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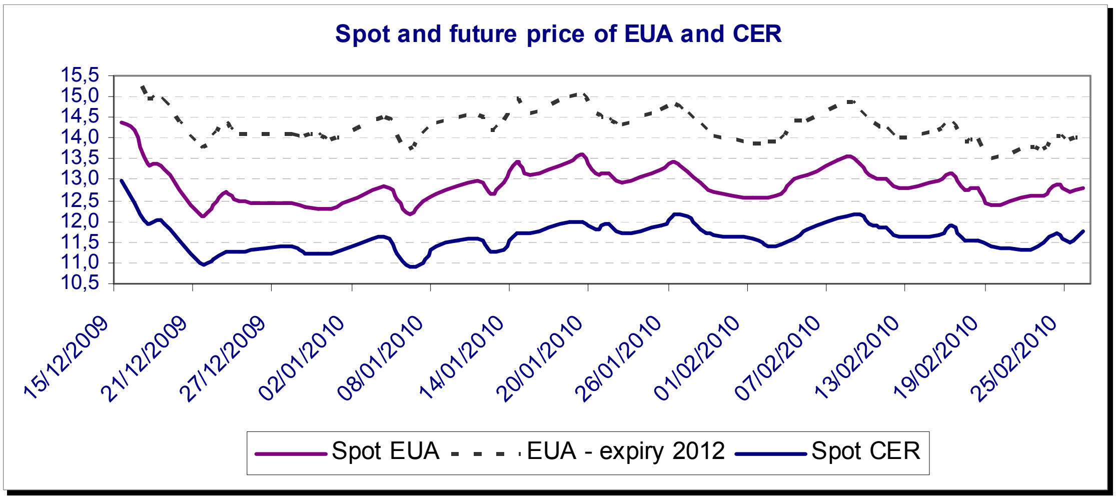
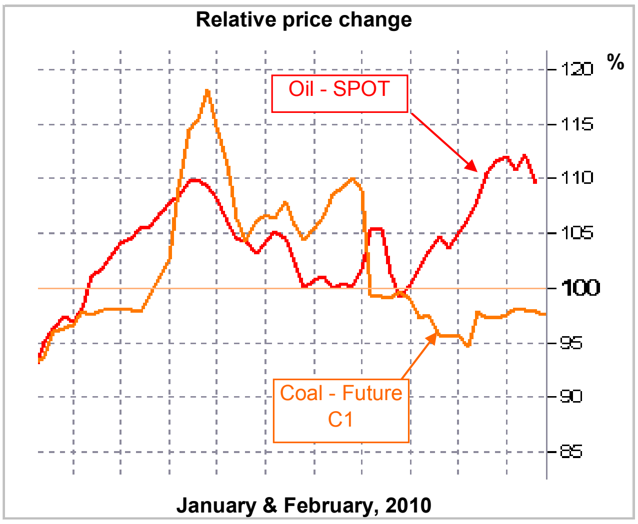
Carbon price summary

The last two weeks of February were characterised by waving price movements in all major financial markets. Generally positive fundamental figures and uncertainty over how the Greek crisis will be resolved have created a mixed sentiment in the market.

The carbon was moving very much in alignment with general market sentiment. The closing price of the EUA on the 26 February was close to 12.8 EUR/unit even if it was traded a little bit below 12.3 EUR/unit on the 22 February 2010. The closing price of the CER was 11.6 EUR/unit last Friday (26 February) and the instrument was traded in a very narrow range during the last two weeks.



Cross commodity analysis



The fundamental value of emission credits on a long run is significantly influenced by the relative price of coal and oil. The reason behind is that gas price is often tied directly to oil price with a moving average formula. If coal price is significantly lower than gas price then it may become cheaper to produce electricity by burning coal rather than gas. As burning coal results in much higher emissions, the relative strength of oil compared to coal is definitely a positive sign for the carbon market.

Short term outlook

Neither the relatively low emissions in 2009 - according to a recent study, emissions are estimated to be 11% lower in 2009 than in 2008 - nor did the recent allocations of EUAs cause a significant downward pressure on carbon prices. Therefore it appears that installations are not willing to sell their surplus at this price level or there is enough buying power from other players to support the current level of prices. Therefore the probability that carbon price will break out from the channel downwards has decreased in the past two weeks while an upward price movement has become more likely.

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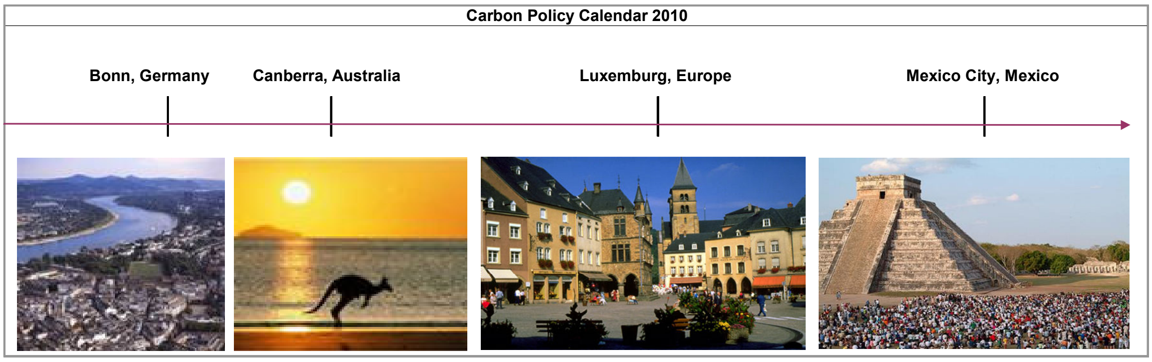
Policy outlook for 2010

It is safe to say that the international negotiations in Copenhagen did not save the world. Thus it will be followed by a series of international negotiations in order to reach the vital agreement. The negotiations may provide useful insights about the changes in the carbon market mechanism. In addition these negotiations may influence carbon prices as they contribute to the general sentiment via carbon to a large extent. Let us review the most important events:



Bonn, Germany (9–11 April and 31 May–11 June): The United Nations Framework Convention on Climate Change (UNFCCC) meetings. The first occasion is an extra meeting of 194 nations. The second meeting is the regular annual event to discuss technical details of implementing the Kyoto Protocol and to negotiate a new climate deal to replace Kyoto in 2013.

Canberra, Australia (still undecided but expected to take place mid 2010): After the first unsuccessful trial, the Australian government is planning to launch the carbon trading scheme which will be one of the main vehicles for fighting against climate change in Australia.

Luxemburg, Europe (21 June): The environment ministers of the European Union will meet with a not-yet finalized agenda. Emissions trading and climate change will likely to be discussed during this meeting.

Mexico City, Mexico (29 November–10 December): The United Nations Framework Convention on Climate Change (UNFCCC) ministerial meeting. This much expected annual meeting where ministers from all around the world usually sign off tweaks on implementation of Kyoto Protocol may have crucial importance as Copenhagen conference failed to produce the desired outcome.