

November 20, 2017

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## Key Summary

### A. Trading Report

- CCA prices saw a 10-cent gain throughout the week. The current front (V17 Nov 17) and benchmark (V17 Dec 17), closed the week at USD 15.23 and USD 15.25, respectively.
- OCA front and the benchmark prices now stand at CAD 19.39 and CAD 19.44, respectively.
- OI creation was significant, having an overall positive net change of 3,191,000 contracts
- The traded volumes have decreased from 15,587,000 tons to 7,328,000 tons

### B. Price Expectations

- Front moves back over a declining 4-week MA as momentum remains largely neutral pre-auction
- Secondary market least impacted if current auction clears close to USD15
- Pre-auction positioning could alleviate spot pressure and volatility

### C. CCO Tracker

- Over 103K ROCs awarded to four livestock projects and one Forestry (Avoided Conversion) project
- An ODS project and a Forestry project were the two newest projects to be listed recently
- CCO prices have registered a minor increase last week with CCO 8 prices registering the highest increase
- The backlog of ROCs now stands at over **35 million** after ROCs were awarded to projects last week

### D. Key Dates

- **Nov 28**-Joint Community Meeting for Minimizing Community Health Impacts from Freight and Community Air Protection Program

## Section A. Trading Report

### Spread trades boost CCA prices prior to November auction results

CCA prices saw a 10-cent gain throughout the week. The current front (V17 Nov 17) and benchmark (V17 Dec 17), closed the week at USD 15.23 and USD 15.25, respectively, bouncing back from the drop last week. The 7 cent price rise on Thursday, 11/16 can be attested to two sets of spread trades - one of 500 units between Dec 17 and Dec 18 (V17) with a return of 2.82%, and another of 250 units between Dec 17 and Jun 18 (V18) with a return of 1.51%.

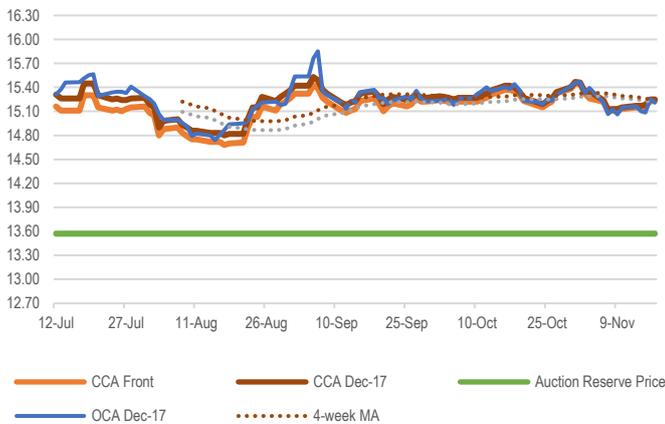
The traded volumes have decreased from 15,587,000 tons to 7,328,000 tons which is a 52.9% decrease in volumes traded. As usual, V2017 was the major contributor with 6,138,000 tons exchanged and accounted for 83.76% of the total trade for the week. The second highest contributor this week is V2018 with 925,000 tons traded making up 12.62% of total weekly volume. Contributions from V2015 and V2016 made up 0.10% while V2019 showed no traded volumes. V2020 showed some movement with 251,000 tons traded which makes up 3.43% of the total and the third highest of the week.

Delivery-wise, trading was mainly concentrated on four months – Dec17 (3,949,000 tons), Jun18 (2,125,000 tons), Dec18 (1,175,000 tons) and Mar18 (75,000 tons) accounting for 53.89%, 29%, 16.03% and 1.02% of the total. Minor volumes were traded for Nov 14 (4,000 tons) and Mar18 (75,000 tons). Open interest creation was significant, having an overall positive net change of 3,191,000 contracts. New contracts were seen on four deliveries– Nov 17 (29,000), Dec 17 (1,087,000), Jun 18 (1,375,000), Dec 18 (700,000). All vintages saw positive net changes. The Ontario carbon market saw no new trades last week and remains consistent with 3,000,000 tons of volume traded for Feb 18 and 780,000 tons for Dec 17. As of Friday (11/16) the OCA front and the benchmark prices now stand at CAD 19.39 and CAD 19.44, respectively.

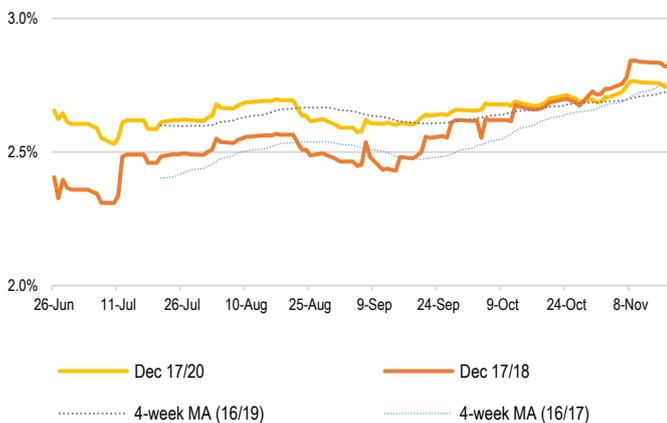
ICE Price Movements		
ICE CCA	Wk Close	Wk Δ
V17 Front	15.23	0.10
V17 Dec 17	15.25	0.10
V15 Dec 17	15.26	0.11
V16 Dec 17	15.26	0.11
V18 Dec 17	15.21	0.10
V19 Dec 17	15.20	0.12
V20 Dec 17	15.17	0.13
V17 Jun 18	15.47	0.10
V17 Dec 18	15.68	0.10
V17 Dec 19	16.10	0.10
V17 Dec 20	16.54	0.10
OCAV17 Dec 17	15.21	0.06
ICE Traded Volumes		
ICE CCA	Delivery	Vol. ('000)
V 17	Dec 17	3,434
	Jun 18	1,875
	Dec 18	750
V 18	Dec 17	250
	Jun 18	250
	Dec 18	425
V 20	Dec 17	251
<b>Total</b>		7,328
4-week average		12,763
CCO Price Movements		
OTC	Wk Close	WkΔ
Golden '16	13.88	0.01
CCO-3 '16	13.04	0.08
CCO-8 '16	12.59	0.21

## Section B. Price Expectations

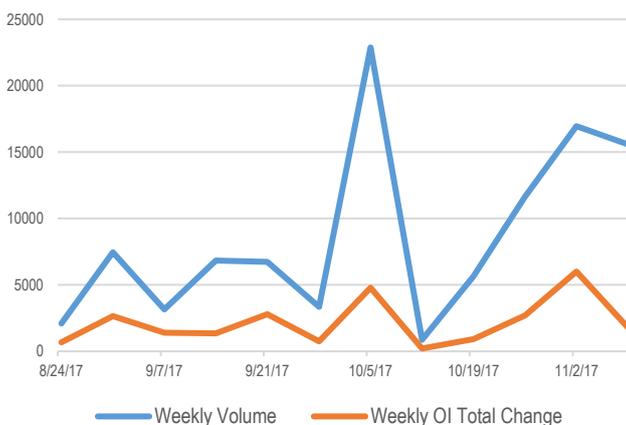
CCA Instrument Prices



Implied Annual Funding Rates (Current)



Weekly Volume and OI creation



CCA prices crossed over its 4-week MA for the fourth time in as many weeks indicating that momentum in the CCA market continues to be largely neutral over the short term. While prices meander around the moving average, the MA itself has been on the decline since the start of November, reflecting the downward pressure the market exerts during the pre-auction weeks.

However, the crux which will orient CCA markets over the coming weeks will be the clearing price of last week's auction due to be disclosed at 12PM PT tomorrow. There is little doubt that the auction will clear the 89 million tons being offered in both auctions, the current and the advance. In CCI, we expect the current auction clearing will be close to the USD15 mark. This is estimated after comparing auction profiles historically and learning that many key indicators such as secondary market prices, volume traded, and open interest are notably more positive for this auction, while an increased supply of allowances and a resistance level at USD15.30 in the pre-auction weeks signals the extent of bullishness that can be expected.

If the current auction does clear at USD15, we can expect the secondary market to move positively but at a slower rate since the auction-secondary market spread is trading at levels that are just under the historical norm. Furthermore, the sec. market being over next year's price floor, has made it profitable for a number of positions to be moved forward to the next year, which decreases the impact that the sudden increase in spot volume may have had, especially during the end of the year.

Considering alternate scenarios, a clearing price significantly below USD15 seems most unlikely given the level the secondary market traded at pre-auction and the price at which the August current auction cleared. However, if this were to happen, prices should at least be supported by next year's floor at USD14.52, while the secondary market adjusts lower as we head into 2018. A more likely scenario is that the current auction clears at USD15.15 or above which would spark an immediate rise in secondary market prices, but in this case as well we expect a maximum clearing of no more than USD15.23. This is based on the historical behavior of the CCA market which has not crossed over 10 cents of the front contract price averaged over the pre-auction quarter, and with the added supply in this auction, it is highly unlikely that the market sees any incentive to turn so rabidly competitive now. A high clearing at this level would force sec. market prices to the mid-\$15s with the small amount of respite that could come from 2018 positions entered before this week.

## Section C. CCO Tracker

Last issuance date: November 9, 2017	Issued CCO total: 85,057,447
Next issuance date: November 22, 2017	Quebec offsets: 563,993
Last ARB issuance total: 141,969	WCI offsets eligible for future compliance: 53,933,393
CCO-0s: 14,509,375	

Last week saw 5 new projects gaining ROCs to the tune of over 103K. Four of the projects were Livestock projects with one forest carbon project.

Origin Climate had 3 projects which were awarded ROCs - **Statz B Farm Anaerobic Digester (ACR323)**, **Cow Poo Digester (ACR353)** and **State Bros Home Farm Anaerobic Digester (ACR322)** which were awarded a combined **38,716** credits. **Big Sky Dairy (ACR190)** by **Camco Offsets** was issued over **22K** ROCs.

A single Avoided Conversion Forestry project was awarded ROCs last week. **Middleton Avoided Conversion (CAR1109)** of Green Assets accrued over **42K** ROCs with close to **5K** credits buffered by the registry.

CCO 3 and Golden CCO prices registered a minor increase on Tuesday while CCO 8 prices saw a major increase on Monday and subsequent increases on Wednesday and Thursday.

The backlog of ROCs awaiting ARB's approval breached the **35million** threshold again due to the recent ROC issuances. It will take major projects to be approved by ARB now to significantly reduce this backlog.

## Section D. Key Dates

Date	Item	Observations
Nov 28th	Joint Community Meeting	Joint Community Meeting for Minimizing Community Health Impacts from Freight and Community Air Protection Program

## Section F. Back Matter

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