

CARBON REPORT

Daily

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Nigel Brunel

OVERVIEW

- New Zealand ETS changes announced

COMMENTARY

The government announced the decisions on the ETS yesterday.

The \$25 price cap will remain in place until auctioning commences. That is expected in late 2020 but could be as late as 2022 if auctioning is delayed. At that point it will be replaced by a cost containment reserve within the auctioning mechanism. There was also talk about a potential price floor to ensure long term confidence in low emission investments. It is very clear the government is being measured in its approach and taking its time in what are significant changes in climate policy in regards to our Paris commitment and the net zero carbon target of 2050.

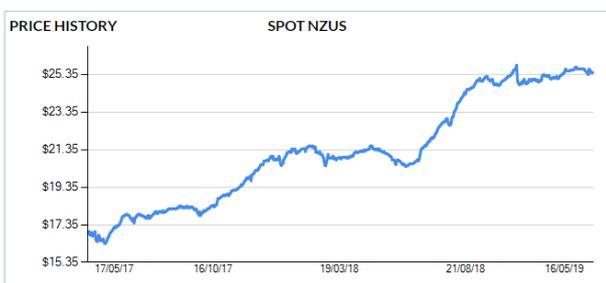
This may take some of the heat out of the market especially from speculators and emitters who were buying expecting the \$25 FPO to come off sooner.

The fiscal risk remains if the price stays above the FPO. By the end of 2020 the government could be short circa 150 million tonnes at \$25. If international units are \$50 – that's almost a \$4 billion dollar cost assuming international units are the only option to cover. They should have raised the CAP and stop speculating with taxpayer's money.

Reiterating the major points on the announcement.

- Tougher penalties for non-compliance
- More transparent data on companies emissions
- Use of international credits likely
- \$25 price cap gone by 2022, possibly as early as late 2020 and a price floor likely
- Auctioning timeline late 2020
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Market impact of this announcement as alluded to yesterday could be significant or underwhelming. It's neither and we may see the market correct slightly from here in the coming weeks.



CONTRACT DESCRIPTION (NZ\$)	BEST BID	BEST OFFER	LAST/FIX
NZUs - Spot	25.25	25.50	25.45
NZUs - April 2020	26.05	26.40	26.22
NZUs - April 2021	26.85	27.40	27.12
NZUs - April 2022	27.60	28.50	28.05
NZUs - April 2023	28.40	29.50	28.95
NZUs April - 2024	29.30	30.70	30.00
Australian ACCUs - Spot - AU\$	16.90	19.00	16.60

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