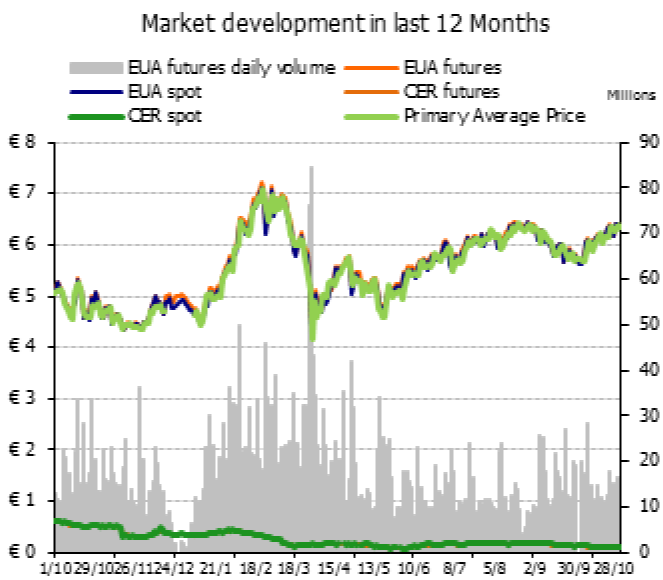
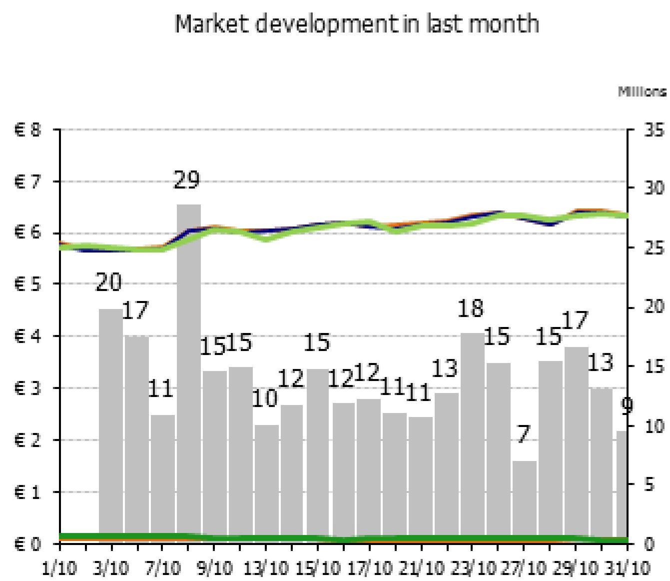
Monthly: In October EUA price bounced back above € 6, closing 8.8% higher at € 6.33 helped by successful EU climate change policy agreement and growing probability of earlier Market Stability Reserve adoption. CER lost 25%, closing at € 0.09 on October 31st.





	SPOT						FUTURE					
	Sep close	Oct close	closing %	max	min	volatility %	Sep close	Oct close	closing %	max	min	volatility %
EUA	5.82	6.33	8.8%	6.40	5.64	13%	5.84	6.35	8.7%	6.42	5.68	13%
CER	0.12	0.09	-25.0%	0.14	0.09	56%	0.11	0.10	-9.1%	0.11	0.07	57%

Měsíční objem na aukcích byl 33.7 milionů tun. Monthly volume at the auctions was 33.7 million tons.

Commentary: The news of the month came on October 24th when EU Council reached most-ambitious climate agreement among major nations as it pledged to:

1. Cut the greenhouse gases by at least 40% from 1990 levels by 2030. Emissions covered by the cap-and-trade program should fall by 43 percent; sectors outside of it, such as agriculture, would decrease by 30 percent from 2005 levels (currently, the EU is on track to meet its previous goal of a 20% reduction by 2020).
2. Increase primary energy consumption from renewables to at least 27%. The target will be binding at EU level but will not be translated into objectives for individual member states. This raised questions about how the target would be enforced.
3. To increase energy efficiency by at least 27% by 2030 compared to projections of future energy consumption based on the current criteria. This was set only as an indicative goal (meaning it would not be binding even at the bloc level).

The deal more or less fulfilled market expectations (set to 40% CO_2 reduction, 27% renewables contribution, 30% energy efficiency improvement). We view it as a good compromise securing both sensible future of ETS and national interest of certain countries, mainly from Eastern Europe lead by Poland producing power largely from coal. The direct impact of the deal on carbon price should be neutral though: results of the agreement were already priced in by the market and adopted in our pricing model. Far more important issue affecting EUA price is MSR (Market Stability Reserve), as we noted in our earlier Monthly monitors.

During last round of talks, MSR has slightly increased its chances of being started earlier. Early adoption has received support from “Green Growth Group” of ministers from 14 European nations (former EU-16 mostly) that support ambitious climate policies. Earlier start is thus backed by the most populous and economically strong EU states, even though there might be disagreements in details among them. Enemies of the early adoption are likes from Poland, Czech Republic and other eastern European countries roughly maintaining blocking minority (According to Czech Environment Minister Richard Brabec, MSR starting earlier could lead to “sudden swings” in carbon-permit price).

Recent weakness in global economy has brought down nearly all energy commodities: oil, gas, coal, power. Price decreases have been proportional so far (e.g. gas fell -9%, coal -8.75% since start of August), so we don’t change our theoretical switching price which stays at around € 23/t CO_2.

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