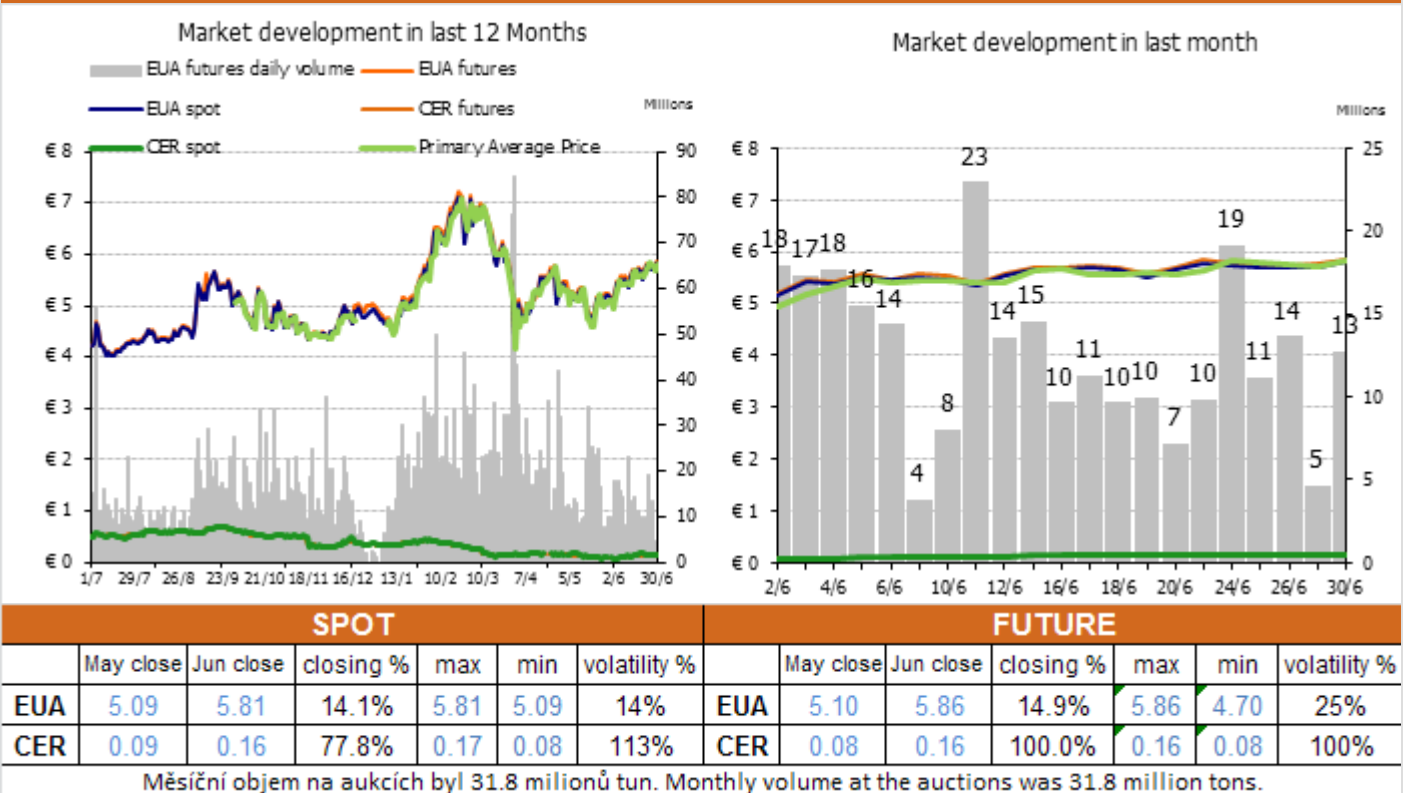


Monthly: In June EUA gained 14.1%, closing at € 5.81. Positive trend was generated mainly by gathering support for CO2 emission caps in the world. CER gained 77.8%, closing at € 0.18 on June 30th.



Commentary: On 2nd June, Barrack Obama came with a proposal to cut US CO2 emissions 30% by 2030 from 2005 level in order to speed up transition from coal based power generation to natural gas and renewables. The proposed law will permit states to choose their own way of achieving the goal from promotion and efficiency improvements to carbon trading scheme similar to the European one. Analysts comment on the goal as “eminently reachable”. By comparison, EU is pondering 2030 cut of 40% from its 1990 levels (which is 43% from its 2005 level), as 2020 targets will likely be met easily.

Only a day after, China official He Jiankun said China, the world's biggest greenhouse gas emitter, plans to introduce emissions cap by the end of this decade. He Jiankun serves as a chairman of China's Advisory Committee on Climate Change, but his comment was not an official one.

Analysts see these news as a good omen for upcoming U.N. climate conference in Paris next year. This summit is expected to finally bring global binding agreement replacing Kyoto, after a few unsuccessful attempts (Copenhagen 2009 above all). According to CDC Climat Research, some form of carbon market might be part of the treaty.

In Europe, new momentum towards global agreement seems to support earlier Market Stability Reserve (MSR). Still, some countries like Poland, which is using 90% coal for its electricity generation are opposing such a move. Germany is a consistent supporter: it does not want to wait until 2021, and seeks to bring the MSR forward to as early as 2017.

The EU Parliament will likely start debating the entire proposal this September and the full co-decision procedure, which includes EU Council approval should take between one and two years (from proposal to becoming binding). Meanwhile, the odds that MSR will be passed in any form look promising. The proposal requires approval by qualified majority of 260 out of 352 votes in the EU system, but some big states including France, Germany and Great Britain are already supporting it.

Also, further initiatives are on the table: EU hopes to adopt 2030 energy efficiency goal in October including the reduction target of 40% by 2030. EU Council should take a final decision on these in autumn.

All in all, with the current support from policymakers, market looks viable again. Correspondingly, the prices of EUA have overseen their best quarter in six years.

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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