

EMISSIONS UNEXPECTEDLY EXCEEDED 9 EUR



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The compromise reached by the MEPs on the possible set-aside of EUAs from Phase III and bullish energy commodities pushed spot EUAs above € 9. On ICE EXC ICE Dec12 EUAs strengthened by 17 percent compared to the previous week, jumping from € 7.92 to € 9.27. Kyoto offsets CERs even outpaced EUAs,



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when at the end of the last week closed 30 % higher than in the previous week. Despite this sudden surge, driven mainly by policy issues and the forthcoming vote by MEPs, our outlook for the next few days remains negative. Higher temperatures in Europe, together with short term profit taking by traders, benefiting from the last week overshooting in the emission markets, we expect the trading in the OTC spot markets to be within the range € 8.10-€ 9.10.

Economic development in EU

The last week Europe's precarious macroeconomic developments limited potential emissions' upsides. Protraction in political and economic negotiations on the Greek debt fueled again anxiety and uncertainty in the financial markets. Despite the fact that Athens approved the austerity package at the beginning of the previous week, the lack of guarantees that the reform measures will be upheld after the April elections resulted in postponing of EU finance ministers meeting. This in the middle of the week led to weakening of euro against dollar and to tumbling of equities.

Eventually, Greece accepted EU's conditions and after nearly 13-hour talks from Monday to Tuesday, the EU finance ministers agreed on steps to reduce the Greek debt to 120.5 % of GDP by 2020. Another rescue loan-package is accompanied by an agreement with private creditors to reduce the principal



amount of bonds to 46.5 percent of their nominal value, equating to around a 70 % loss on the net present value for the bond holders. Approximately 100 billion will be written off together with the extension of the maturity of the remaining bonds for 30 years with lower coupons. Moreover, the ECB promised to pass up a profit of around € 12 billion it earned from the purchase of

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Greek bonds in the last two years and pass it on to the debt-ridden country. Although Greece is far from being rescued, Tuesday's talks put Greek debt on a sustainable path, while averting possible chaotic default and short-term consequences it might have had on the euro-area

Euro responded to the results of the negotiations strengthening by almost half a cent to 1,326 against dollar. The growth of industrial production in the EU27 was bullish news for markets as well.

According to the Eurostat report, compared to 2010, EU27 grew by 3.3 percent in 2011. Higher industrial production in 2011 means that the companies emitted more emissions, and hence will need to buy some additional emissions prior to their annual submission at the end of April. The highest growth, 10 percent, reached Poland, one of the largest countries in the EU ETS by emissions. On the other hand, German industrial production fell by 0.7 percent, while its GDP shrank in 2011 by 0.2 percent. Looking at various sectors, electricity generation contracted in the EU27 the most, almost by 10 percent, what is not the best news for emission markets.

Energy Markets

After the bearish start of the week, European energy commodities significantly strengthened towards the end of the last week. Only exception was Brent, which carried on growing precipitously third week in row. In the spot market it briefly hit \$ 123/barel on Thursday. In terms of euro, spot prices exceeded the levels from July, 2008 by more than one euro, when on Thursday the price reached € 93.95. Positive macroeconomic figures from U.S. and EU, boosting lending capacity in China by cutting required reserve ration for banks by Chinese central bank, alongside with the situation in oil producing countries such as South Sudan, Syria, Yemen and Nigeria buoyed oil prices. However, it was the Teheran's decision to halt oil supplies to the UK and France what moved the

market sentiment the most obviously. Needless to say, that several European countries have already significantly reduced their purchases of Iranian oil in order to gradually prepare ahead the oil embargo. Coal prices returned above \$ 100/t on Tuesday, trading at 103.9/t.

Power markets

Milder weather and bumper supply of wind and solar power weakened early last week prices of German power. On Tuesday the spot prices fell by almost 40 percent. Thursday's unexpected surge in emissions supported strengthening prices of the German first year base load power, which at the end of the week returned to € 52.75MWh from € 50.85 per MWh reached on Monday. British NPB gas followed similar trend, when it rose from 54.85 p / therm to 56.6 p / therm at the end of the last week. This Tuesday it closed day at 57.70 p / therm.

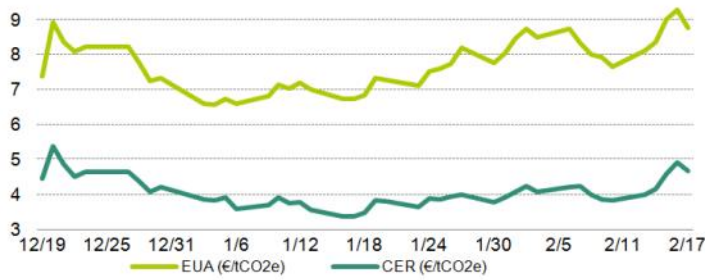
Highlights of the week

- Russia to issue 100 million ERU in estimated value half a billion euros in 2012
- South Korea's parliament vote on an ETS planned for 2015 postponed due to the domestic political issues
- Spain need to buy at least 67 million more carbon permits between 2012 and 2014
- China: all the airlines need a governmental approval for participating in the EU ETS

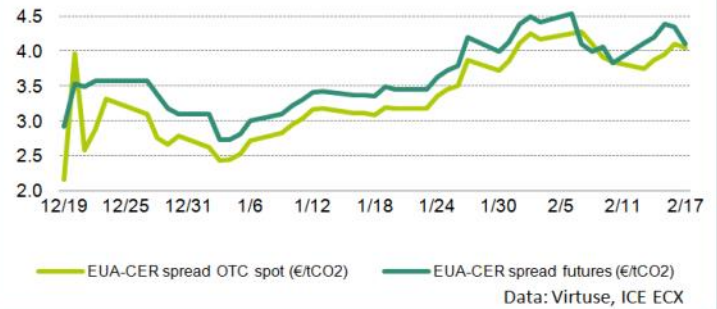
OTC EUAs and CERs Spot Prices in the past 6 months



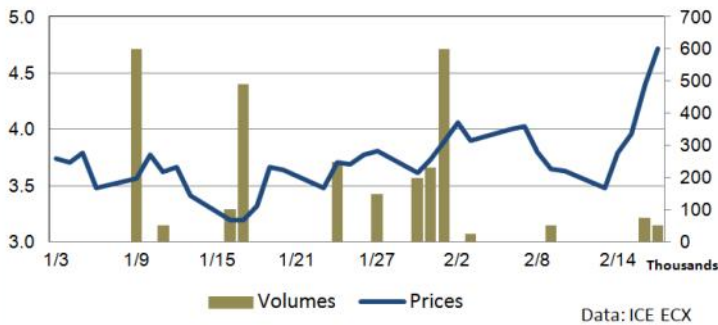
Prices of EUAs and CERs Futures



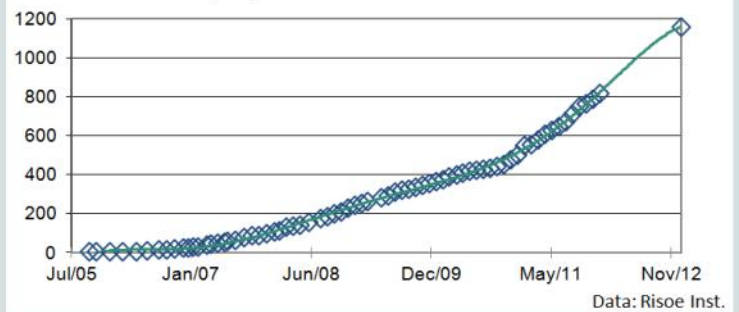
Spread CER / EUA



Prices and volumes of ERU Dec12



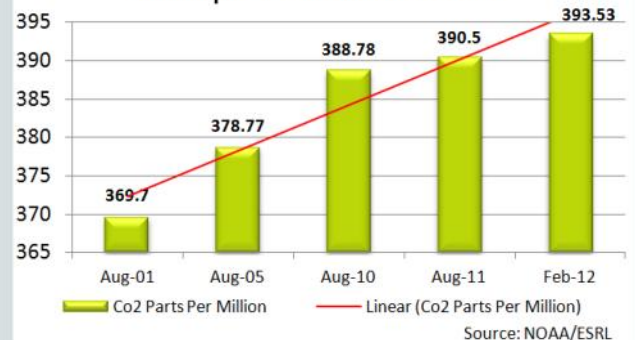
Accumulated issuance of CERs and the projection to 2012 in mil./t



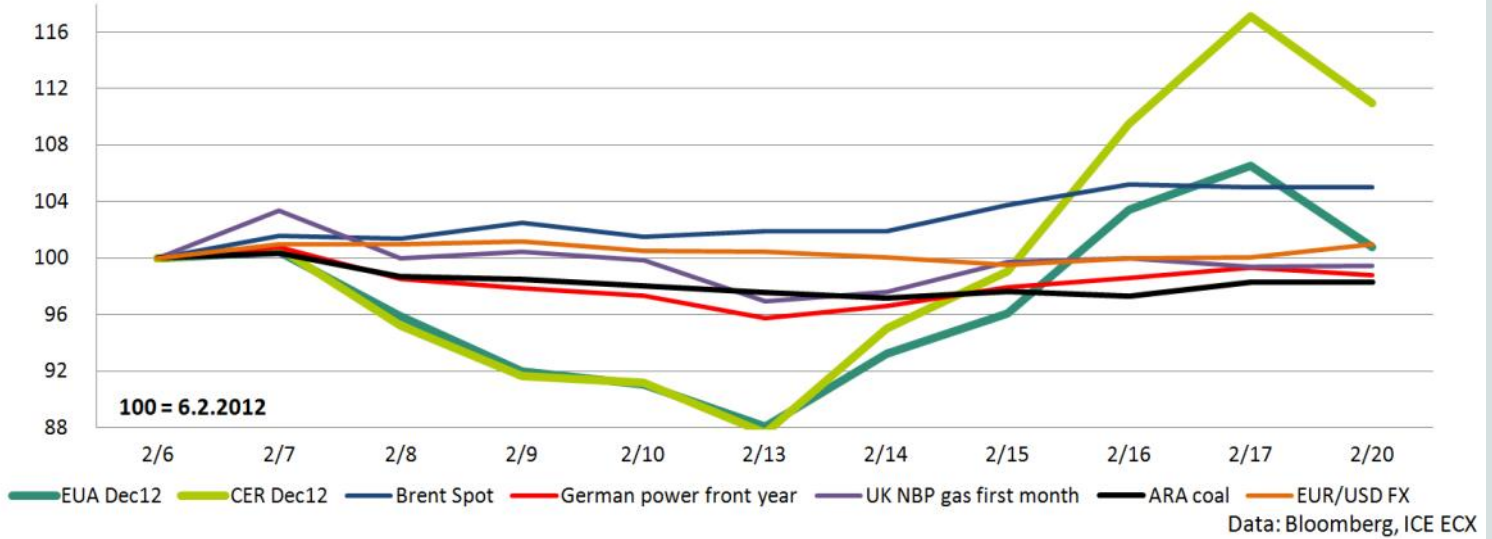
Commodity	10-days maximum	Day	10-day minimum	Day	Average price
EUA spot	8.54 €	7.2.2012	7.58 €	30.1.2012	8.13 €
CER spot	4.29 €	2.2.2012	3.85 €	30.1.2012	4.07 €
ERU Dec12	4.06 €	2.2.2012	3.61 €	30.1.2012	3.88 €
German power D+1 BL (€/MWh)	88.00 €	9.2.2012	42.10 €	14.2.2012	66.18 €
Oil Brent - spot (\$/Bbl)	119.90 €	9.2.2012	111.53 €	1.2.2012	116.37 €
Coal CIF ARA 1st Year Generic (\$/t)	117.00 €	3.2.2012	113.70 €	13.2.2012	115.46 €
UK NBP gas 1st season (€/therm)	58.50 €	7.2.2012	54.85 €	13.2.2012	56.48 €

Source: Bloomberg, Virtuse, ICE ECX

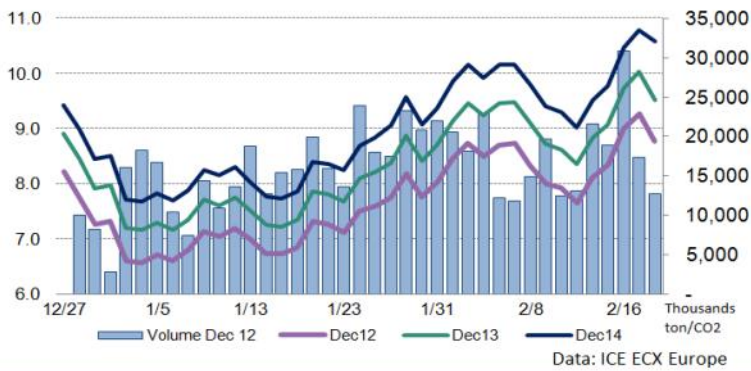
Athmospheric concentration of CO2



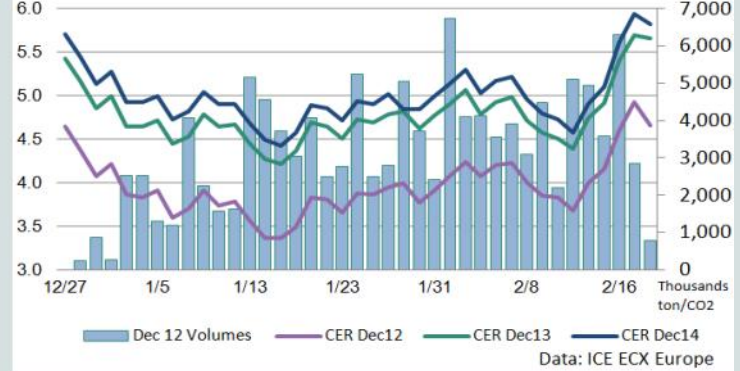
European energy commodities index



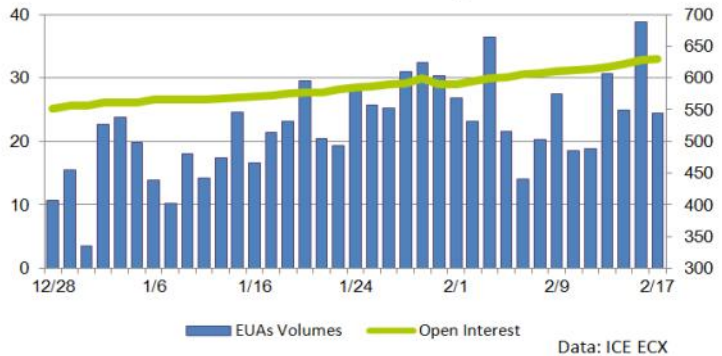
Futures EUA Dec12-Dec14



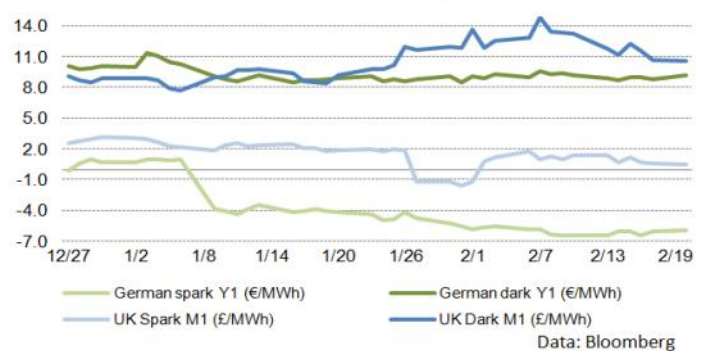
CER Futures Dec12-Dec14



EUAs Futures Volumes and Open Interest



German and UK Dark and Spark Spreads



Date	State	Event
21.2.	DE	German auction of 300k spot EUAs on EEX
22.2.	DE	German auction of 645k futures EUAs on EEX
23.2.	NE	Dutch auction of 1 million EUAs (spot) on EEX
21.-22.2.	DE	Moscow aviation talks on measures against EU ETS
28.2.	EU	Industrial Committee to discuss Energy Efficiency Directive and set-aside from Phase III

Sold AAUs by country



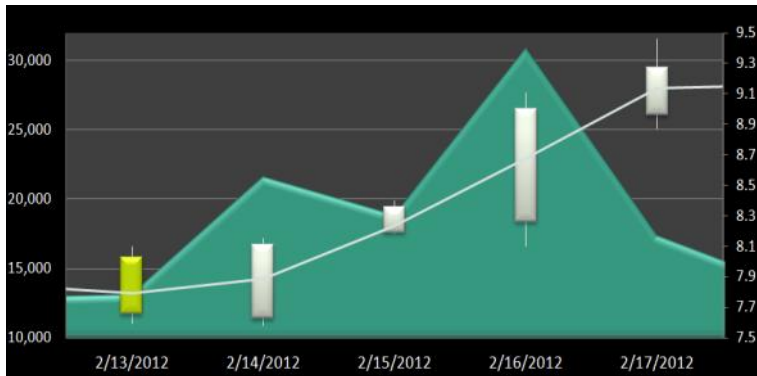
EUA Dec 12 were traded during the last week between € 7.58 and € 9.46. EUAs weakened early last week driven by milder winter temperatures in Europe and by fall in German power due to increased production from renewable sources. With the strengthening of energy commodities, EUAs returned above € 8. However, after the Thursday's Bloomberg announcement about the compromise on set-aside, EUAs overshot by 9 percent, regardless of any market fundamentals. During the trading on Friday dec12 EUA held over € 9 and on Monday morning even reached 2012 peak at € 9.46.

Thursday's compromise reached among the Members of European Parliament in the Industry, Research and Energy Committee indicates that the proposal to reduce emissions

allowances in phase III, which is part of the Directive on energy efficiency, will be passed in the Committee vote on February, 28th. Approved wording for the

regulation and that it should implement appropriate measures for withdrawing necessary volumes of carbon credits from the emissions

needs some important changes, which would otherwise require lengthy legislative process to amend a directive. On the other hand, this proposal does not state any details about the volumes or timing when and how such a withdrawal should be executed. Therefore, it is just a meager leftover from the lofty proposals suggested by the Environmental committee, which were more concrete in numbers. CERs outpaced EUAs and strengthened during the last week by 30 percent, approaching € 5. Yet, prices dipped on the back of favorable spreads between EUAs and CERs, narrowing during the week to € 4.1. Number of new CERs issued last week slightly exceeded 4 million, bringing total volumes of CERs issued in 2012 to 50 million.



proposed set-aside clause auctions beginning in 2013. entrusts the European Commission that if it is necessary and appropriate it should take necessary steps to change the Auctioning the event when the EU ETS

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