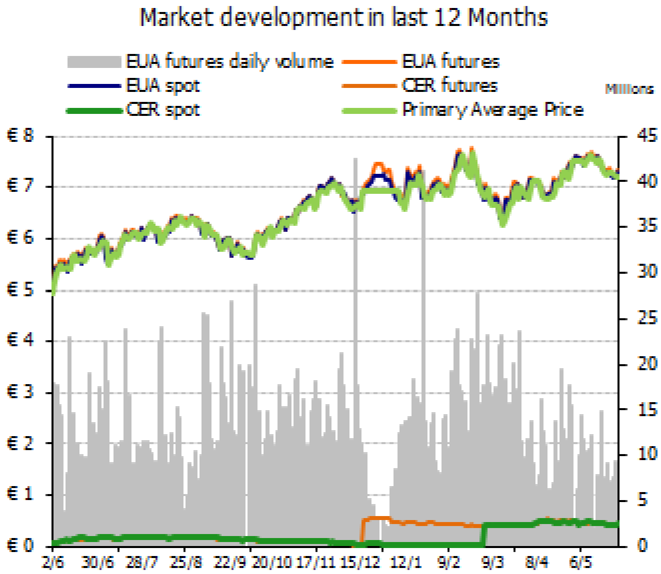
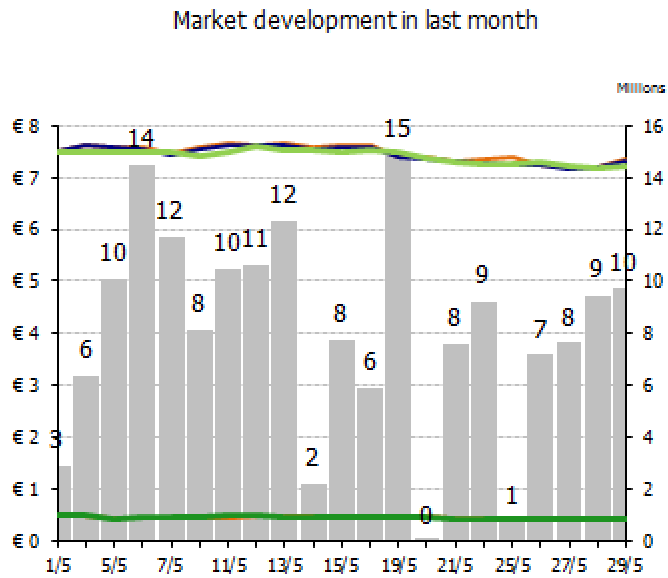
Monthly: In May, crucial EU ETS Market Stability reserve (MSR) reform was passed by European bodies. In spite of the fact EUA lost 1.1% to € 7.31 as the main countries support to the draft was long known and some residual risk remains. CER lost 8.3% and closed at € 0.44 on 29th May.





SPOT							FUTURE						
	Apr close	May close	closing %	max	min	volatility %		Apr close	May close	closing %	max	min	volatility %
EUA	7.39	7.31	-1.1%	7.63	7.18	6%	EUA	7.43	7.36	-0.9%	7.68	7.21	7%
CER	0.48	0.44	-8.3%	0.49	0.42	17%	CER	0.50	0.42	-16.0%	0.50	0.42	19%
Měsíční objem na aukcích byl 41.9 milionů tun. Monthly volume at the auctions was 41.9 million tons.													

Commentary:

After May 2015, the long awaited and debated Market Stability Reserve (MSR) is finally born: the draft survived some key votes in European Council and COREPER and now needs only plenary Parliament vote to become law.

As we informed you in our last issue of Monitor, the rumors about disintegration of blocking minority in Council materialized as Czech Republic left the coalition. Poland-led group of states (together with Bulgaria, Greece, Cyprus, Hungary and Romania) thus didn't succeed getting enough votes to block the draft and was defeated. Additionally, 13th May MSR draft was adopted in COREPER in an "ambitious" form that was agreed previously in tripartite negotiations: early start in 2019 and transfer of backloaded allowances directly into reserve. The last step to be done is EU Parliament vote in early July: and there is little risk here for the draft as main parties expressed their support for the draft.

Given these profound news, there is a good deal of wonder why market prices haven't pushed more strongly upwards. During the month prices hovered above € 7.50 but fell down to € 7 in the end of the month. One possible answer could be that successful MSR adoption had already been priced in – the rather lengthy legislation process lasted more than a year and draft had virtually all the main countries support. Other explanation relates to the unallocated allowances which “will be transferred to the MSR in 2020 and their future usage will be decided on as part of a broader review of the ETS being carried out by the European Commission”, the Latvian presidency said. Some residual political risk for this huge mass (300-900 mil. allowances) in post-2020 period remains (industry lobby for new round of cheap EUAs?).

Finally, the price of EUA was also pressed down by both weaker Euro and cheap German power. New round of Euro depreciation made coal imports for European utilities more expensive. Together with low electricity prices this caused the clean dark spread which we consider a key value driver of EUA to shrink.

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