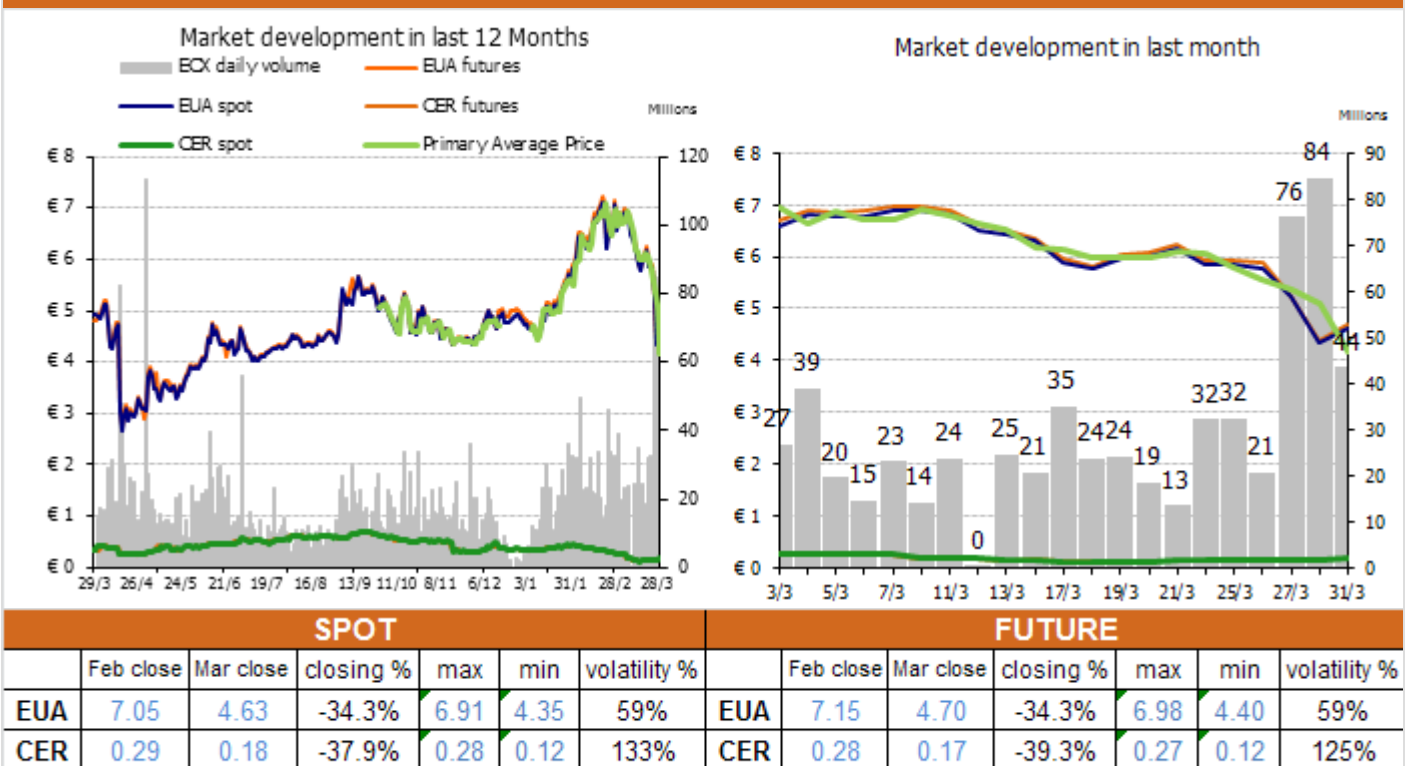


Monthly: March was a month of sobering after the “backloading” party. EUA lost 34% while CER lost 38.5%. On March 31st, EUA closed at € 4.63, and CER at € 0.18. Fragility of the optimism, predicted in our February monthly, confirmed. :-)



Měsíční objem na aukcích byl 56 milionů tun. Monthly volume at the auctions was 56 million tons.

Commentary: Around March 7, a number of larger states such as Italy, Spain and Romania began issuing free allowances and some installations began offloading the volumes at prices above € 6.

Beginning March 17, EEX reduced primary auction daily volume to about 50%, thus beginning the scheduled “backloading”, aimed at increase the carbon prices to 15 and more. Contrary to popular belief, this failed to stem the decline of EUA during the second half of the month as the allocation of the free allowance, as always, resulted in a heavier selling on the spot market.

On March 27, UK published 2013 emissions 5% lower than in 2012. As the market expected approximately a 4% drop year on year, EUA plunged the next day below € 4.35 helped also by a sharp drop in natural gas price and power price on the same day. This confirmed our fears of fragility of the recovery.

Long term, we stick to our guns and restate that 2 billion oversupply remains in the market unless deeper changes are implemented by 2015. While those are expected after 2021 in the form of “market stability reserve, or MSR”, some EU politicians began talking about bringing MSR forward – those voices however remain isolated. [We are preparing a special report on the value of allowances around 2020 and what it means for today.](#)

Midterm: Last month we recommended selling above 6 for those who were long. This month, we recommend, we recommend covering this shortage when prices approach € 4, for those who are marginally short.

Long term: 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 to be set to reach equilibrium after 2021.

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