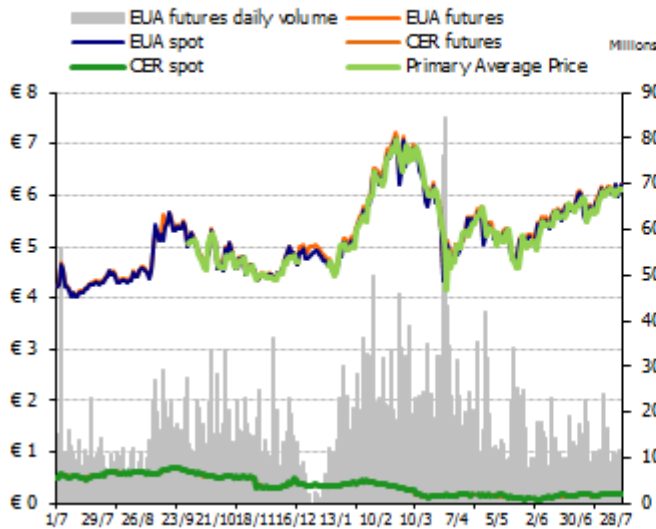
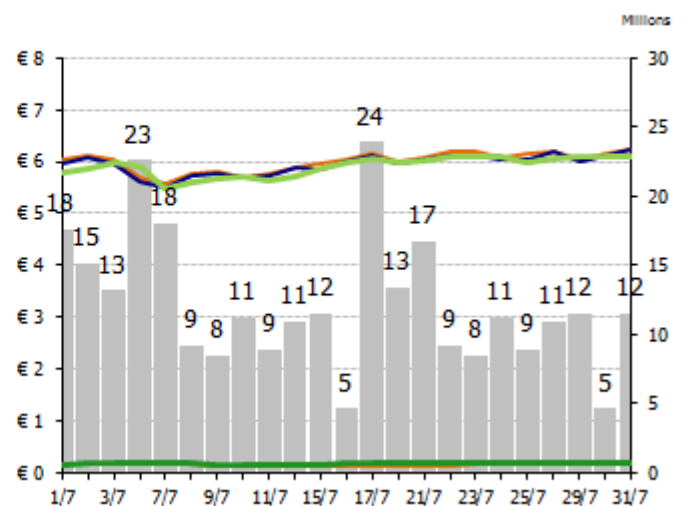


Monthly: In July **EUA closed 7.2% higher at 6.23 €** driven by fears about Russian gas supply, ongoing backloading and increasing probability of surplus elimination by regulatory measures. **CER gained 18.8%, closing at 0.19 €** on July 31th.

Market development in last 12 Months



Market development in last month



	SPOT						FUTURE						
	Jun close	Jul close	closing %	max	min	volatility %	Jun close	Jul close	closing %	max	min	volatility %	
EUA	5.81	6.23	7.2%	6.23	5.52	13%	EUA	5.86	6.23	6.3%	6.23	5.58	12%
CER	0.16	0.19	18.8%	0.20	0.15	33%	CER	0.16	0.17	6.3%	0.17	0.14	21%

Měsíční objem na aukcích byl 35.6 milionů tun. Monthly volume at the auctions was 35.6 million tons.

Commentary:

By the end of July, EUAs reached their highest price levels since March. In our view, following reasons were behind:

1. Threat of Russian retaliation for latest round of sanctions by West. If Russians were really to cut the gas supply, Europe would have to find alternative to gas's contribution in its electricity mix (19%): probably in "dirtier" coal.
2. Another month of reduced auction volumes due to "backloading". According to some commentators, utilities stocked

up themselves, expecting tighter supplies of permits and expecting lower auction volumes ahead.

Prices of EUAs were also propped by discussions about Market Stability Reserve (MSR) and the EU emission reduction targets for 2030. While the idea of MSR generally received support from EU member states, there are many details to be tuned yet. e.g. 1. Will backloaded allowances be put directly to MSR? 2. What will be the thresholds for MSR to switch on? 3. When will it be started? Further steps of MSR are leading into European Parliament, which will start to scrutinize it in autumn, according to assembly's environment committee chairman Giovanni La Via.

Another part of the mission to cut the surplus is the 40% GHG reduction target for 2030, accelerating current pace of cap decline. The target is being discussed by EU Council with final decision expected to be made in October, after which the commission may be able to start drafting legislation on how to achieve the targets. That usually takes another year or two.

According to the median of 11 estimates compiled by Bloomberg, carbon allowances will climb additional 28% to € 7.50 a ton by December 2014 after jumping 18 percent in the first six months of the year. However, our view is more bearish: given huge volatility of EUA and the regulatory risks that we are consistently reporting on, our model puts the target price below € 5.00.

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