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EU Carbon-Reserve Risk Makes Market Unattractive: Pravda Capital

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By Mathew Carr

July 21 (Bloomberg) -- Risk EU fails to install proposed supply reserve in carbon mkt to deal w/ glut of permits makes program unattractive for investors at current prices, according to Pravda Capital Trading.

- EU carbon-permit prices will probably drop below EU5/mt this yr based on historical volatility and because bloc may struggle to install proposed reserve designed to mop up oversupply of more than 2.1b mt, which exceeds yearly allocation: Jan Pravda, director of Pravda Capital Trading in Prague
- “We value it below EU5/mt. The risk remains excessive because the reserve is uncertain. If the market reserve is not approved, carbon falls near zero”: Pravda by phone, e-mail on July 18
- NOTE: EU is considering reserve proposed in Jan. by European Commission for 2021 start to remove portion of auctioned allowances each year to erode glut
- Mkt already priced in reserve after 2020 as if approved; permit prices unlikely to climb further, have “substantial” risk of falling due to potential for derailment of reserve during debate: Pravda
- Dec. permits trade at EU6.06/mt at 12:47pm on ICE Futures Europe in London; jumped 45% in past yr
- Approval of reserve would boost prices after 2025: Pravda
- Measure known as backloading to temporarily remove supply starting in March is insufficient to provide “reliable investor signal”
- EU permits dropped as low as EU2.46/mt in April 2013, lowest in 5 yrs: ICE
- NOTE: EU Carbon Permits Will Fall Near Zero on Indecision, Pravda Says

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