

Market Commentary

Last Tuesday the Dec08 contract briefly looked to be in freefall, as the price fell swiftly throughout the day to reach a low of EUR 18.15, the lowest value since April this year. However, a mixture of compliance buyers and financial speculators stepped in to support the price, and by the close of play the settlement price was EUR 18.91.

Since then the contract has tested the downside on a couple of occasions, but has continually seen buyers around the EUR 18.50 mark. A move up on Friday afternoon, when the contract rose to test range resistance around EUR 20.00, was attributed to profit-taking, after a week of softer prices.

So far this week we have seen a similar pattern to the last, with early high prints being knocked aside by a swathe of selling from financials. The contract is edging below EUR 19.00 at the time of writing.

The reasons for the downwards pressure are similar to those mentioned in last week's report. Certified Emission Reduction (CER) hedging continues apace, and any strength is keenly sold into by the financial players. Also, compliance buyers, though present in the market, are notably quieter than they were a couple of months ago, seemingly happy to pick up what they need in early morning trading, and then stepping aside to leave the sellers as the dominant force. CER issuance by the Clean Development Mechanism (CDM) Executive Board was just under 0.6 million tonnes over the past week, and this is up on the previous two weeks. Continual hedging has closed the EUA / CER spread from just over EUR 5.00 last week to the current value of around EUR 4.00, and we expect this to continue to narrow.

Fundamental markets have also added to a bearish sentiment, with the price of API #2 Cal08 Coal once again reaching new record highs, making gas a more attractive fuel for generation. Conversely, gas prices are a little softer than they were a week ago, with the NBP Winter 08 contract currently valued around 45.5 pence. German power Cal08 has largely followed the fluctuations in the carbon market.

Crude oil prices remain very strong, and are holding comfortably above the \$76 mark, however the correlation between Brent and carbon has broken down, as CER hedging is currently the driving force.

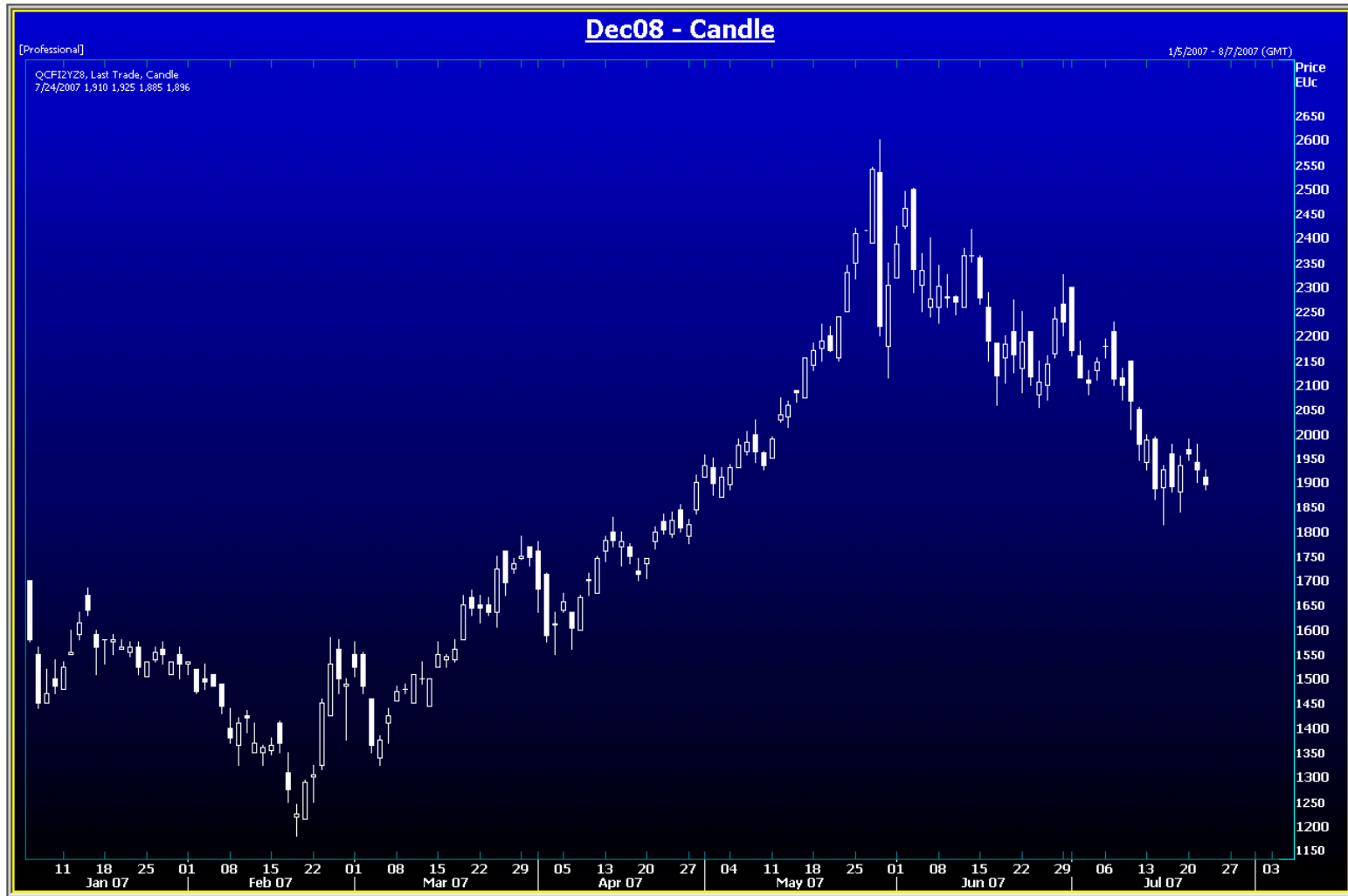
There has been some renewed interest in the Dec07 contract over the past week, with a number of large clips going through the Over-the-Counter market. But volume has not given rise to volatility, and the price has been holding between EUR 0.12 and EUR 0.13, apart from a few lots traded as low as EUR 0.10.

Expectations for this week

With carbon walking its own path, and paying less attention to related commodity markets, calling the range is tricky at present. There is strong range resistance between EUR 19.70 to EUR 19.80, and we think this is likely to hold. On the downside we predict a low of EUR 17.90.

For Phase I we reiterate our expected range from last week of EUR 0.09 to EUR 0.15.

Snapshot - EU ETS Dec08 contract:



Source: Reuters

This document has been approved under section 21(1) of the FMSA 2000 by Ambrian Commodities Limited ("Ambrian") for communication only to market counterparties and intermediate customers as those terms are defined by the rules of the Financial Services Authority. Its contents are not directed as private customers as Ambrian does not provide investment advisory services to private customers.

Ambrian regards this document as non-objective research material. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Neither Ambrian nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where Ambrian is permitted to distribute its research. In particular, it is not intended for distribution in and is not directed as persons in the United States.

On the date of this document, Ambrian, Ambrian's holding company, persons connected with it and their respective directors may have a long or short position in any of the investments mentioned in this document.

Ambrian is a member of the London Metal Exchange and is regulated and authorised by the Financial Services Authority. Ambrian is registered in England and Wales no. 5616586. Its registered office is 8 Angel Court, London EC2R 7HP. Ambrian is a wholly owned subsidiary of Golden Prospect plc.

