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Weekly figures

800 (MT)

EUAs from the New Entrant Reserve (NER) that might be set aside by the European Commision in order to support carbon prices.

20 MT/Month

EUAs from the NER that are to be sold by the European Investment Bank in the coming 10 months, making a potential total of €200 M per month.

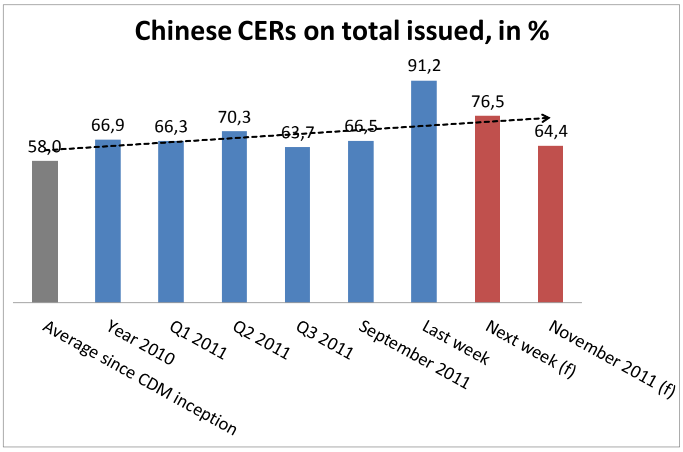
750 (MT)

Issued CERs thus far.

58%

Of the total volume of CERs issued so far went to Chinese projects.

Primary Market: China is still in the CDM game

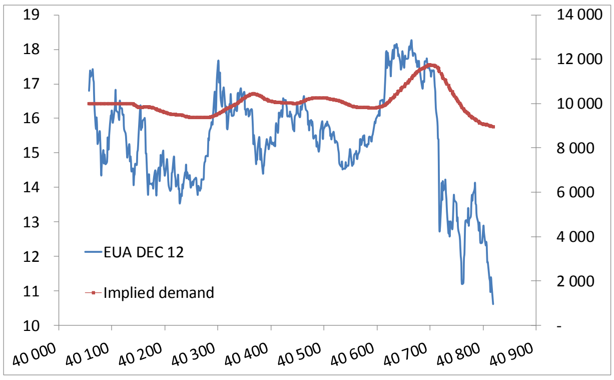


Last week's issuances dramatically outlined Chinese weight in the CDM. In 11 of the 21 issuing projects, Chinese projects received 4.6 millions credits (out of 5.05 million). These figures are in line with a more general trend, namely the Chinese rush to registration and issuance before the end of 2012. The Chinese domination in CDM has been acknowledged for a long time, with 58% of the total volume of credits issued since the inception of CDM going to Chinese projects (mostly to industrial gases HFC23 and N_2O projects). As we can see on the graph to the left, this trend accelerated in the last few months and is not expected to stop before the end of 2012.

This acceleration of Chinese project issuance is explained by the recent shifting in the EU ETS, prohibiting credits from HFC23 and adipic N_2O projects in phase III. Furthermore, the European Commission underlined the fact that during this new phase of the European trading scheme, only credits from projects coming from Least Developed Countries and countries that signed a bilateral agreement with the European Union will be accepted. This may jeopardize the future of CDM projects in China, as such an agreement is unlikely between the EU and China. And yet, China may bypass this dead end. China is currently engaged in individual diplomatic negotiation with EU members, a legal way to sign bilateral deals and thus to secure CDM investment from European Member States.

Secondary Market: The market searches for its support level

It is well accepted that the actual EUA price represents an option on the foreseeable phase III deficit. As this deficit depends of a lot of long term factors, both economic and regulatory uncertainties in the phase III forecast are important. If we model the implied future demand from the actual EUA prices we obtain a range variation in 2011 between March and September. The origin of this variability is nevertheless the overestimated impact of the Fukushima incident on the dismantling of European nuclear mark, followed by the Sovereign credit crisis in August, with the perspective of a double dip recession. The arrival of NER 300 accentuated this effect.



If the market is actually low it is also due to the expectation of extra supply from the NER 300 reserve. So the future selling is already discounted in the EUA price. The only difference will be made by the couple momentum/market price/quantities. Here, the EC has a real option of deploying the selling when the market has some position drift with good support prices and acceptable quantities from the market. If the EC decides to sell when the market is downward with thin liquidity and large NER packages, the market will obviously be affected. One consequence will be an increase in the market volatility and more liquidity in the ATM option side.

Forecast (€)	EUA	CER
1 week	10.75	7.85
2011	12.00	10.00
2012	18.00	16.50
2013	23.00	20.00

In the short term, carbon seems to have found a support level and to have ceased its negative drift as the equity market did. We expect a consolidation around an actual level of 10.70.

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