● Prices increased
CCA* V19 Front Month prices increased by $0.25 to $16.47 (+1.54%), and Dec-19 increased by $0.33 ending at $17.13 (+1.96%). In CAD, CCA V19 Front Month increased by $0.38 closing at $22.05 (+1.75%), and Dec-19 increased by $0.48 closing at $22.93 (+2.14%). The CCA volume traded increased from 19,583kt to 22,783kt, and the CCA total open interest increased by 5.5Mt to 151.1Mt.

● CA fuel emissions could have peaked in 2017
California Department of Tax and Fee Administration released the fuel taxes statistics for 2018. As our picture of the week shows, after increasing for 6 consecutive years, the annual sales of the state’s motor gasoline and diesel declined in 2018, the first time since 2012. In 2018, 15.5 billion gallons of gasoline (net of aviation gasoline) and 3.07 billion gallons of diesel were sold in California, which is 0.4% and 1.6% lower than in 2017 respectively. Though California’s fuel emissions data for 2018 have not yet been released, this could mean that fuels emissions have peaked in 2017. This is consistent with our view since November last year where we first downgraded our emissions forecast for the fuels sector.

Our Forecast:

Last week, the CCA price rally continued and accelerated, closing at $16.47 on the front month and $17.13 on the December contract. The weekly change on the December contract of $0.33 was the highest since August 2017, not long after it was announced that the California Court of Appeal had ruled in favor of ARB in a key court case challenging the Cap & Trade. As indicated last week, the December 2019 contract is now trading above the expected 2020 floor price of ~$16.70 and therefore it should be seen as a bullish indicator.

As mentioned in previous updates, one of the key drivers going forward will be the PG&E bankruptcy case and whether this situation will affect the demand for allowances going forward. It is now confirmed that PG&E did not participate in the Feb-19 auction. As an Investor-owned Utility, PG&E must surrender all its free allowances and buy allowances either from the secondary market or auctions to ensure its compliance. As a consequence, the next 3 auctions of 2019 could see higher demand as they may need to catch up. This could be bullish for the market for the rest of the year.

Overall, our view on prices is unchanged, although PG&E’s situation remains a wildcard. Despite the current oversupply of allowances in the market, sentiment is strong and market certainty until 2030 has created fresh demand from hedgers and financials. The Feb-19 Auction was the last auction to see previously unsold California allowances and this will result in a smaller number of allowances for sale in the coming auctions. For this reason, we now believe that spot prices will increase faster towards next year’s floor (~US$16.70). With the December contract now trading above next year’s expected floor price, it will be interesting to see if the market’s bullish momentum can continue and the next key level to watch will be the 2021 expected floor price at ~$17.90.

Total Open Interest and Volume:

Important Dates:

| April 15, 2019 | WCI Auction #19 - Auction Application Due |
| April 25-26, 2019 | Forum: Carbon Pricing For Canadian Industry |
| May 14, 2019 | WCI Auction #19 |

Forward Curve Weekly Change: