

Carbon Weekly #36

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Prices and markets

Carbon struggles under weight of auctions

The carbon market spent the week struggling against a rising supply of allowances flowing from auction sales, with wider economic concerns ensuring that a bearish mood had the upper hand among traders.

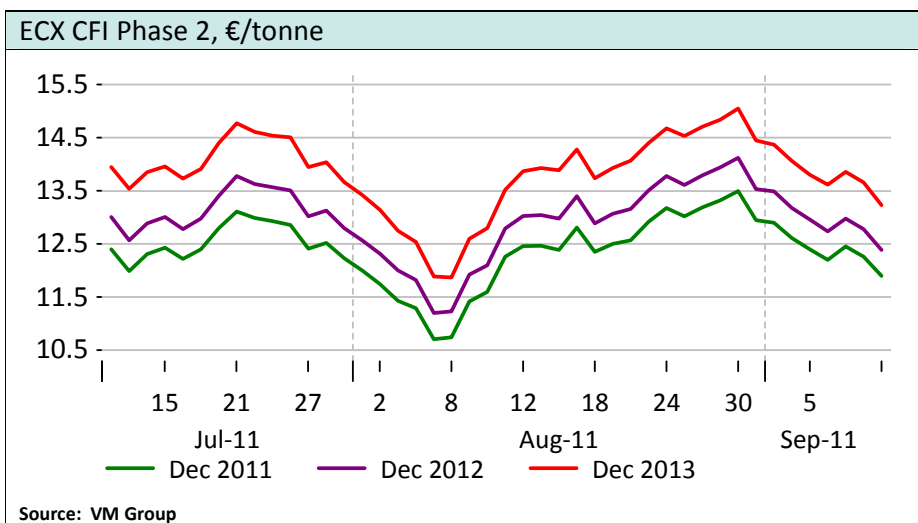
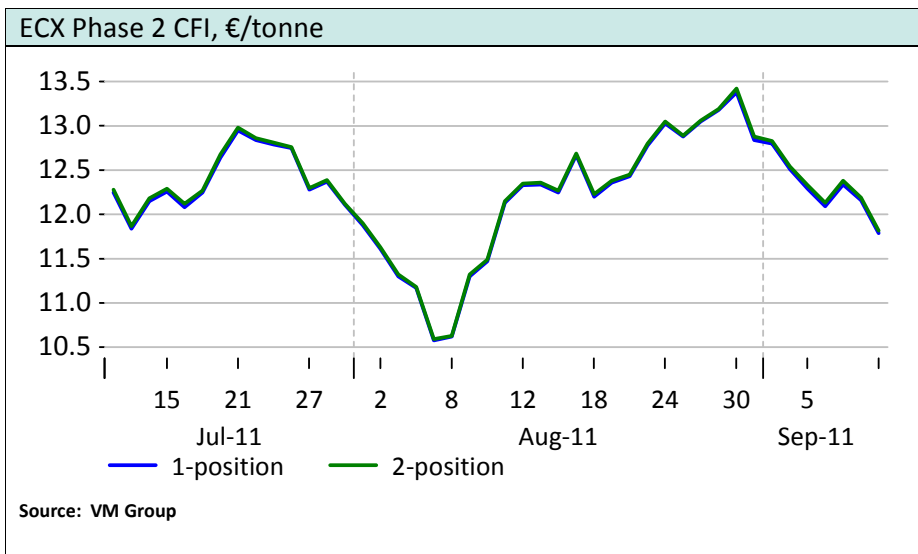
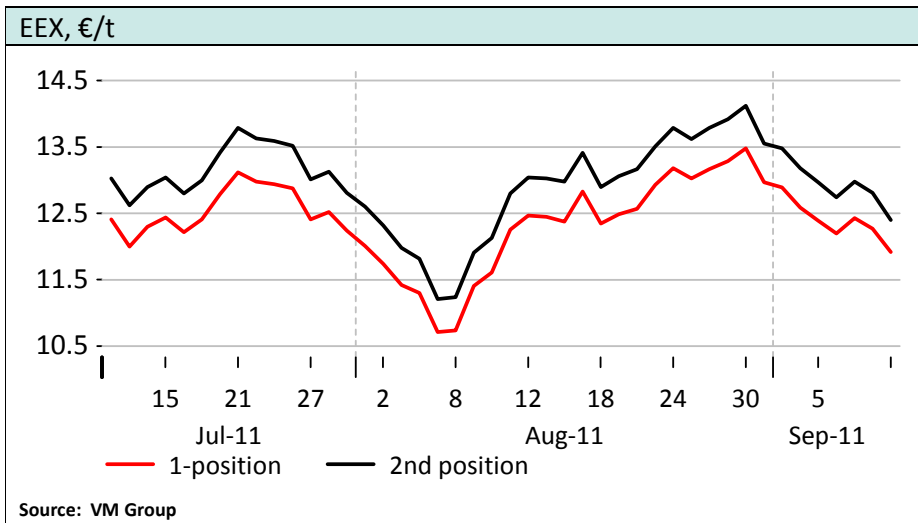
Monday 5 September set the cautious tone for the week, with carbon prices falling by more than 1% as rising macro-economic worries hit European stock markets and energy prices, stoking fresh fears of a double-dip recession. EU allowances for December delivery hit a 10-day low of €12.33 and re-tested that level twice more during the day, before paring losses in the last ninety minutes of trading. Dec-12 EUAs ended the day on the ECX at €12.40. Greece announced that it would sell 1m permits later in the week, adding to the queue of German and UK allowances also due to reach the market before Friday. There seemed to be little interest from compliance buyers; trading volume was light at 9.2m units and there were no big trades, as a market holiday in the US helped suppress activity. Secondary CERs also went lower, with Dec-11 allowances down almost 2% at €8.58.

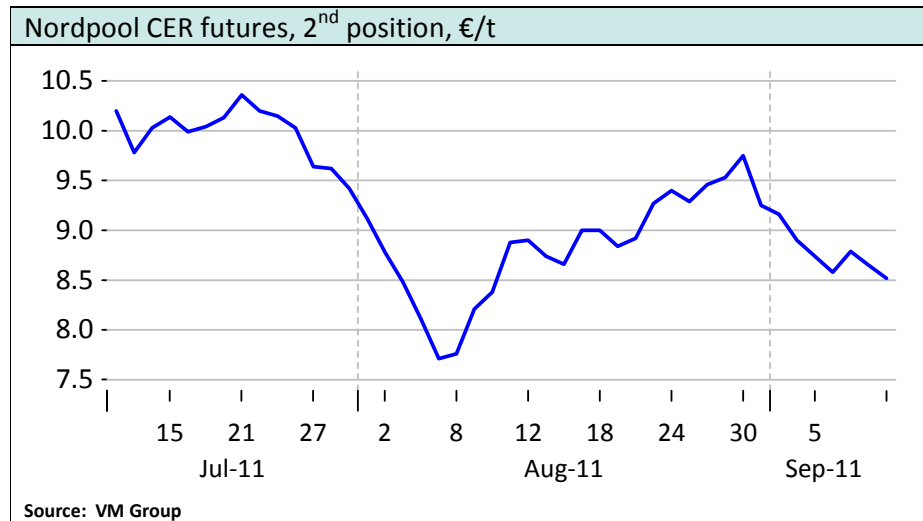
Permits sank further on Tuesday 6 September, reaching a 12-day low, weakened by lingering fears over the euro-debt crisis and broader, global economic concerns. With some analysts busy slashing their year-end price forecasts, based on slower euro-zone economic growth projections, Germany sold 300,000 permits at auction at €12.33 each, slightly below the prevailing spot price at the time. Just 16 minutes before the end of trading, Dec-11 EUAs were at €12.17, the lowest since 19 August and well below their intra-day peak of €12.58 – but by the end of the day they had ticked up to €12.20, 20 cents lower than Monday's close. Secondary CERs also came off, with Dec-11 futures trading down to end at €8.42. Wednesday 7 September finally brought a reverse in a five-day downwards trend, with permits lifting by 2% because of stronger energy and equity markets and what traders decided was a well-priced EUA auction by Greece. The country sold 1m permits for €12.18 each to four bidders in its fifth auction this year, raising €12.3m while Germany sold another 570,000 EUAs for €12.38. Traded volume in all EUA vintages reached 16.5m compared with a daily

average of 18.3m since the start of the month and Dec EUAs ended the day at €12.46. Dec-11 CERs rose to close at €8.64.

Thursday 8 September put allowances into reverse again, falling back as a lack of enthusiasm in the UK auction market trumped the bullish impact of stronger German power prices. The 21st UK auction sold 3.5m EU allowances at €12.31 each, in its worst subscribed sale since October 2009. The UK said the sale was just 4.99 times over-subscribed, attracting bids for a total of 17.45m permits. It plans two more sales this year, involving a total of 7m units. The auction followed the earlier sales by Germany and Greece, leaving the market with a suppressed appetite for any more, traders said. Those that were active in the market were more likely to be speculators than utilities. By the end of the day, the benchmark Dec-11 allowance, which had opened at €12.47, was trading on the ECX at €12.26, wiping out most of the previous day's gains. The most liquid secondary CER contract ended at €8.53.

The last day of the trading week brought another low note to the carbon market, with prices retreating to hit a one-month low as a weaker energy complex and wider economic worries again got the upper hand. The fall, the seventh in eight sessions, saw prices slide as low as €11.81 and left EUAs down almost 6% over the week. Volume on the bellwether contract was a healthy 12.7m units and total volume across all vintages and exchanges was around 22m but traders insisted a general air of reluctance still had the upper hand, especially given the extra supplies that had come on to the market in recent days. The Dec-11 contract ended the week at €11.90 on the ECX, the lowest close since 11 August. Meanwhile, secondary CERs managed to hold more ground than EUAs, with the Dec-11 contract falling just 17 cents to €8.31, even so, the lowest since 10 August. The move caused the front-month EUA-CER swap to contract by over 6% to €3.59 while the 2012 spread narrowed by nearly 7% to €3.85. Exchange-trade volume on the two swaps was heavy with over 500,000 units traded.





Related news

- The aviation sector faces a major under-allocation of carbon permits and will have to buy them in the wholesale market when airlines join the ETS next year, according to a top Lufthansa official. Stefan Mast, head of ETS implementation at the German airline, said that surging passenger numbers and large increases in air freight since 2004 will leave many airline operators needing to buy far more than 15% of their historical emissions. Airline growth meant the official line that free allocation of allowances would cover 85% of historical emissions was misleading, leaving most airlines needing to buy between 30% and 40% of permits to cover emission levels.
- The EU gave its clearest indication to date that it is considering backing an extension of the Kyoto Protocol after the climate treaty expires in 2012. But the world's largest emitters, including the US and China, would have to take on binding emissions targets under the Treaty if the EU was to back an extension, European Climate Action Commissioner Connie Hedegaard, said. Backing would be based on a second phase lasting until 2018, when it would be replaced with a single global pact capping all major nations' emissions, she added.
- Australia and Europe are to start talks on linking their emission trading schemes in a bid to tackle global climate change. With the next session of the Australian parliament expected to consider the government's carbon pricing plan, starting in July 2012, Canberra and Brussels have agreed to hold preliminary talks on the issue.
- A floor price for the sale of EUAs would strengthen the bloc's cap-and-trade scheme in the face of an economic slump that could hit carbon prices and threaten private sector investment in clean technology, a UK parliamentary committee has been told. Michael Grubb, a Cambridge University professor

and chairman of research group Climate Strategies, said that if the 12,000 installations taking part in the ETS had to pay for most of their allowances and had an auction floor price of around €20 then the market would be much stronger than it currently was.

- Greece said it has raised €62m from the sale of carbon allowances in five separate auctions this year.
- German exchange EEX said it will auction 4m permits on behalf of the Dutch government in October and November, selling 2m units on each occasion.
- The World Bank confirmed that it was close to signing an agreement to buy an unspecified number of assigned amount units (AAUs) from the Czech Republic.
- The issuance of 38m UN-backed certified emission reductions (CERs) in August was the second largest on record.

THE SPARK SPREAD WEEK

	GAS MARKETS	POWER MARKETS
5 Sept	<ul style="list-style-type: none"> British prompt gas prices gained while forward prices also rose slightly. Gas for Monday delivery rose 0.55p to 57.10p/therm while Tuesday gas traded 1.10p higher at 57.75p/therm. Gas for October rose 0.70p to 65.50p/therm while November gas ended at 72.75p/therm. Winter-11 rose 0.35p to 73.85p/therm, with Winter-12 ending at 74.60p/therm. 	<ul style="list-style-type: none"> German spot electricity prices declined, pulled lower by high wind power forecasts. Tuesday delivery fell by €7.75 to €49/MWh, the French spot contract was underpinned by an unplanned outage at the Cattenom nuclear reactor. German power curve prices eased along with oil, coal, carbon and gas, with Cal-12 down at €58.15/MWh. The French contract was at €56.60/MWh.
6 Sept	<ul style="list-style-type: none"> British day-ahead gas prices slipped to a two-week low with the start of maintenance on the Belgian export line. Gas for next-day delivery fell to 55.30p/therm as demand was pegged almost 14% below Tuesday's level. Front-month gas traded up to 66.70p/therm intra-day but fell back to 65.60p/therm later. Winter-11 traded up to 74.05p/therm. 	<ul style="list-style-type: none"> European power prices fell on the back of continued high wind power output while curve prices were mixed. Next-day baseload in Germany fell €3.25/MWh to €45.75/MWh while the French contract fell by €3.50 to €44/MWh. German baseload curve prices edged 5 cents higher to €58.20/MWh while the French contract fell 10 cents to €56.50/MWh.
7 Sept	<ul style="list-style-type: none"> British prompt gas prices accelerated gains as broad-based supply losses from key importers choked off the system's ability to balance, in spite of weaker seasonal demand. Gas for immediate delivery rose 0.65p to 58p/therm while day-ahead gas railed 2.85p to 58.15p/therm. October gas traded at 66.30p/therm and Winter-11 rose 0.95p to 75p/therm. 	<ul style="list-style-type: none"> European prompt power prices rose as some plant outages and lower wind speeds curbed supply. German Thursday delivery was up €4 at €48.80/MWh and French day-ahead was €4.50 higher at €48.50/MWh. Power curve prices were again broadly steady. Cal-12 baseload in Germany was at €58.10/MWh with the French contract at €56.60/MWh.
8 Sept	<ul style="list-style-type: none"> British prompt gas prices rose as supply fell short of demand after gas from two LNG terminals wound down and North Sea maintenance squeezed supply from offshore fields. Gas for Thursday rose to 60.25p/therm and front-month October rose in line with the bullish prompt to 67.15p/therm. Winter-11 gained 0.75p to 75.75p/therm. 	<ul style="list-style-type: none"> Spot power prices rose sharply, pulled higher by a large drop in renewable power capacity in Germany. Baseload power jumped by more than €8 in Germany to €58/MWh while the French contract rose by €7.50 to €56/MWh. Along the curve, prices ticked higher, with Cal-12 in France rising 20 cents to €56.80/MWh. The German contract ended at €58.60/MWh.
9 Sept	<ul style="list-style-type: none"> British gas for immediate delivery fell on low demand as higher output from Dragon terminal helped supply a market squeezed by North Sea maintenance. Same-day gas fell 1.50p to 59p/therm with demand pegged around 20% below seasonal norms. Winter-11 traded down 1.60p at 74p/therm. 	<ul style="list-style-type: none"> European spot power prices reversed direction as wind power forecasts for the following week pointed to a sharp supply increase. German baseload for Monday was off €6 at €52/MWh while the equivalent French contract dropped €6.75 to €49.25/MWh. Along the curve, German prices gave way but French Cal-12 gained 20 cents to just under €57/MWh.

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