EUA outlook: What challenges?
EUA prices: A rocky road

Forecast prices
€/t

Forecast against out-turn
€/t

Brexit makes all price expectations lower...though forecasts assume BAU

Forecasts and out-turn: lots of volatility
The supply side has two waves of LNG in the coming five years

Wave 1: Australia – 2014 to 2018
Mt

Wave 2: US – 2016 to 2020
Mt

100+ Mtpa of Australian projects; 66 Mtpa new or under construction

360+ Mtpa of US projects; 61 Mtpa new or under construction

Source: Company websites, US DOE, Energy Aspects
How does the market balance?
How does the market balance?

1 - Qatari spot pushed out of Asia

Source: Energy Aspects
How does the market balance?

1 - Qatari spot pushed out of Asia
2 - NA pushed out of Asia

Source: Energy Aspects
How does the market balance?

1 - Qatari spot pushed out of Asia
2 - NA pushed out of Asia
3 - NA pushed out of Europe

Source: Energy Aspects
Europe - the residual LNG taker

EU: gas imports versus terminal capacity
Mt

- Plenty of capacity, with around 160 bcm/y of unused regas—maybe 120 bcm is realistic factoring in maintenance.

EU: fuel switching capacity
bcm

- Plenty of latent power sector demand to stimulate...about 90 bcm in total. Actual realisable around 50-70 bcm.

Source: Bloomberg, Energy Aspects
Any evidence coal to gas is happening now?

Gas prices - NBP is already fully in the money

Gas prices - TTF supported at first switching level

Impact of carbon “price floor” tax

While this episode might not last into Q4, it is a warning of what is to come.

Source: Fearnelys, Energy Aspects
Watch the inventory...

**EUA Inventory per year**

(Mt)

0
500
1,000
1,500
2,000
2,500

08 10 12 14 16 18 20

*Aggregate length starts to fall...*

**EUA Inventory – Desired Carbon Inventory**

(Mt)

0
500
1,000
1,500

2015 2018 2021 2024 2027 2030

*Market starts to dip against desired carbon inventory...*
So what questions does this raise?

- Do even lower EUA prices matter?
- Does it matter if emissions reductions are delivered from somewhere else?
- Will the market be better if there is rapid upwards price volatility?

- The goal of the carbon market is a zero price
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