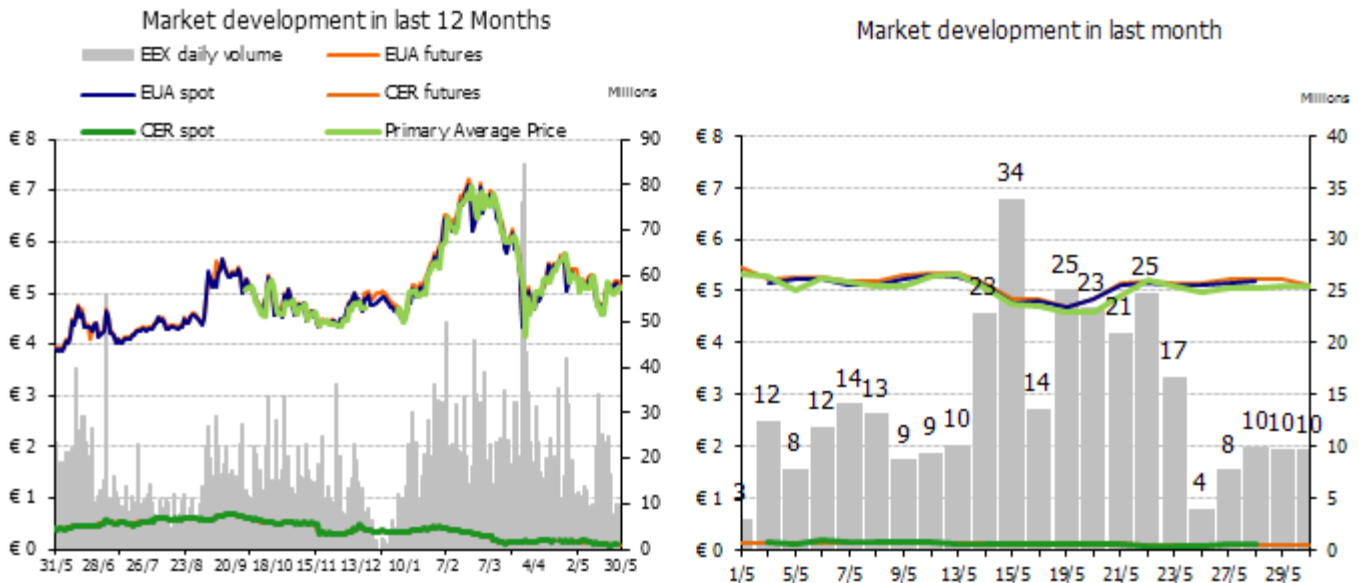


Monthly: In May EUA lost 5.7%, closing at € 5.09. The market went through a slump in the middle of the month reflecting European Commission data on emissions and subsequently rebounded on the hopes of accelerated Market Stability Reserve. CER went down by 35.7%, closing at € 0.09 on May 30th.



	SPOT						FUTURE						
	Apr close	May close	closing %	max	min	volatility %		Apr close	May close	closing %	max	min	volatility %
EUA	5.40	5.09	-5.7%	5.30	4.70	13%	EUA	5.46	5.10	-6.6%	5.46	4.70	16%
CER	0.14	0.09	-35.7%	0.18	0.08	125%	CER	0.15	0.08	-46.7%	0.15	0.08	88%

Měsíční objem na aukcích byl 32.5 milionů tun. Monthly volume at the auctions was 32.5 million tons.

Commentary: Relatively flat carbon prices in May were disrupted by a few announcements by EU bodies raising discussions about common carbon policy.

First, on 14th May European Commission reported improved estimates of CO₂ emissions in EU for 2013. Previously projected 2.8% emissions decrease on a like-for-like basis (that we reported on in our last monthly monitor) has been updated to 3% decrease with only minor amount of installations remaining to report yet. In the same announcement, Climate Action Commissioner Connie Hedegaard confirmed large cumulative surplus of allowances currently in the market: more than 2.1 billion for the 2013 from almost two billion at the end of 2012.

The market reacted upon these news in terms of 8.9 % price tumble week-on-week, largest weekly drop since March, touching low of € 4.65.

However, on May 20th the Commission catapulted the price of allowances back above € 5 when it commented it was open to bring forward proposed 2021 start date of Market Stability Reserve (MSR). This idea has been around for some time, backed mainly by Germany in order to restore the functionality of EU emissions system,

which is currently suffering under permits oversupply and not really incentivizing companies for build-up of cleaner facilities.

We consider the MSR implementation and its timing a critical issue of not only this month but maybe of entire decade, being the key to the carbon prices. If the MSR acceleration scenario materialized, market would shoot up in tens of percentage points (we are working on our own forecast).

The idea of implementing MSR earlier is supported also by Great Britain, Denmark or Sweden, but requires approval by both European parliament and the Commission. The chances of being so are unclear yet with resistance to MSR from some new member countries (Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia), questionable attitude of newly elected Parliament on environmental issues (far-right anti-EU surge on behalf of established parties) and new Commission to be formed.

Regarding the uncertainty of earlier MSR adoption, we meanwhile confirm our previous long-term view on the market.

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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