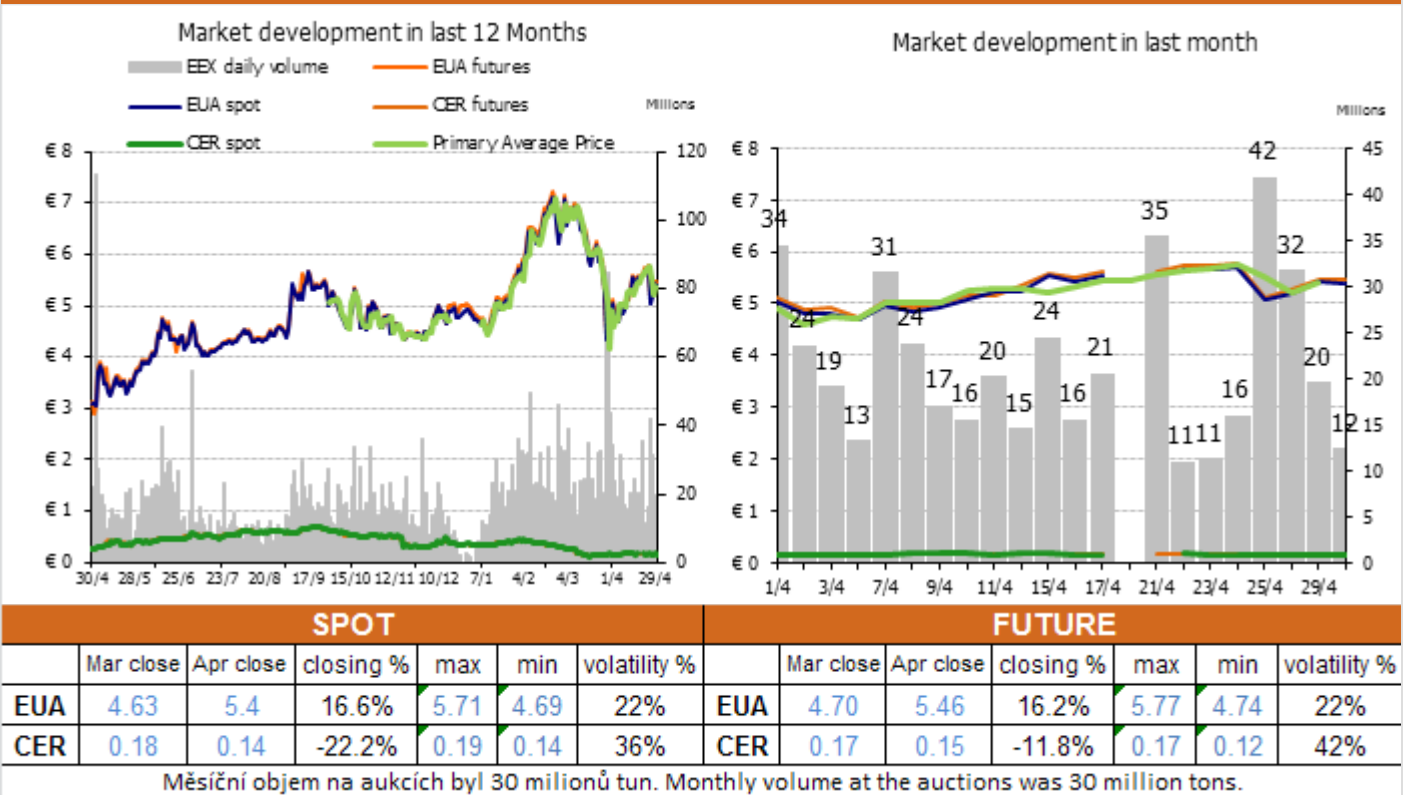


Monthly: In April **EUA gained 16.6%**, closing at **€ 5.4** due to slower than expected CO<sub>2</sub> emissions decline in EU, European Investment Bank ending its EUA sales program, power prices surge and hopes for “greener” European parliament to be elected in May. **CER went down by 22.2%**, closing at **€ 0.14** on April 30<sup>th</sup>.



**Commentary:** Allowances up by over 10 % during trading on 1st April after data from the European Commission showed that emissions capped by the bloc's Emissions Trading System (ETS) did fall by 2.8% on a like-for-like basis in 2013 to total 1.75 billion CO<sub>2</sub> equivalent (as opposed to expectation of 3.1 % drop). Yet total amount of emissions for the year can be expected to be higher than this number, as only around 90% installations have reported so far.

Also, European Investment Bank stopped selling EUA as it had raised sufficient funds (€ 2 billion covered by 300 million allowances sold) to fund its NER 300 program. This program, aimed at funding carbon capture and storage, is one of the largest in the world and upon its completion, it removed around 1 million t/day from the supply side, i.e. some 4.6% of average daily volume of EUA futures (ICE Futures Europe).

Further support for EUA was electricity price that bottomed earlier on 4<sup>th</sup> April at € 33.77/MWh (German base load futures) and grew up since to € 34.76. Higher power prices result in higher confidence of power producers and hence their higher expected demand for allowances (EUA and electricity prices are correlated variables).

**Meanwhile, the amount of CO<sub>2</sub> in the atmosphere averaged more than 400 parts per million in April, surpassing the threshold which our planet had not seen for 3 million years.** The trend of declining emissions in Europe is more than offset by growth in the rest of the world, mainly emerging markets. This situation represents a problem threatening the viability of the EU effort, in our view.

Nevertheless, there are indications that the old continent's policy will become even "greener" after May 22-25 European parliament elections. According to polls, leftist Progressive Alliance of Socialists and Democrats should take place of European People's Party as the strongest fraction of the newly elected assembly. This political constellation could result in larger accent on environmental policy.

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 set to reach equilibrium after 2021.

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