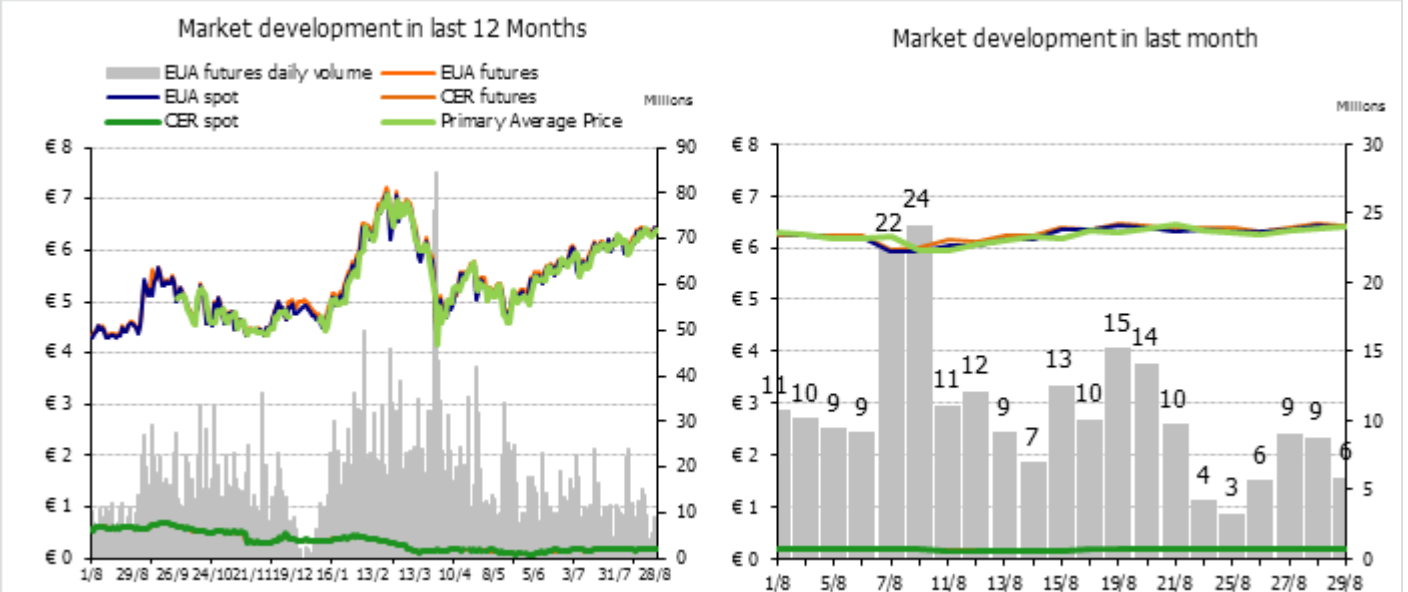


Monthly: In the end of August **EUA closed 2.4% higher at € 6.38** pulled up by lower supply. **CER gained 5.3%, closing at € 0.20** on August 29th.



SPOT							FUTURE						
	Jul close	Aug close	closing %	max	min	volatility %		Jul close	Aug close	closing %	max	min	volatility %
EUA	6.23	6.38	2.4%	6.43	5.93	8%	EUA	6.23	6.42	3.0%	6.46	5.96	8%
CER	0.19	0.20	5.3%	0.20	0.16	25%	CER	0.17	0.16	-5.9%	0.17	0.16	6%

Měsíční objem na aukcích byl 17 milionů tun. Monthly volume at the auctions was 17 million tons.

Commentary: Auction volumes reached record lows of the 17 million tons in August (just 22% of pre-back-loading January amount of 76 million tons). That was caused by: 1. Allowances backloaded from the auctions at a rate of some 35 million tons monthly, and 2. Governments auctioned some 24 million tons less than they normally do auctioned. As reported earlier, backloading does not reduce the overall tons to be auctioned during entire phase 3, but only shifts the volumes towards the end of the period: In 2014 the auction volume will be reduced by 400 million allowances, in 2015 by 300 million, and in 2016 by 200 million, and increased later by the cumulative amount of these allowances in 2019-2020. There is also consideration proposed by Germany that the backloaded allowances will go to Market Reserve (and therefore not into auctions, which would cause mild appreciation).

Another much less important part of the bullish story is that EU Commission earlier this month proposed 30%

target in energy efficiency by 2030 against business-as-usual alternative (not to be confused with the 30% and 40% EU emission targets discussed earlier this year). This goal is generally perceived as very timid, resulting in mere status quo. In our model, 30% primary energy cut (2030) is reached by simple extrapolation of current trend of energy efficiency improvement and assumption of 2% GDP growth rate. Moreover, Commission again stayed silent on whether the target will be binding (current 20% by 2020 targets are not), which is also positive for the value of EUA.

In August, due to Ukrainian crisis, gas price (European Natural Gas Futures EGIX) surged 19.9% to € 22.5/MWh, while coal (CIF ARA futures) stayed essentially flat. Switching costs between the two thus increased also supporting EUA slightly.

However, these bullish pressures might not last as the low holiday volumes will increase to their backloading monthly normal of approximately 35 million tons. In addition there remain fundamental questions unanswered such as: when will the MSR start or more importantly will the MSR be there at all? Our model indicates that market is taking MSR for granted, not a very safe assumption in our opinion.

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