Carbon 2018 – A new story?

Stockholm, November 6 2018

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Naturvårdsverket EU ETS seminar

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Agenda

- Why the EU carbon price rally in 2018?
- What is the upcoming EU ETS supply crunch – *Market Stability Reserve*?
- How will carbon prices go from here?

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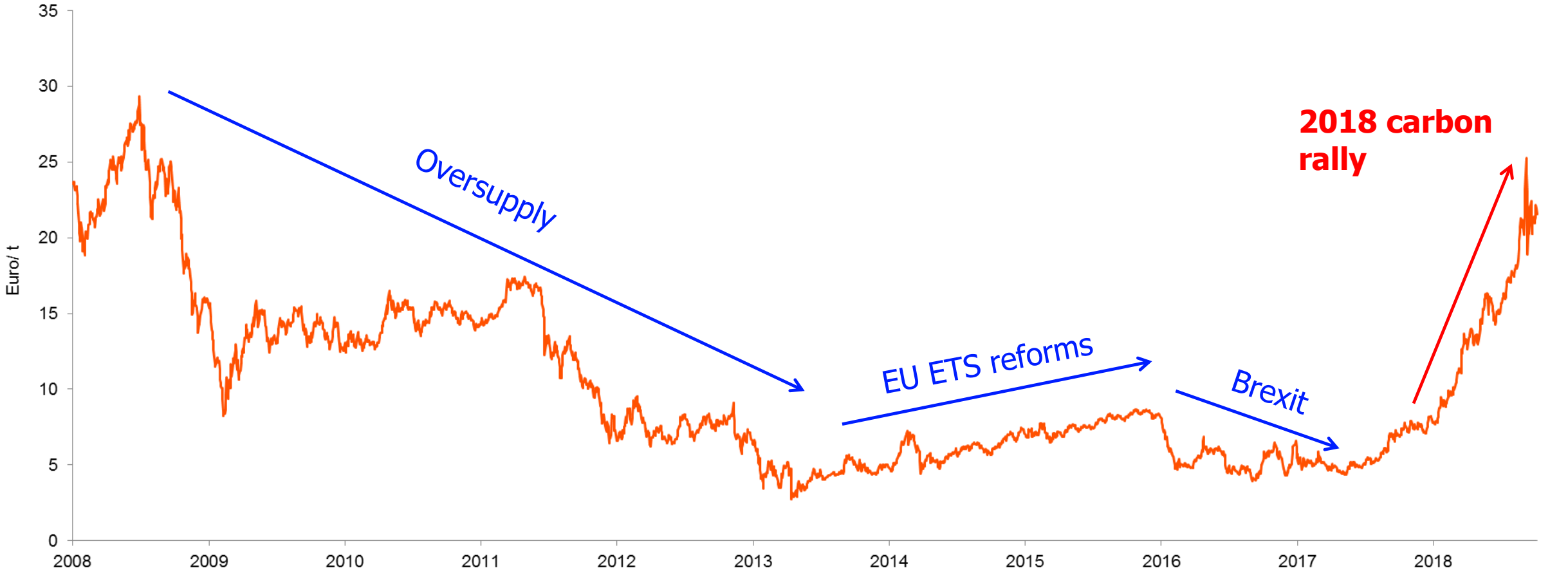
Carbon price development since 2008

The price of emission allowances (EUAs) has tripled in 2018 after years of oversupply



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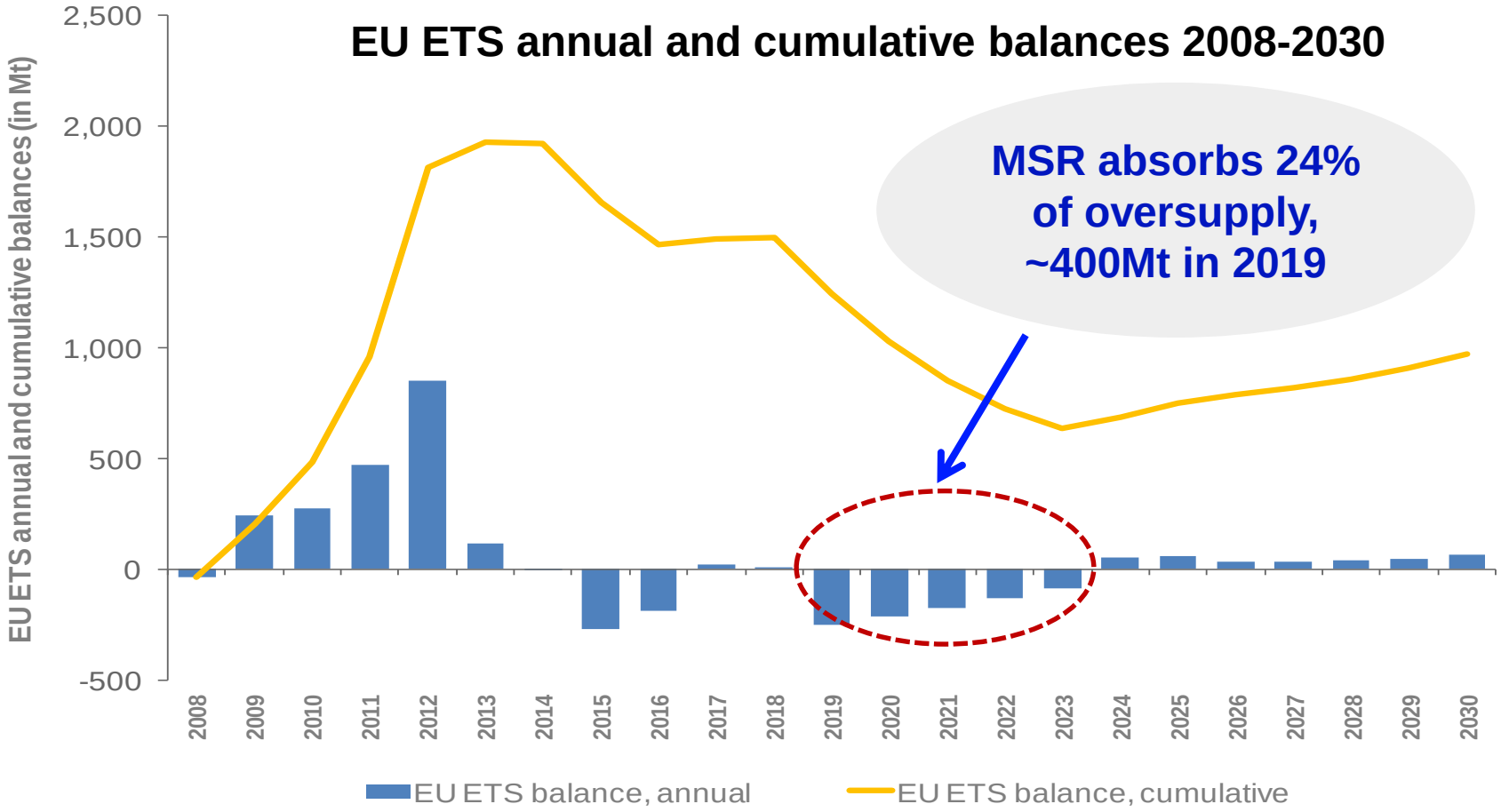
Anticipation of the Market Stability Reserve (MSR) is the main driver

Oversupply is reduced significantly from 2019 and market turns annually short

- Balances = Supply – Emissions
- Cumulative surplus of 2 Gt by 2012



Big appetite for emission allowances: new behaviors in 2018

Market participants' strategic behavior decides prices

- Power plants need to purchase almost all the allowances
- Active in forward hedging
- Emissions to decline
  - Rapid growth in renewables
  - Coal phase-out
  - 60% renewables share in power generation by 2030

2018: aggressive front running of carbon hedging, e.g RWE

- Industrials get large amount of free allocation pre-2012
- Focus on compliance needs
- Expensive to abate emissions, need at least a carbon price of €25/t

2018: more aware of carbon risk management and more proactive carbon hedging

- Speculative actitivies

2018: increasingly active in carbon trading

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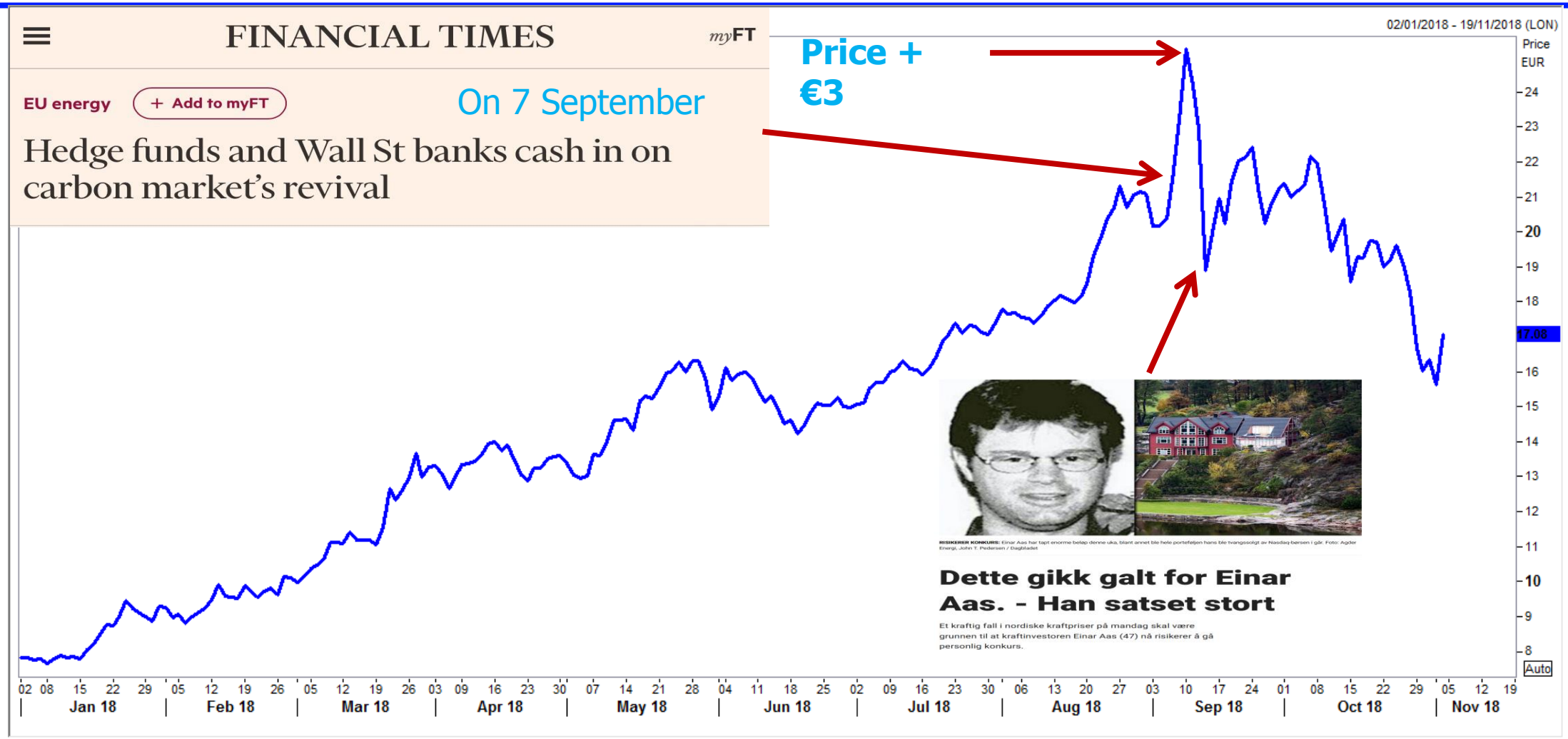
Financials re-entering into the carbon market: causing high volatility in prices

FINANCIAL TIMES myFT

EU energy + Add to myFT

On 7 September

Hedge funds and Wall St banks cash in on carbon market's revival



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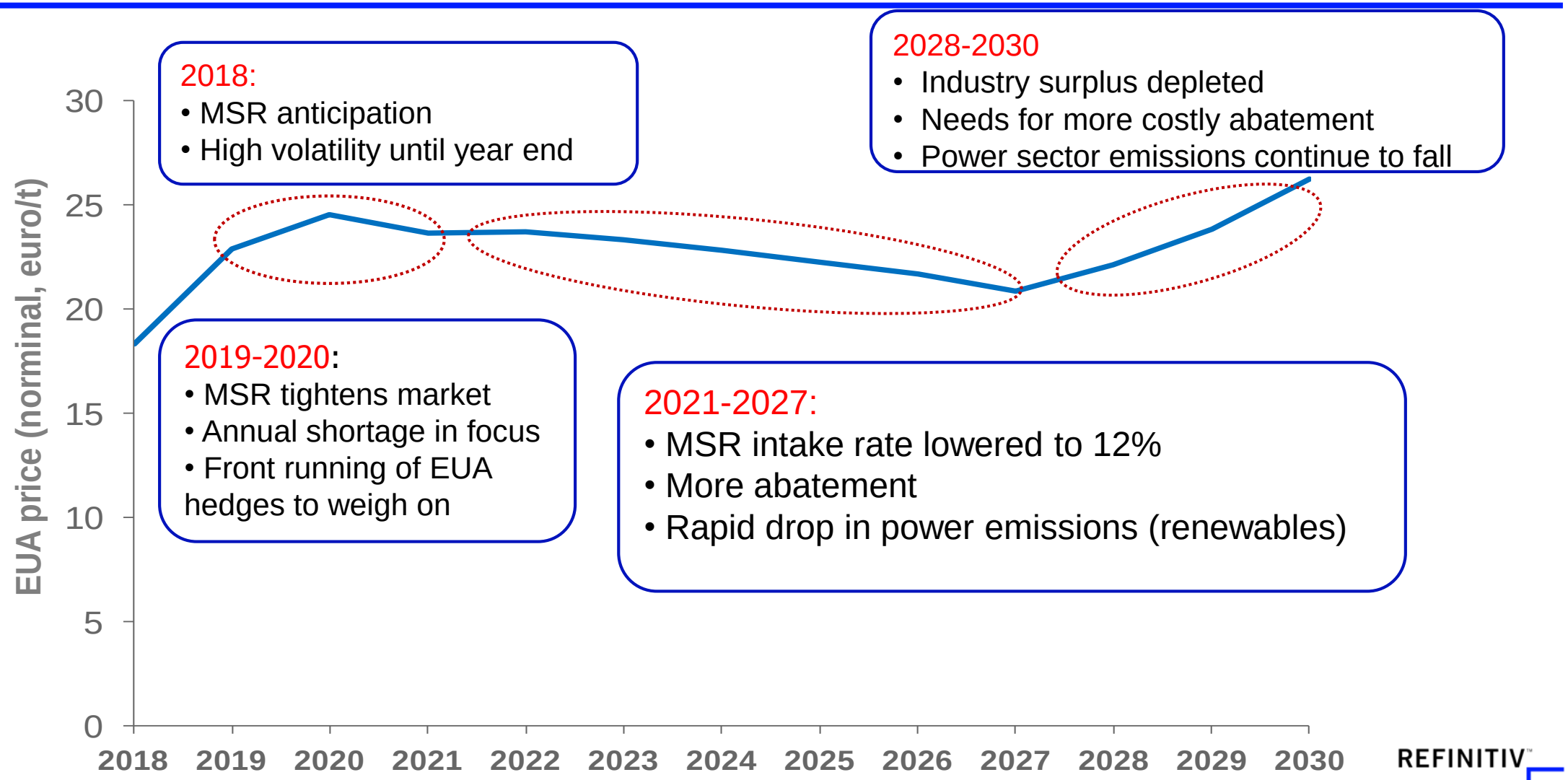
EU ETS price forecast to 2030: average €23/t between 2019-2030



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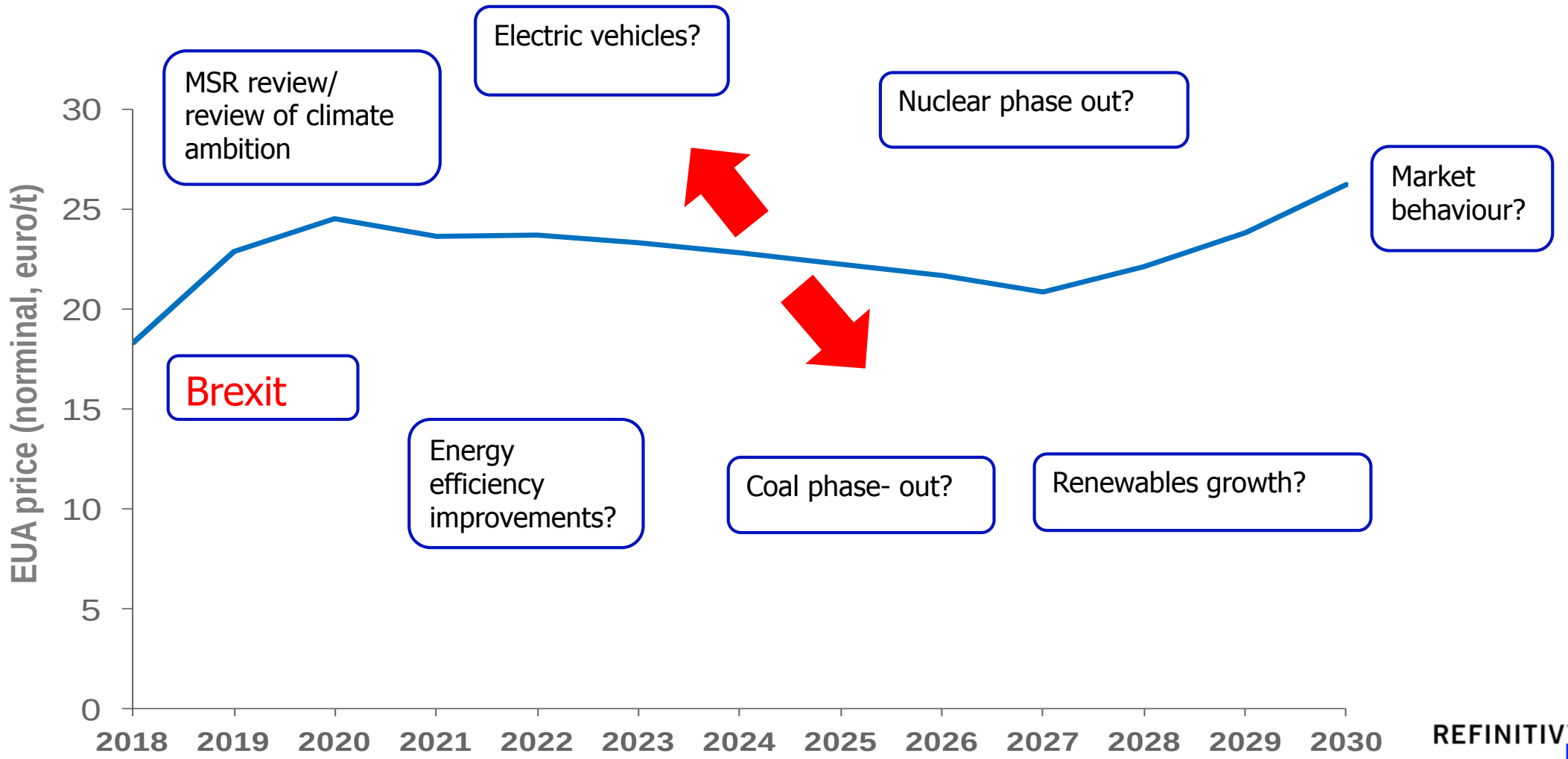
What if?



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Summary

- 2018 Carbon price rise due to market anticipating the start of the MSR.
- Abatement costs become relevant for carbon price again.
- Market participants strategic behavior are key factors determining market prices.
- Calmer waters onwards? €23/t is average price forecast for 2019-2030.
- Decarbonization of the power sector – coal phase-out & renewables phase-in?
- For the EU ETS, review is the only constant.

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Thank you!

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