

CARBON MARKETS

WEEKLY REPORT

20 January 2012



Connecting you to global markets

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NZUs – Catching up on the holiday period and looking forward.

COMMENTARY

Unit	NZU Spot	NZU Vin 2011	NZU Vin 2012	CER Dec 11 NZ\$	CER Mar 12 NZ\$	CER Dec 12 NZ\$
Cost per tonne	7.00	7.13	7.55	6.28	5.85	7.85
Cost of carry	0.15	0.08	0.08	0.16	0.06	0.17
Effective cost per tonne	7.19	7.24	7.67	6.38	5.86	6.51
Savings per tonne in RED	17.81	17.76	17.33	18.56	19.09	16.98
Assumed Delivery Date	Today	28 March 2012	28 March 2013	23 December 2011	28 March 2012	21 December 2012

Please see www.comtrade.co.nz for live carbon prices

NZUs Catching up on the holiday period and looking forward.

Looking back at the month been New Zealand carbon has certainly been for a ride. From Industrial Gas CERs being banned from the NZ ETS, European markets taking NZUs on a daily walk on a negative slope to foresters entering the market to purchase back units previously sold.

To data the impact from excluding CERs created from Industrial Gas destruction projects has had a limited effect to the NZU price however it has created a new product - Greened CERs. Greened CERs are parcels that exclude all industrial gas CERs. They also exclude CERs that have been generated from Large Electro Hydro projects which have been banned from the EU ETS. There is a slight premium for these CERs however they still trade at a discount to NZUs and the supply is reasonable lending confidence to those who need to approach the market to purchase for compliance. We see Greened CERs being a very important tool to both Emitters and Foresters in the future as they look to purchase supply.

European Carbon markets during the holiday period continued to see relatively high volumes traded on a daily basis. That volume predominantly came from the sell side however effectively walking the NZU price down an ever descending stair case and pushing NZU prices to historical lows. The lowset quoted price was in the region of \$6.50...

An interesting development in the New Zealand market has been the pickup of interest from the forestry sector to purchase back units that were previously sold at higher levels. As I see it foresters who got in early last year and sold their units are in a very advantageous position right now. They can enter the market, purchase back the units they sold at these low levels effectively locking in a 'carbon profit', reducing their future liabilities to zero, and create the option to sell again in the future when the price recovers. Of course this amplifies the NZU supply problem going forward – If the foresters are buying who is supplying the market? As mentioned earlier Greened CERs should be the units to fill this gap.

Looking forward the NZU market will continue to face supply problems meaning the spread between NZUs and Greened CERs will possibly continue to widen out as NZU sellers look for a premium. While this will make it difficult for those who demand NZUs to purchase them it also creates opportunities for those who hold NZUs to swap their holdings for Green CERs, bank a profit/or reduced carbon cost, and walk away with no change to their liability or obligations.

To all thank you very much for your support last year, Nigel and I look forward to working with you as we continue to develop and grow this market.

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