

Market Analysis

The emission allowance price remained strong last week. The emission allowance price opened the week on a strong upward note north of previous week's peak. On Tuesday, the price reached the year's peak at €29.93/t. On Thursday, news of growing COVID-19 infections brought concerns about the state of the economy and stock markets reacted with a fall. The emission allowance price retreated in the same sentiment but volumes were low. On Friday, the emission allowance price fell only to reverse the trend in the final hours to close on Friday at a level of €29.02/t, up €1.11 on the week. During the current week, the emission allowance price rose above last year's peak of €30.34/t and closed the day at the level of €29.25/t.

Weak results were seen at auctions last week and the mean price difference compared with the market price at the time was 17 eurocents and bid coverage was weak. This week saw the Innovation Fund allowances enter the auction to take auction availability to 18.1 million tonnes. Next week, Innovation Fund allowances will enter the market on three days and availability will rise to 18.9 million tonnes.

Market View

There were no changes on the emission trading market at the fundamental level. Demand has been marginal during the current year as production has contracted. The profitability of German coal power plants has been in negative territory for a number of weeks already and the rise in emission allowance prices has further eroded profitability. On the fuel markets, the price of oil has remained moderate as the market awaits the outcome of the OPEC meeting, and news about the growing number of coronavirus incidences in the United States is causing concern about a reduction in demand in the near future.

Analysts have raised their short-term forecast for the price of emission allowances, but there is still a risk of a downward correction. The forecast for later 2020 is €24.70, which is up 19% compared with a similar survey of analysts for the second quarter of the year. The reasons for the downturn were considered to be a new threat of coronavirus and actual demand for emission allowances as well as increased auction availability. The average value in forecasts for 2021 contracted 11.6% to a level of €26.30.

The emission allowance price has been supported by hopes of a post-coronavirus economic recovery, increased investor interest in the market, the EU's long-term climate targets and the unwillingness of industrial companies to sell emission allowances before the fourth emissions trading period. The upward trend may thus continue, even though the fundamental picture is weak and large price movements could continue.

The emission allowance price remains technically very strong and, on Monday during the current week, the price breached last year's peak. Support for the emission allowance price is at €28.33/t, €28/t, €27.75/t and €26.63/t. Resistance levels for the emission allowance price are this week's peak of €30.80/t, the psychological level of €30/t, last year's peak of €30.34/t and the all-time record of €31/t from 2016. We expect emission allowance prices to remain strong, with the reservation of a technical correction and high volatility, and to move between €27 - €30/t.

EUA prices €/t 17.7.2020 10:21

Product	Bid	Ask	Last	Change*
Spot**	28.78	28.80	28.78	1.36 % ↑
Dec-20	28.88	28.90	28.88	1.39 % ↑
Dec-21	29.25	29.28	29.25	1.61 % ↑
Dec-22	29.84	29.86	29.84	2.04 % ↑

*Change compared to the previous report ** EEX spot

sCER prices €/t 17.7.2020 10:21

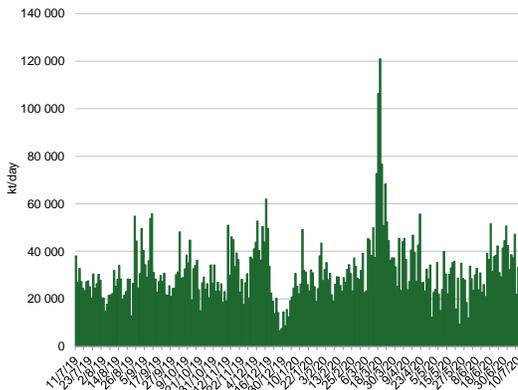
Product	Bid	Ask	Last	Change*
Spot**	0.00	0.00	0.00	0.00 %
Dec-20	0.22	0.27	0.27	3.70 % ↑

Product	Spread	Change*
EUA Dec20-sCER Dec20 Spread*	29.25	1.61 % ↑

*Change compared to the previous report **Last trade price

Daily traded EUA volume, ICE Futures Europe*

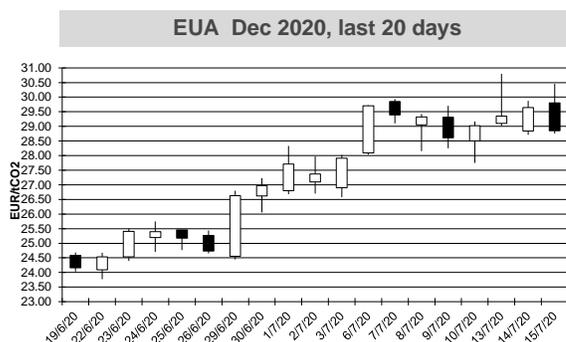
*Daily traded volumes of EUA futures contracts at ICE Futures Europe exchange



Energy prices 17.7.2020 10:21

Product	Unit	Prices*	Change*
ENO Q4-2020	€/MWh	18.20	-14.07 % ↓
ENO 2021	€/MWh	21.15	-9.46 % ↓
ENO 2022	€/MWh	24.95	-4.21 % ↓
ENO 2023	€/MWh	27.43	0.84 % ↓
EEX, Base load Cal-21	€/MWh	43.07	0.21 % ↑
Brent crude	\$/bbl	43.48	0.37 % ↑
Natural gas UK (Q4-20)	p/therm	29.34	-4.73 % ↓
Coal CIF ARA API2 2021	\$/t	60.35	3.31 % ↑

*Change compared to the previous report **Last trade price



Black candles indicate days with closing price below opening price.
White candles indicate days with closing price above opening price.

CDM pipeline	17.7.2020 10:21	
	Amount	Change
Number of projects**	8374	-6
Registered projects*	7808	0
Volume of the pipeline by the year 2020, MtCO2e**	515	0
Issued CERs, MtCO2e*	2000	15

*Change compared to the previous report.

**Pipeline: UNEP/Risoe is updated monthly. Registered projects and issued CERs: UNFCCC

On Agenda: Europe

Last week, the ENVI Committee of the European Parliament voted to include emissions from the maritime sector in the EU Emissions Trading System to an accelerated schedule. The proposal also commits shipping companies to reduce their emissions 40% compared to 2018 levels by 2030. Including shipping in ETS can be accelerated by changing the MRV Regulation rather than waiting for a full review of the EU ETS Directive in mid-2021. The MRV Regulation concerns monitoring, reporting and verification. The bill still needs to be passed in the EU Parliament and in the Council of the EU. Experts' opinions differ as to how including shipping in the EU ETS would affect the emission allowance price. It could have a downward impact if there were a large allocation or it could rise through market sentiment. ¹

UK decision-makers have presented legislation concerning a UK emissions trading system post Brexit. The bill will be debated in Parliament later this year. The UK will leave the European Union and the EU ETS at the end of the year. The proposed UK ETS would cover the same industrial sectors, electricity producers as well as domestic and intra-European flights. It is estimated that around 1,000 actors will be obliged to operate under emissions trading together with about 100 airlines. The UK's intention in the UK ETS is a lower emissions ceiling than in the EU ETS and to set an emission allowance floor price equating to around €16.55. The plan is to lower the emissions ceiling more than in the EU, 2.72%, each year. The plan is for the scheme to start operating in January 2021. ²

On Agenda: Global

China's national emissions trading scheme could generate a surplus of more than 600 Mt each year. The IEA's analysis of the two draft allocations concludes that both approaches would produce a surplus. At worst, the surplus would rise to 600 Mt CO₂, which would correspond to 13% of reported emissions. This would harm the effectiveness of emissions trading. The problem is how China would treat those installations that do not monitor carbon dioxide when burning coal. Such installations may account for as many as half the installations in some provinces. The actual amount of emissions is smaller than the proposed amount of emission allowances would be. This would mean that when actors begin to monitor the emissions they create, there would be a market surplus. The IEA calls on the installations to measure the amount of carbon dioxide in fuel. Recent years have seen climate change policy wane in China's priorities amid the US trade war, economic challenges, unrest in Hong Kong and the COVID-19 pandemic. Use of fossil fuels has again been on the rise in China. ³

Upcoming events	
Date	Event
Q3-20	Completion of an impact assessment on increasing the greenhouse gas reduction ambition from 50% to 55% for 2030

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Sources:

- [1 Carbon pulse news](#)
- [2 Carbon pulse news](#)
- [3 IEA report](#)

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