Carbon Weekly #37

Week 37: 12-16 Sept 2011

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Prices and markets

Nervous carbon trade treads water

The carbon market managed to establish a modest, upwards price trend during the week, primarily reflecting the relief rally in equities rather than any new-found optimism for CO_2 permits, only to back on Friday on continuing concerns over the impact of looming new permit issuances and fears that EU plans to include aviation within the ETS could hit a legal stumbling block.

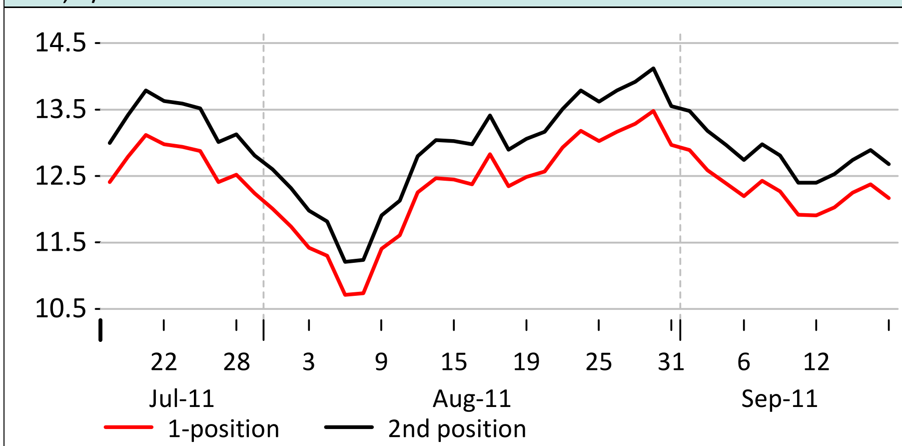
Monday saw prices ending flat after choppy trading, reversing a one-month low of €11.49 early in the session to end at €11.91 on the ECX, a few cents up on the previous Friday's close but well down on the day's high of €12.12, which was reached temporarily after news of an explosion at a French nuclear waste treatment plant. It was officially reported that there was no radioactive leak, but the news was enough to prompt some traders to go long/buy back short positions in the face of the previous week's slide. Overall, light buying and short-covering balanced out persistent worries about Europe's sovereign debt crisis. In the secondary market for UN-backed credits, CERs for December delivery rose 9 cents to end at €8.41.

Tuesday 13 September saw carbon track higher after research published suggested that prices could average €14 in the last quarter of 2011, around 15% up on prevailing levels. After opening steady the market nudged upwards on further short-covering and the rally in equities; the Dec-11 benchmark contract ended the day at €12.04 after hitting an intra-day peak of €12.16 and trading within a narrow 24-cent range. The price of UN-backed allowances tracked other permits, with the Dec-11 CER contract firming to €8.50. With such a relatively narrow trading range, liquidity took a dip with just over 11m EU allowances and 3.5m CERs trading across all main exchanges.

Carbon prices oscillated in a near-50 cent range on Wednesday 14 September against a background of mixed energy prices and volatile equity and currency markets. Volume was heavier on the bellwether contract at around 19m units and front-year allowances rose during the day to end at €12.24, after peaking at €12.28 and having fallen back as low as €11.79. The increase was attributed to an improvement in macro-economic sentiment although confidence was fragile. The CER market managed to lift itself more than that for EUAs, climbing to end at €8.72. Thursday 15 September saw a further, modest rise in permit prices, lifted mainly by bullish technical signals and firmer energy and equity markets, amid reports that Central banks would be injecting more cash into European economies in Q4. By the end of business, the Dec-11 bellwether contract closed at €12.39 on the ECX, extending gains for a fourth straight day after hitting €12.45 at one stage. There was an obvious reluctance to build up long positions, given the prospect of new permit supply coming from early Phase 3 auction sales of 300m units from the New Entrant Reserve (NER 300). The market found some psychological support from rising oil prices and equity markets, and open interest in front-year EUAs rose by 3.4m to reach 162.7m units, suggesting that at least some market participants may have taken on new, long positions. Meanwhile, CERs rose in line with EUAs, leaving the Dec-11 contract at €8.77 on the ECX at the close.

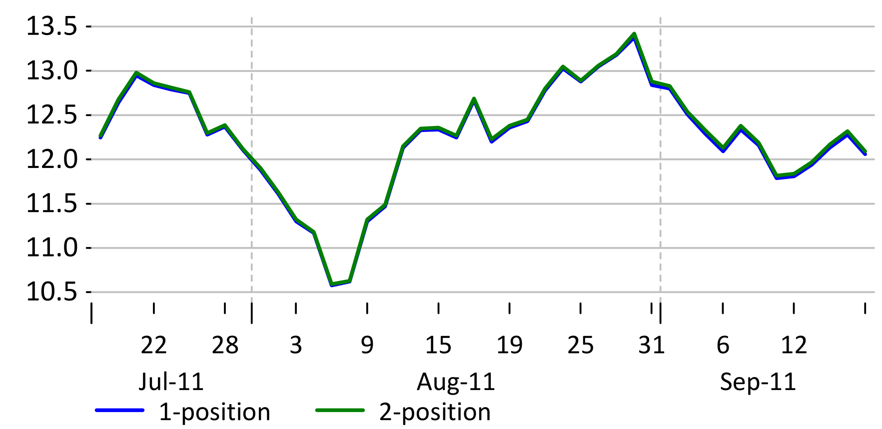
The last day of the trading week spoiled the upwards run, however, with carbon allowances falling back in the face of profit taking that outweighed gains in oil and equities. The market ended on a less upbeat note as it recovered from a bout of auctions that added to supply. No significant auctions are planned for a while, but the European Investment Bank will start selling its 300m allowances in October and the European Court of Justice is due on 6 October to give its verdict on whether the EU can legitimately include the aviation sector in the ETS. An adverse decision, according to some traders, would create “panic”. Dec-11 EUAs ended Friday at €12.16 and CERs followed them down, closing at €8.70.

EEX, €/t



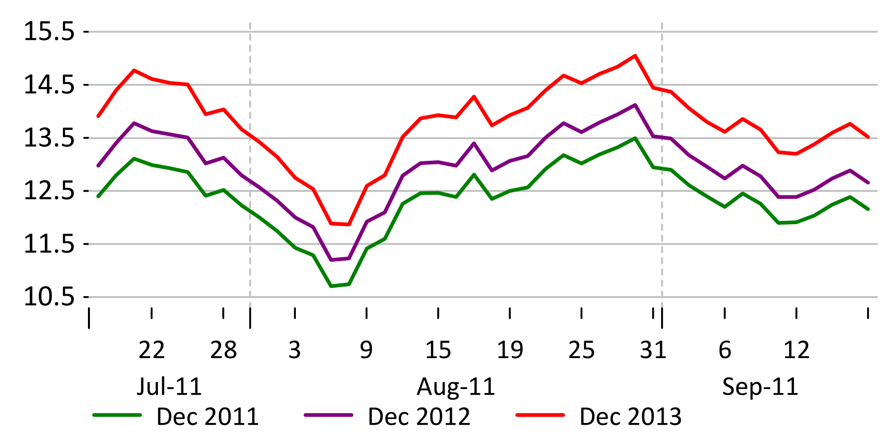
Source: VM Group

ECX Phase 2 CFI, €/tonne



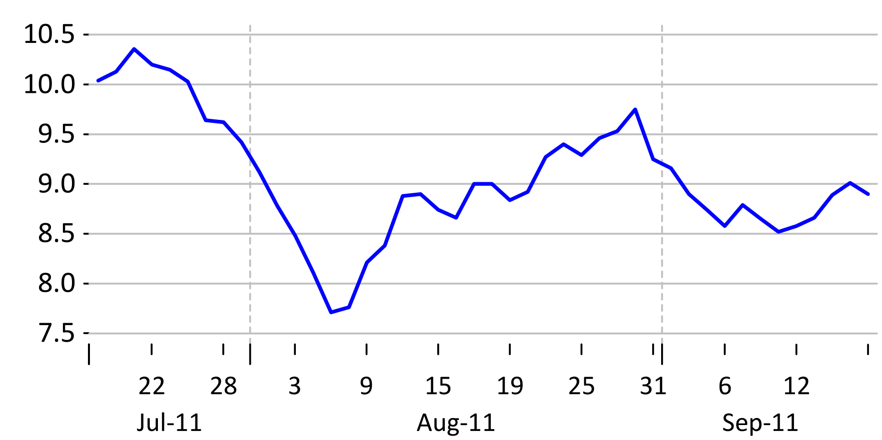
Source: VM Group

ECX CFI Phase 2, €/tonne



Source: VM Group

Nordpool CER futures, 2nd position, €/t



Source: VM Group

Related news

- Spot carbon units traded in the EU ETS could soon be classified as financial instruments in a bid to protect the market from fraud, according to a draft European Commission proposal. The plan foresees extending the bloc's Markets in Financial Instruments Directive to regulate the spot carbon trade, going against the market's own preference for implementing tailor-made rules. According to the draft document, both spot and derivative markets would be under a single supervisor. If passed, the proposals would mean that only companies approved under the Directive would be allowed to trade spot permits. The plan has not yet been officially agreed, but it may be put forward for approval by member states in October. The industry has warned that the plan will heap costs on market participants without boosting security. Instead it wants a bespoke regime based on existing regulations but providing a more targeted anti-abuse framework for the carbon sector.
- EU governments approved draft rules for setting up an auction platform for selling carbon permits from the second half of 2012. The EU said the endorsement kept member states on track to start the auction of allowances for Phase 3 of the ETS next year. Auctions will be carried out over a single, EU-wide platform for 24 members states while Britain, Germany and Poland will use their own platforms. Several emissions exchanges are vying to win the tender for holding the auctions.
- Carbon permits traded in the EU ETS are "under-priced" and should be more than three times higher than at present if the region's post-2020 emissions reduction goals are to be met, according to a report from *Bloomberg New Energy Finance.* The report says that prices should already be between €40 and €60 and that, by 2020, they should be between €60 and €90 if they are to succeed in their objectives.
- The UN issued around 7.3m Certified Emission Reduction credits (CERs) during the last week, up 83% from the week before, ensuring that September is gearing up to be a bumper month for issuances. In addition to those already handed out, requests for a further 23m CERs are being logged with the UN and could be distributed before the end of this month. That would make September the second highest month of record for new issuances. So far this year, a record 233m CERs have been handed out, eclipsing the 2010 total of 132m.
- Hungary said it would decide over the next two weeks whether to give utilities up to €629m worth of free carbon allowances during the 2013-2019 period to help curb power prices.
- Romania said it would give around 75m free carbon allowances to gas and coal-fired plants between 2013-2019, representing an initial 70% of average annual emissions, falling to 10% by 2019.

THE SPARK SPREAD WEEK

	GAS MARKETS	POWER MARKETS
12 Sept	• British prompt gas prices plunged 13% amid a supply glut as warm weather and high wind power output pushed demand for gas well below seasonal norms. Gas for immediate delivery fell 8% to 51.10p/therm while next-day gas shed 9% to 54.25p/therm. With front-month gas at 64.30p/therm, Winter-11/12 traded at 73.40p/therm.	• More wind influx and mild temperatures pushed spot power prices lower while an accident at a French nuclear waste plant provoked nervousness in electricity markets. German spot prices fell by €4 to €48/MWh while the French dropped by 75 cents to €48.50/MWh. Along the curve, the French contract fell to €56.80/MWh; the German was at €58.10/MWh.
13 Sept	• British prompt gas fell again as reduced demand and more supplies from Norway helped balance a tight system. Benchmark forward contracts weakened in line with crude oil prices. Gas for immediate delivery fell to 55p/therm but day-head rebounded to 54.80p/therm. Front-season gas fell to 72.50p/therm while summer gas traded down 0.45p at 66.25p/therm.	• Over-the-counter power contracts in the UK traded sideways as market fundamentals remained largely unchanged with high wind power production, low temperatures and stable supplies. Baseload power for next-day delivery traded at £48.40/MWh while Thursday power rose to £48.75/MWh. German day-ahead baseload settled at €50/MWh.
14 Sept	• British gas prices rose as supply from Centrica's Barrow South terminal dropped off unexpectedly, leaving the system undersupplied despite weak demand. Wednesday gas gained 2p to reach 57.75p/therm while next-day gas traded at 56.30p/ therm. Winter 11/12 defied weak oil prices and added 0.25p to reach 72.75p/therm.	• German and French spot power prices rose as falling wind levels removed renewable energy production from the system while forward prices temporarily halted a recent downward trend. German day-ahead settled at €56.45/MWh and the equivalent French price was just above €53/MWh, offering arbitrage opportunities from France to Germany.
15 Sept	• British curve gas prices rose along with oil while prompt prices fell slightly as worries over supply eased following a resumption of imports from Holland. The benchmark Winter 11/12 contract rose to 73.30p/therm but on the prompt market day-ahead gas fell to 56.20p/therm while gas for immediate delivery traded at 57p/therm, down 0.75p on the day.	• European power curve prices rose, tracking an increase in energy prices, while spot prices were mixed. German benchmark 2012 rose by 35 cents to €58/MWh while the French contract firmed by 40 cents to €56.75/MWh. Spot prices in Germany and France went in opposite directions. Next-day French fell €2.25 to €49.75/MWh while the German rose €3.50.
16 Sept	• British prompt gas prices plummeted by more than 30% as the market was flooded with supplies following high imports and strong flows from LNG, as well as low injections into storage and weak demand. Same-day gas traded at near a one-year low of 38.25p/therm and weekend gas fell sharply to 40.50p/therm. Winter 11/12 eased to 72.90p/therm.	• European spot power prices were mixed while forward prices eased despite stronger oil prices. German Monday peakload recorded a €3.75/MWh gain to €70.25/MWh while the French equivalent also rose €6.25 to €66.50/MWh. German and French curve prices were weaker, with Cal-12 ending at €57.75/MWh and €56.50/MWh respectively.

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