

## **Expectations for next week**

### **Phase 1 Dec 07 and Spot.**

Phase 1 Dec 07 markets remained static last week, and we expect little change for the week ahead. Our predicted range is EUR 0.06 to EUR 0.12 cents. The Spot carbon market is also now very inactive with the contract slowly losing liquidity and we anticipate a similar range for this contract. Both markets are almost at parity as we move closer though the year to Dec 07 delivery timings.

### **Phase 2 Dec 08**

Our expected trading range for this week is 21.00 to 22.50. See market commentary below.

## **Market Commentary**

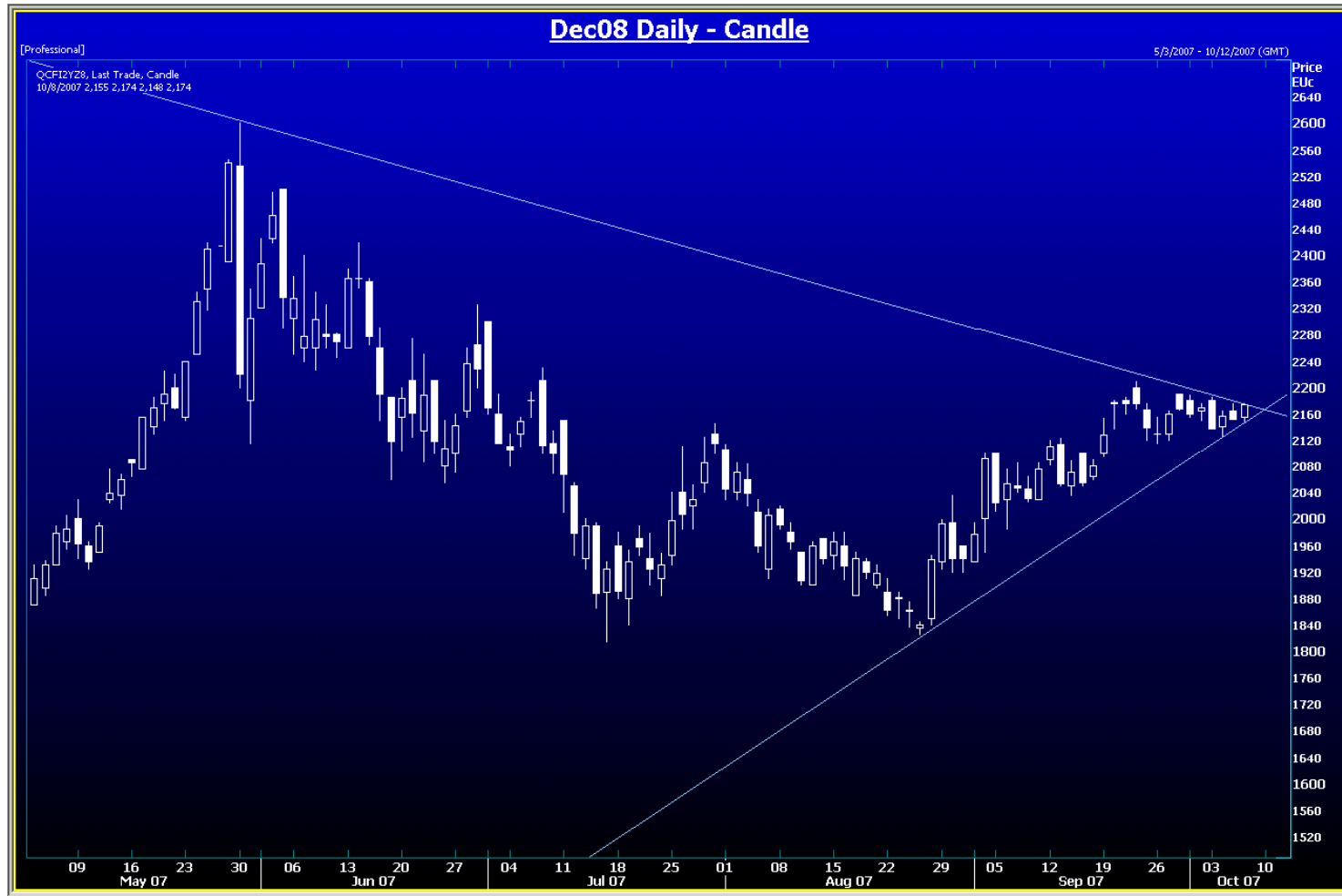
### **Phase 2 Dec 08.**

We have lost some volatility in comparison to periods experienced during the summer months. The contract has stayed in the 21.20- 22.00 Euro per metric tonne for almost the last two weeks. A general firming across the energy complex from oil, coal and power prices have given a steady sentiment even though most fuel to power spreads and the gas to coal differential have not changed drastically over the period. The contract Dec 08, and Phase 2 generally, remains supported from its 'bankability' into a 'Phase 3'. 'Phase 3' is expected to be much tighter in terms of allocation, and this sentiment has been reflected recently as Dec 12 has found favour versus Dec 08 in the spread market for the two products.

The upside however is still prone to difficulties. The market has a slight upward bias from power short utilities, but CER portfolios of institutions are growing and CER / EUA swap levels at 5 Euro premiums brings in sellers and this causes a capping price action on EUA absolute prices. However although our view of the Kyoto product is that it is 'long' for Phase 2, a stronger belief of a post-Kyoto product came out of the recent meeting of major emitters held in Washington at the end of September.

Our view is the swap action will continue with Dec 08 prices continuing in recent ranges. Oil prices remain steady with speculative length high, and stock levels in industrial nations not particularly high. Financial curve buying of German power has also been evident. Even if 'energy' declines slightly we still forecast a range of 21.00 to 22.50 in the coming week.

Snapshot - EU ETS Dec08 contract:



Source: Reuters

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