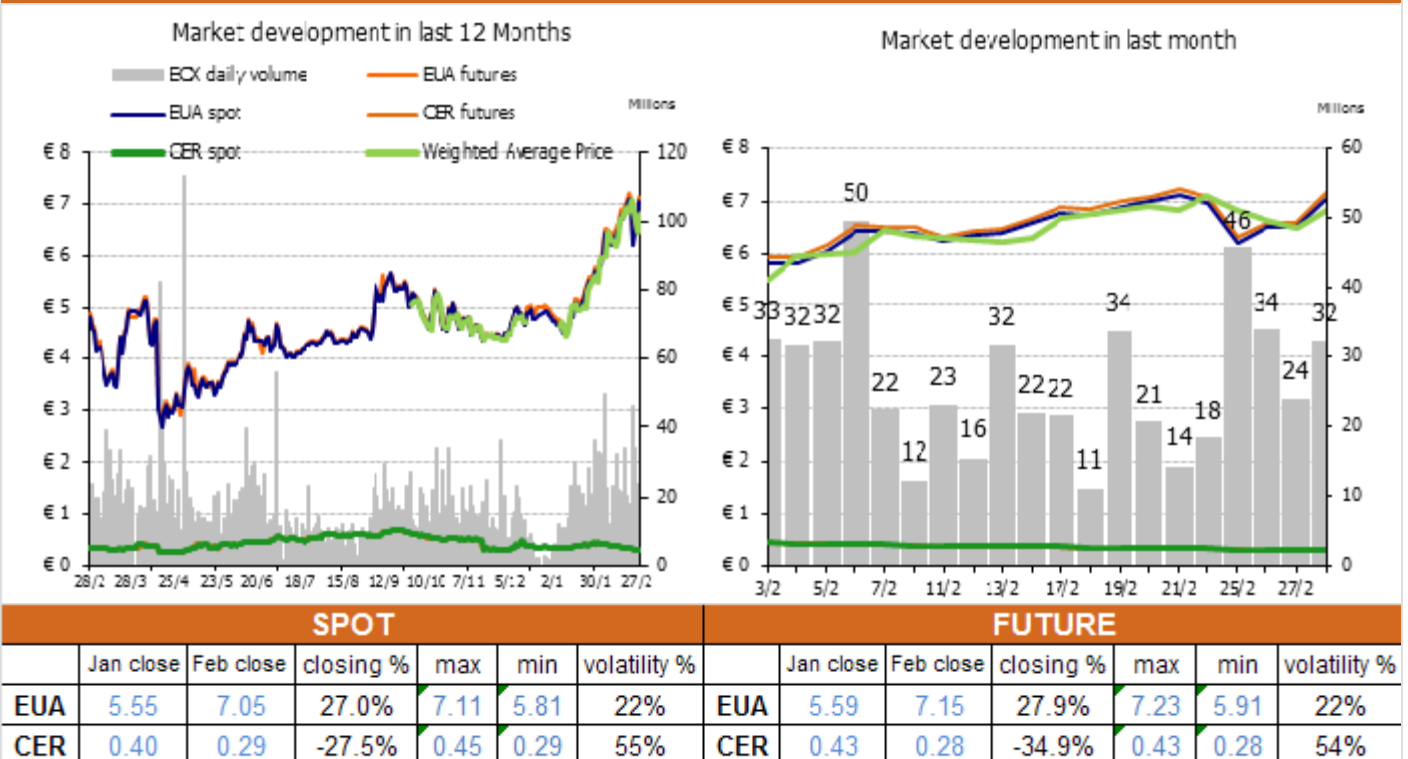


Monthly: February was the month of “backloading” and EUA went up 27% while CER lost 27.5%. On Feb. 6, when the EU parliament approved to “fast track” of the “backloading” EUA closed at € 6.45 adding 16% in one day. On Feb 28, EUA closed at € 7.05, CERs at € 0.29.



Měsíční objem na aukcích byl 71 milionů tun. Monthly volume at the auctions was 71 million tons.

Commentary: On Feb 6, the EU parliament authorized the fast tracking of the backloading. This means, the EU Commission can begin removal of the 400 million tons (100 million tons per quarter) from the EUA auction pipeline in March 2014 after the ministers approved the “fast tracking” on Feb 24. As expected, this caused a buoyancy of the market, which in our view is temporary.

On Feb 26, were all EU states approved by the EU Commission to hand in free allowances to companies to cover their 2013 emissions. While this decision was almost a year delayed, it still is a relief to some central European companies who were short and expected to surrender their new allowances this spring. This caused dip of slightly over 1%.

Long term, we expect that the market will not go as high as some say (the most optimistic prediction we heard of was some €14 in 2015) and that it will return to levels of today or lower. This is because oversupply now at 2 billion will be reduced only temporarily to some 1100,

and will return to its original level well before year 2020. All this is true unless some deeper changes are implemented by 2015. Those are however expected to come only after 2021 in the form of “market stability reserve” designed to remove surplus of allowance from the market. Thanks to this mechanism, it seems that overall the market may reach equilibrium and begin functioning around 2020. We are preparing a special report on the value of allowances around 2020 and what it means for today.

Midterm strategy: Current price above € 6.00 seems like a good midterm selling opportunity for those who are still oversupplied.

Long term strategy: For those that are short until 2020, we advise to take a more cautious stance and begin covering the short position during market weakness as the market seems set to reach equilibrium after 2021.

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