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Expectations:

Dec 07 maintains its price range this week. We anticipate a price range of 8 Euro cents to 15 Euro cents.

Phase 2 Dec 08 prices remain in their recent technical parameters of support and resistance. Our range expectation is between strong resistance in the 20.45-20.60 area with support at 18.05-18.15 Euros per metric tonne.

Market commentary:

See chart below:

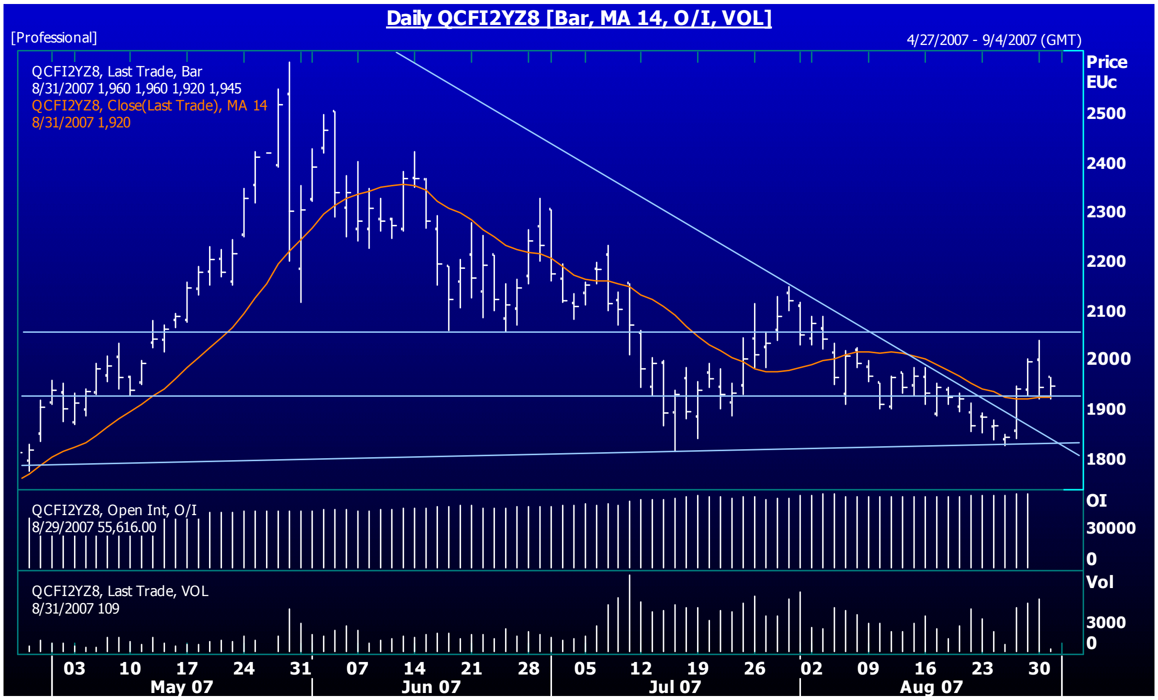
The market for Dec 08 C02 allowances finally broke out of its 'post summer' lethargic action this week. After a re-test of the lower support levels 18.05-18.30 which we discussed in our last report, the market found some support and some utility buying seeped back into the market. Most fuel to power spreads were compressed at that point (power weak versus gas and coal). Another case in point was the gas to coal differential itself was running at 15 Euro per megawatt hour on the curve, this value is at historically low levels for this year. In addition, EUA/CER spreads had fallen below 3 Euro; the combination of these events provided buying opportunities for EUA generally.

Dec 08/09 spread continued to weaken closer to the cost of carry. We value this cost of carry at -0.85 cents contango.

Again, the Kyoto product provides the main news of the week with the UNFCCC finally committing to the ITL link fully functioning with carbon registries in November. The global 'CER pipeline' will be connected on the 17th/18th November. Another piece of market structure will be completed and confirmation that our market is 'global'. Media attention we believe will start to shift in the coming months to post 2012 and a 'son of Kyoto' at the COP meeting in Bali in December. The focus will be on the longer-term outlook for carbon and the global market regime.

Snapshot - EU ETS Dec08 contract:

Six week down trend broken this week at 18.75 for Dec 08, giving us a breakout and support at 19.20. Volume and open interest increasing a positive sign. We are cautiously positive. Market has work to do to close above 20.60. Closes above this level would see more sustained moves higher we believe and out of the lower range trading seen through August.



Source: Reuters