Prices in the past 6 months



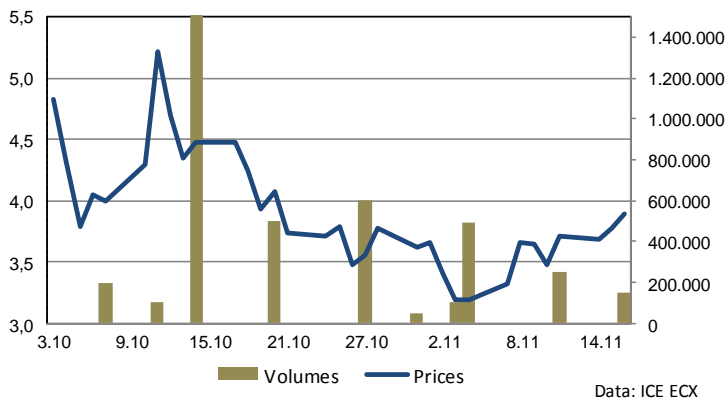
Prices of EUAs and CERs Futures



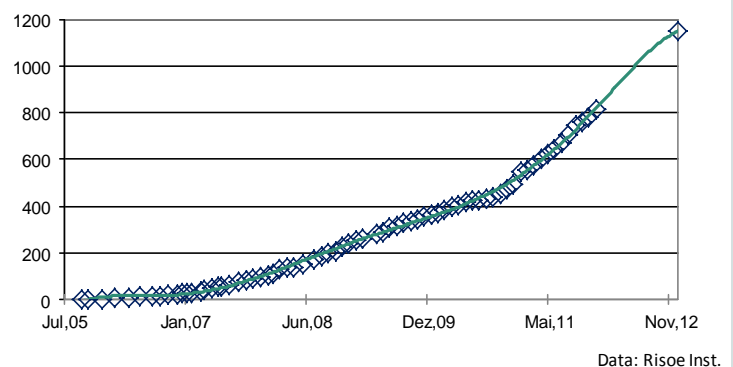
Spread CER / EUA



Prices and volumes of ERU Dec12



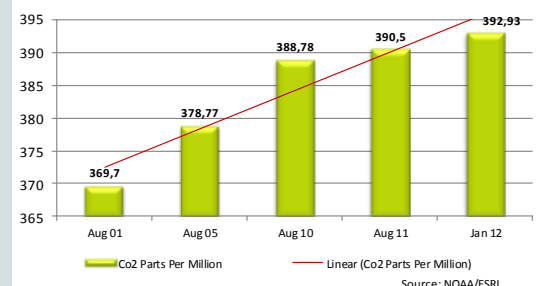
Accumulated issuance of CERs and the projection to 2012 in mil./t



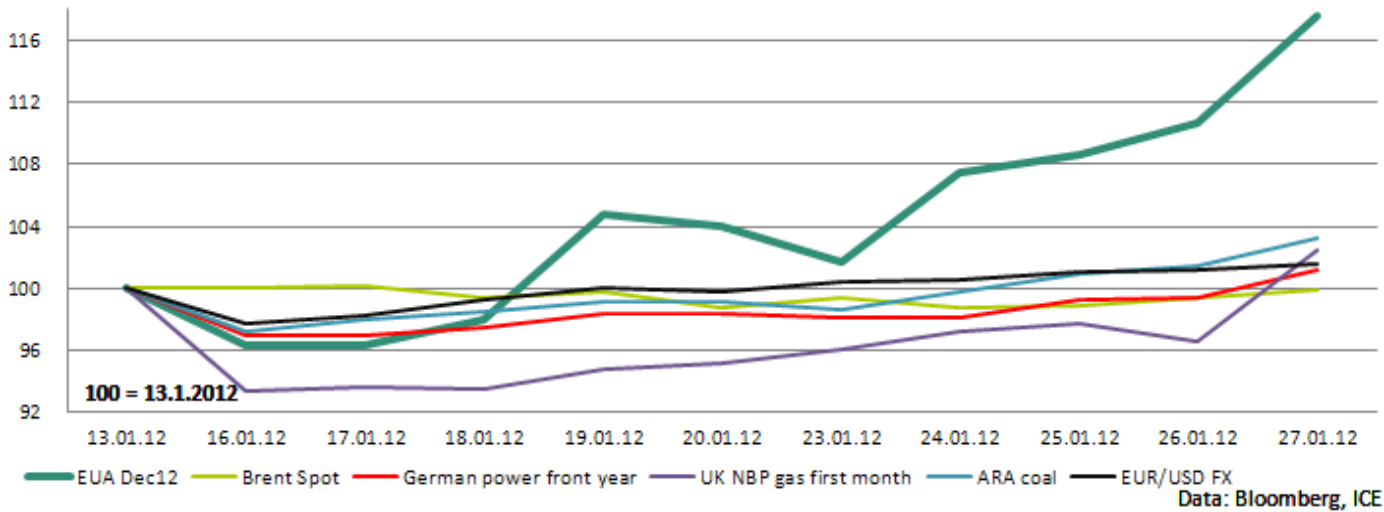
Commodity	10-days maximum	Day	10-day minimum	Day	Average price
EUA spot	7,97 €	27.1.2012	6,48 €	16.1.2012	7,07 €
CER spot	4,17 €	27.1.2012	3,36 €	16.1.2012	3,77 €
ERU Dec12	3,89 €	27.1.2012	3,19 €	16.1.2012	3,55 €
German power D+1 BL (€/MWh)	52,50 €	16.1.2012	34,50 €	20.1.2012	44,90 €
Oil Brent - spot (\$/Bbl)	111,51 €	4.1.2012	109,88 €	13.1.2012	110,70 €
Coal CIF ARA 1st Year Generic (\$/t)	118,00 €	5.1.2012	111,10 €	17.1.2012	113,80 €
UK NBP gas 1st season (€/therm)	56,25 €	2.1.2012	51,25 €	17.1.2012	52,70 €

Source: Bloomberg, Virtuse, ICE ECX

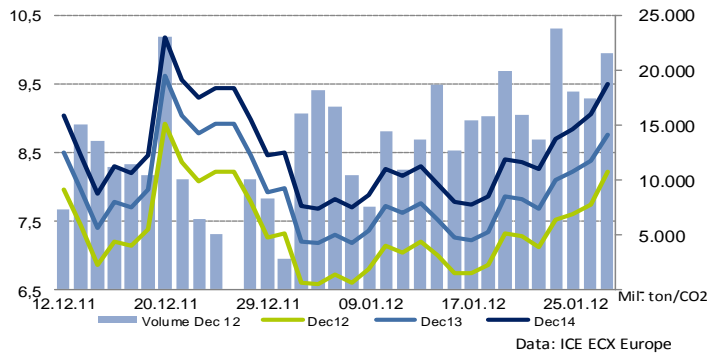
Athmospheric concentration of CO2



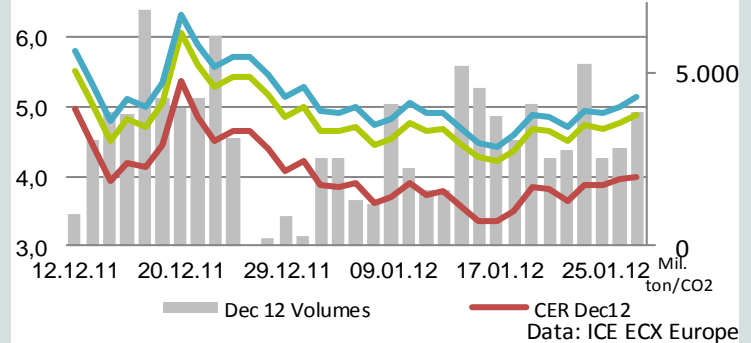
European energy commodities index



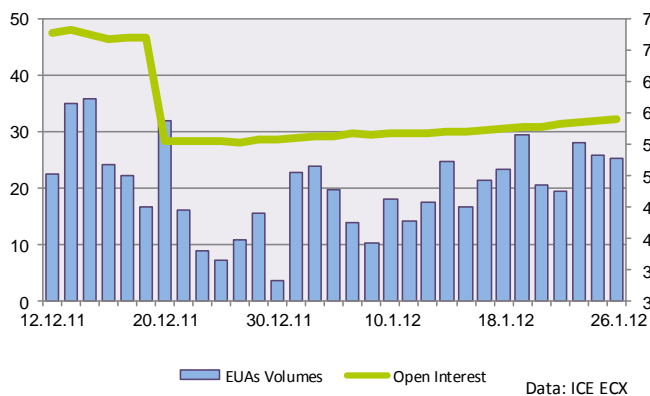
Futures EUA Dec12-Dec14



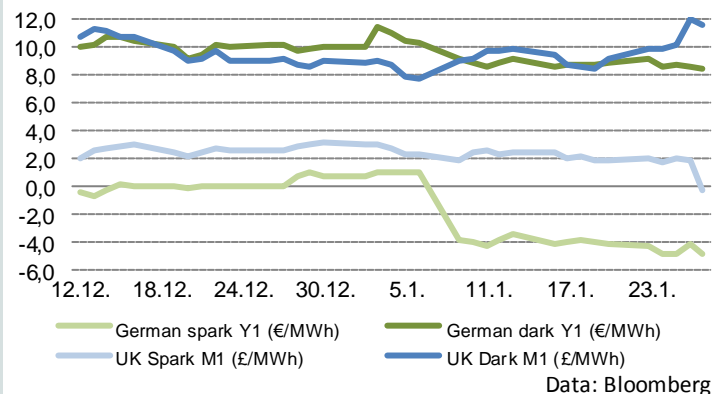
CER Futures Dec12-Dec14



EUAs Futures Volumes and Open Interest



German and UK Dark and Spark Spreads



Date	State	Event
23.-27.1.	DE	54th Meeting of the CDM Methodology Panel
30.1.	EU	Planned activation of the EU Single Emissions Registry for the aviation sector
17.1.	DE	German auction of 300k spot EUAs on EEX
18.1.	DE	German auction of 645k futures EUAs on EEX
9.2.	GB	Auction of 3.5 million EUAs on the spot market

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