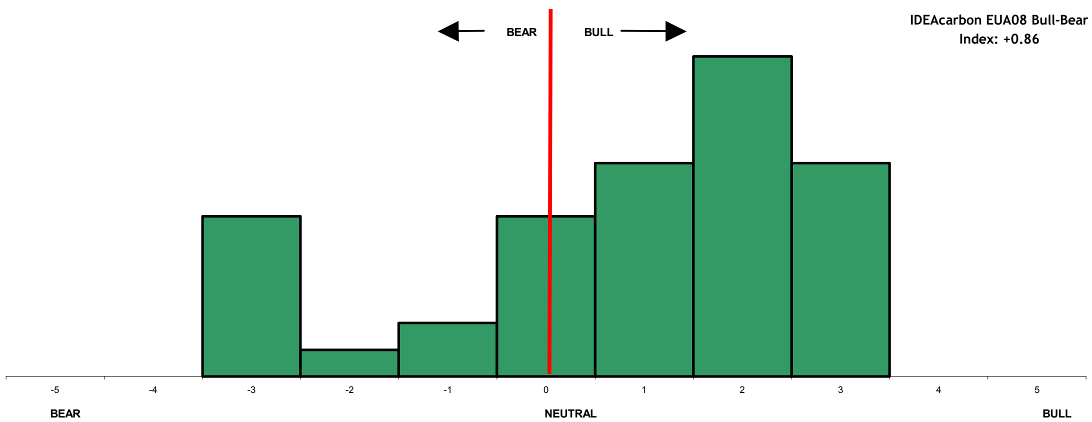
IDEAcarbon November Survey Analysis

The UNFCCC conference at Bali is just a few weeks away. This month's survey focuses on market sentiment in light of the potential developments (or lack thereof) emerging from Bali. Across the price indices and Bali predictions, respondents were bullish this month, which bodes well for the market.

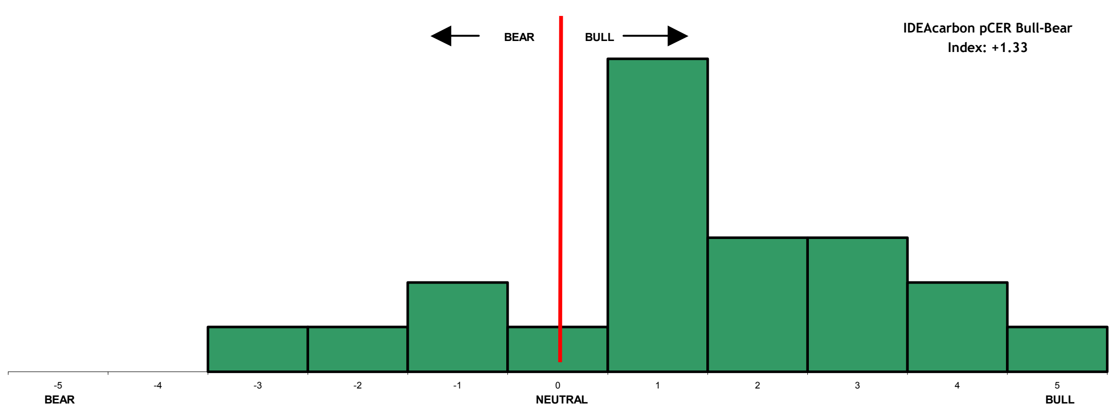
Since their inception in January 2007, the IDEAcarbon Carbon Market Surveys have been accurate predictors of market direction, on average differing +/- 3 percent in pricing and similarly accurate in policy forecasts.

IDEAcarbon's Bull-Bear Index

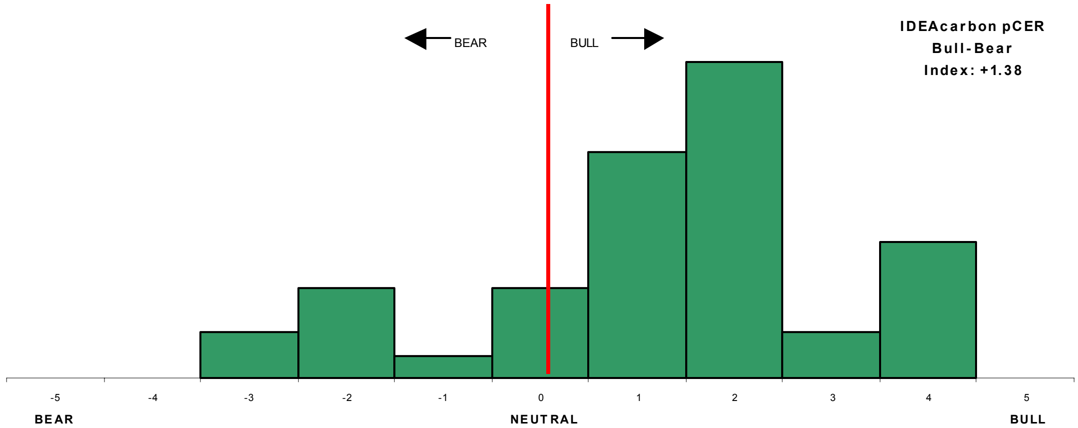
This month's Bull-Bear Index (BBI) indicates weakly bullish sentiment across all three price indices, as respondents averaged +0.86 for December EUA08 contracts, +1.33 for primary CERs, and +1.38 for secondary CERs. The bullishness is evident of several developments over the past month, namely the announcement of tighter Phase II NAPs for Portugal, Czech Republic, Bulgaria and Romania. Tighter Phase II NAPs imply higher demand for EUAs and CERs now.



The overall rise in coal prices last month amidst falling temperatures also affects market sentiment.



The greater bullishness in sCERs than pCERs reflects expectations of a temporary shortage in CERs around 2008/09, but optimism about the strong long term supply of CERs.



The effect of positive policy measures surfacing at the upcoming conference in Bali and the announcement of US market movement through the Lieberman-Warner bill (now tabled for December) as well as New Zealand's nationwide cap-and-trade scheme similarly register bullish sentiment.

Carbon Price Forecasts

The weakly bullish market sentiment manifested itself in bullish price predictions for EUA08s averaging €23.03 in December 2007 and averaging €24.30 in six months' time across responses. This reflects the EUA market's €21-€23 range over the past month. Current EUA prices are around €22, which is €6.00-7.00 higher than six months ago, and €.50-€1.00 higher than a month ago.

The gap between EUAs and sCERs was seen as narrowing, in line with current market movement. As of 09 November, sCERs were priced €17.50, or 80% of EUAs (€21.85). sCERs at the end of the year were forecasted at 77.67% of EUA08s, and 82.5% of EUA08s at the end of June 2008.

The gap between EUAs and CERs is likely to diminish given more favourable market sentiment toward the sCERs, and demand has been boosted by increased confidence in the International Transaction Log, which has been successfully tested in registries last month. This would boost demand for CERs from increased confidence that carbon credits will be imported into the EU ETS when the ITL is up and running.

	EUA DEC07	EUA Jun08	sCER % Dec07	sCER % Jun08
Average	23.03	24.30	77.7	82.5
Max	34.00	35.0	96.0	95.0
Min	11.00	14.0	44.0	66.0

Part II: Bali Schemes

Respondents were asked: "If Bali were an unexpected success providing post-2012 emission targets and clarity about a CDM roadmap, would this provide a strong boost, slight boost, or no boost to Phase II CER and EUA prices?" All respondents expected a boost to Phase II CER prices (68% expected a strong boost, 32% expecting a slight boost). Phase II EUA anticipated impacts were more diverse-the majority of respondents still expected a boost to prices (78%) with only 22% of respondents expecting no boost. This sentiment shows that market participants see a strong link between pre and post-2012 markets and treat the CDM as a continuous market. This should send a signal to the UNFCCC that they have the potential to affect the financial markets. The CDM does depend on what happens in Bali, and is linked to policymakers' actions.

Respondents were also asked conversely: "If on the other hand, the Bali conference sends a strong signal that the CDM will not continue or no global agreement on post-2012 emissions reductions is reached, do you expect strong reductions, slight reductions, or no reduction in Phase II CER and EUA prices?" The majority of respondents (55%) forecasted strong reductions in Phase II CERs, whilst 45% expected slight or no reductions in prices. EUA price predictions differed, indicating a more independent, resilient market. The majority of respondents (77%) forecasted slight or no reductions in EUA prices given negative signals from Bali, whilst 23% predicted strong reductions.

Both sets of predictions bode well for the market, and also indicate the disconnect felt between policymakers and market participants. Carbon has a much firmer footing as a bona fide commodity than in the early months of Phase I, as shown by EU ETS sentiment not contingent on Bali outcomes. Respondents' sentiments indicate that the carbon exchanges will continue in one form or another regardless of what policymakers predicate. Thus, while the CDM is contingent on Bali outcomes, the EU ETS will not be.

'Unexpected Success' Responses	**Phase II CER (€)**	**Phase II EUA (€)**	*'Failure to Agree' Responses*	**Phase II CER (€)**	**Phase II EUA (€)**
Strong Boost	**68%**	**23%**	**Strong Reduction**	**55%**	**23%**
Slight Boost	**32%**	**55%**	**Slight Reduction**	**23%**	**41%**
No boost	**0%**	**23%**	**No reduction**	**23%**	**36%**

Part III: EU NAP Announcements

Bulgaria and Romania just had their NAPs announced, resulting in 37% and 21% cuts in emission plans, respectively. Respondents were asked if these caps were what they expected, and the majority (68%) agreed, with only 5% responding that the NAPs are looser, and 29% responding that the NAPs were tighter than expected. This response indicates the price predictions and Bull-Bear Index already incorporate the NAP announcements, and the market has most likely already adjusted based on the final NAPs.

Respondents were also asked, if the NAP decisions would lead to an increase, decrease, or no change in the overall gap between EU ETS actual emissions and caps. Two-thirds of respondents (67%) reported 'no effect.' 24% forecasted an increase in the gap, 10% a decrease. This indicates that market participants see the allocation in line with the actual emissions of the countries. BAU emissions thus are not expected to change.

'Are these caps what you expected?'	**Response Percent**	*'Effect on EU ETS. emissions/cap gap?'*	**Response Percent**
Tighter	**29%**	**Increase**	**23%**
Expected	**68%**	**Decrease**	**10%**
Looser	**5%**	**No effect**	**67%**

For queries regarding the Carbon Market Survey please contact the author (tzoltani@ideacarbon.com)