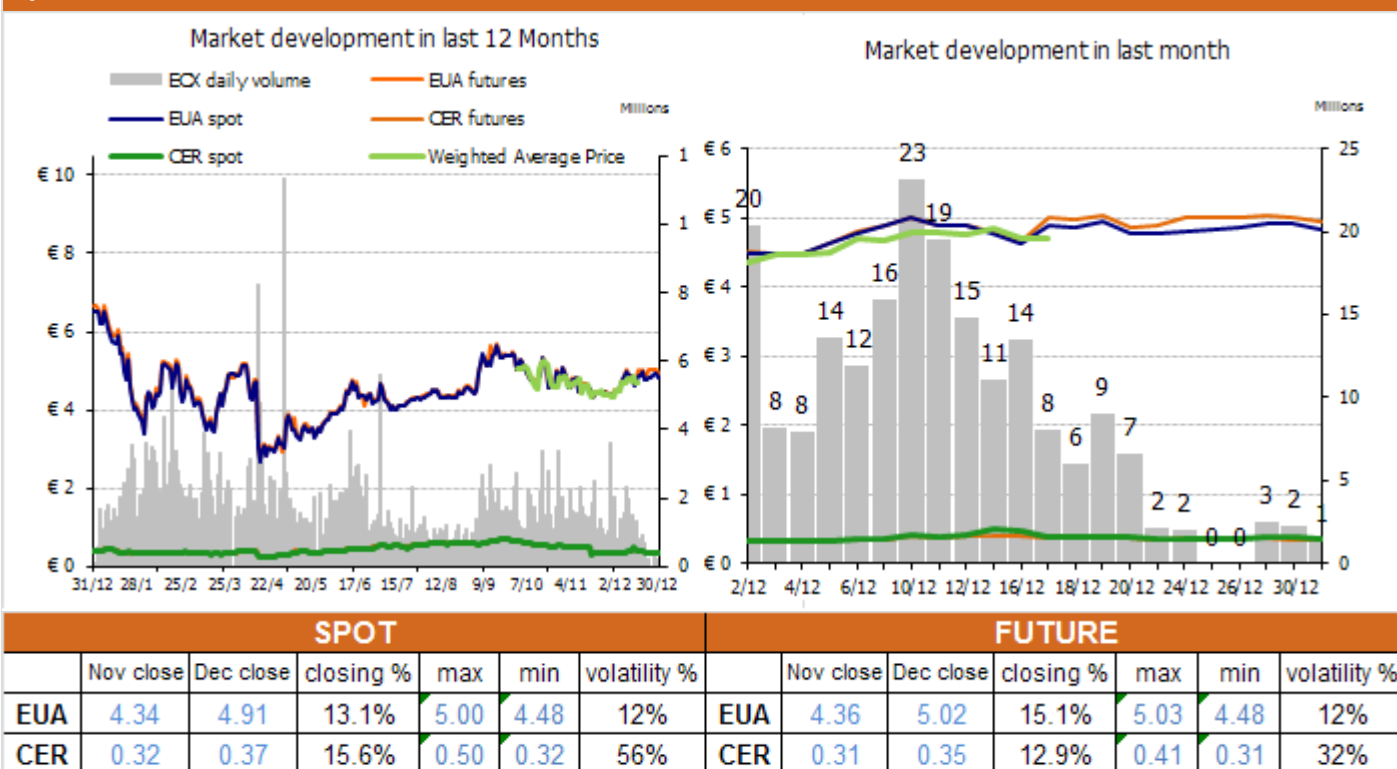


**Annual + Monthly: Year of back-loading ended by approval, yet emissions responded modestly, recovering only small part of losses of the year. Year to year, EUA lost 25% and CER 5%. Month to month, EUA and CER gained 13% and 15% respectively in December. On December 30, EUA closed at € 4.91 (November closed at € 4.34), CERs at € 0.37 (November closed at € 0.32) and the CER/EUA spread at € 4.35.**



Měsíční objem na aukcích byl 46.7 milionů tun. Monthly volume at the auctions was 46.7 million tons.

**Annual Commentary:** EUA opened the year around € 7, quickly reaching annual maximum of € 7.38 but then it went to a continuous slide caused by European financial crisis. It reached annual low of € 2.75 on April 18, when it became apparent that the EU parliament will not reach agreement on back-loading by the summer. Then the EUA recovered slowly to € 4.91. As investors into financial markets, we would call this year another bad year for EUA confirming our long standing skepticism. EUA lost 25% of its value while our fund [Sanning Capital \(here\)](#) was up 3.5% for the year and 62% for past three years (outperforming central European indexes by a wide margin). While some analyst claim that due to the back-loading, the EUE may go to €7-8 in 2014 and € 10-14 in 2015, we caution that (i) € 7 is far from the point (some € 20) where EUA becomes an effective regulatory tool – hence significant issues and risks remain (ii) there is some 1 000 to 1 200 million tons of oversupply still in the market and unless that is

resolved, the EUA goes back to very low levels even if it did reach over €10 during next years.  
Conclusion: While back-loading may represent mid-term (if/when EUA goes up significantly) selling opportunity, it is far from a long term solution.

**Monthly Commentary:** November EUA climaxed on 10.12<sup>(1)</sup> at € 5.23 when the EU parliament approved the back-loading - 900 million tons will be removed from the EUA auction pipeline in 2014 (-400 million tons), 2015 (-300), and 2016 (-200) and returned back before the end of the Phase III (2020). Given the back-loading schedule, we agree that this may cause technical (but not fundamental) buoyancy to the market – maybe going as high as some say (the most optimistic prediction was some €14 in 2015) but because this is only technical (not fundamental – i.e. not driven by long term supply conditions coming from industrial activity) the EUA will come back down even deeper when the 900 million is returned back unless some deeper changes are implemented by 2015. On 16.12., Germany signaled<sup>(2)</sup> that industrial prosperity takes precedence before the green policy. Also, on 18.12., EU has announced<sup>(3)</sup> and investigation into German industrial subsidies to large companies which do not, under German law, have to contribute to the green power surcharge that small power consumers have to pay – an issue that has been around for a long time but only now reached the spotlight most likely in context of back-loading debate. Given that Germany is the pivotal nation to the EU green policy, we remain skeptical that dramatic turnaround can be expected for EUA. Such skepticism is obviously shared by the market as the EUA went mostly down after the back-loading approval date.  
Conclusion: Any significant rise in price should be treated as selling opportunity.

1. <http://www.europarl.europa.eu/news/en/news-room/content/20131209BKG30220/html/ETS-backloading-carbon-market-schemes-at-a-turning-point>
2. <http://www.bloomberg.com/news/2013-12-15/merkel-begins-third-term-buttrressed-by-spd-support-and-schaeuble.html>
3. <http://www.reuters.com/article/2013/12/18/us-eu-stateaid-germany-idUSBRE9BH0EZ20131218>

[Visit our website](#) | [follow on Twitter](#) | [follow on Facebook](#) | [forward to a friend](#)

Copyright © 2014 Pravda Capital Trading, s.r.o., All rights reserved.

**Our mailing address is:**

Pravda Capital Trading, s.r.o.  
Opletalova 1417/25  
Praha 1 110 00  
Czech Republic

[Add us to your address book](#)

[Subscribe to our mailing list](#) | [Unsubscribe from our mailing list](#)