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# EUA market observations related to the MSR

ERCST: Coping with COVID-19 and preparing for the review

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Louis Redshaw, CEO, Redshaw Advisors Ltd

[www.redshawadvisors.com](http://www.redshawadvisors.com)  
[info@redshawadvisors.com](mailto:info@redshawadvisors.com)

# EUA price action and how it relates to the MSR



## Price action explained - 2018

### Price rise in 2018

- No MSR
- 2018 supply vs. demand = marginally long
- Some sellers took advantage of double figure prices, adding to length
- Price nonetheless rose relentlessly from ~€8 to ~€25. Why?
- Speculators, industrials and utilities bought a huge volume of EUAs
- The trade of the year!
- Anything up to 250M EUAs were hoovered up by additional hedging demand and speculative interest.

## Price action explained - 2019

### Price ended 2019 flat at ~€25

- First year of the MSR
- But lots of other supply too
- Supply and demand was more or less balanced
- The MSR was not able to materially impact the EU ETS in 2019

### Doing the (approximate) maths:

MSR:	-400Mt
UK auction suspension:	-100Mt
Poland:	+50Mt
Norway:	+50Mt
Low gas prices / renewables:	+150Mt
Speculator exit:	+200Mt
Lower demand (mild winter):	+50Mt
<b>Total:</b>	<b>0Mt</b>

## Price action explained - 2020

### Price has dropped a few Euros to-date

- Second year of the MSR
- But some addtl supply and reduced demand
- Supply and demand will be more or less balanced
- The effect of the MSR in 2020 may be muted
- Price path most dependent on long-term speculative interest (and gas prices)

### Doing the (approximate) maths:

MSR:	-400Mt
UK auction resumption:	+100Mt
Poland:	+50Mt
Low gas prices / renewables:	+100Mt
COVID-19 demand reduction:	+75-150Mt?
Speculator entry / exit:	?Mt
<b>Total:</b>	<b>0Mt?</b>

## What influence will the MSR have in 2021?

- Third year of the MSR
- No additional supply
- Some reduced demand (renewables and COVID)
- Supply will be below demand
- The direct effect of the MSR will be felt
- A gas price bounce would set the cat amongst the pigeons

### Doing the (approximate) maths:

MSR:	-300Mt
COVID-19 demand reduction :	+75Mt?
Gas prices / renewables:	+/-75Mt?
Speculator exit (if price rises):	+100Mt?
EU Green Deal:	?Mt
<b>Total:</b>	<b>-50/-200Mt?</b>

## Conclusion

The MSR hasn't had a chance to properly stretch its legs yet, 2021 may be its first opportunity

## Carbon Fast Forward Online

**Stay Home.  
Stay Informed.**

How has COVID - 19  
affected the EU ETS?



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