



SEPTEMBER 2019



# IMPACT CARBON

**Ecoeye International**  
**[www.ecoeye-int.com](http://www.ecoeye-int.com)**



## MARKET SITUATION

*Comprehensive Trading Information (January 1, 2018 – August 30, 2019)*

### KAU18

↑ 29,950 ▲1,350(+4.72%)

Closing Price	29,950 Won
- 1 Month Average	29,142 Won
- 3 Month Average	28,269 Won
- Total Average	26,376 Won
Total Trading Amount	7,030,313 Ton
- Intraday	2,842,728 Ton
- Negotiated	4,187,585 Ton
Total Trading Value	185.4 B Won

as of 30 August 2019, compared to previous month

### KAU19

↑ 29,850 ▲1,300(+4.55%)

Closing Price	29,850 Won
- 1 Month Average	29,491 Won
- 3 Month Average	28,738 Won
- Total Average	27,386 Won
Total Trading Amount	893,300 Ton
- Intraday	471,300 Ton
- Negotiated	422,000 Ton
Total Trading Value	24.5 B Won

as of 30 August 2019, compared to previous month

### KAU20

→ 28,000 (0.0%)

Closing Price	28,000 Won
- 1 Month Average	-
- 3 Month Average	-
- Total Average	-
Total Trading Amount	-
- Intraday	-
- Negotiated	-
Total Trading Value	-

as of 30 August 2019, compared to previous month

### KCU18

→ 21,800 (0.0%)

Closing Price	21,800 Won
- 1 Month Average	-
- 3 Month Average	-
- Total Average	-
Total Trading Amount	-
- Intraday	-
- Negotiated	-
Total Trading Value	-

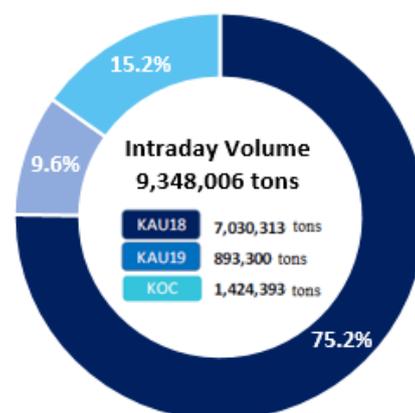
as of 30 August 2019, compared to previous month

### KOC

↑ 30,100 ▲1,700(+5.99%)

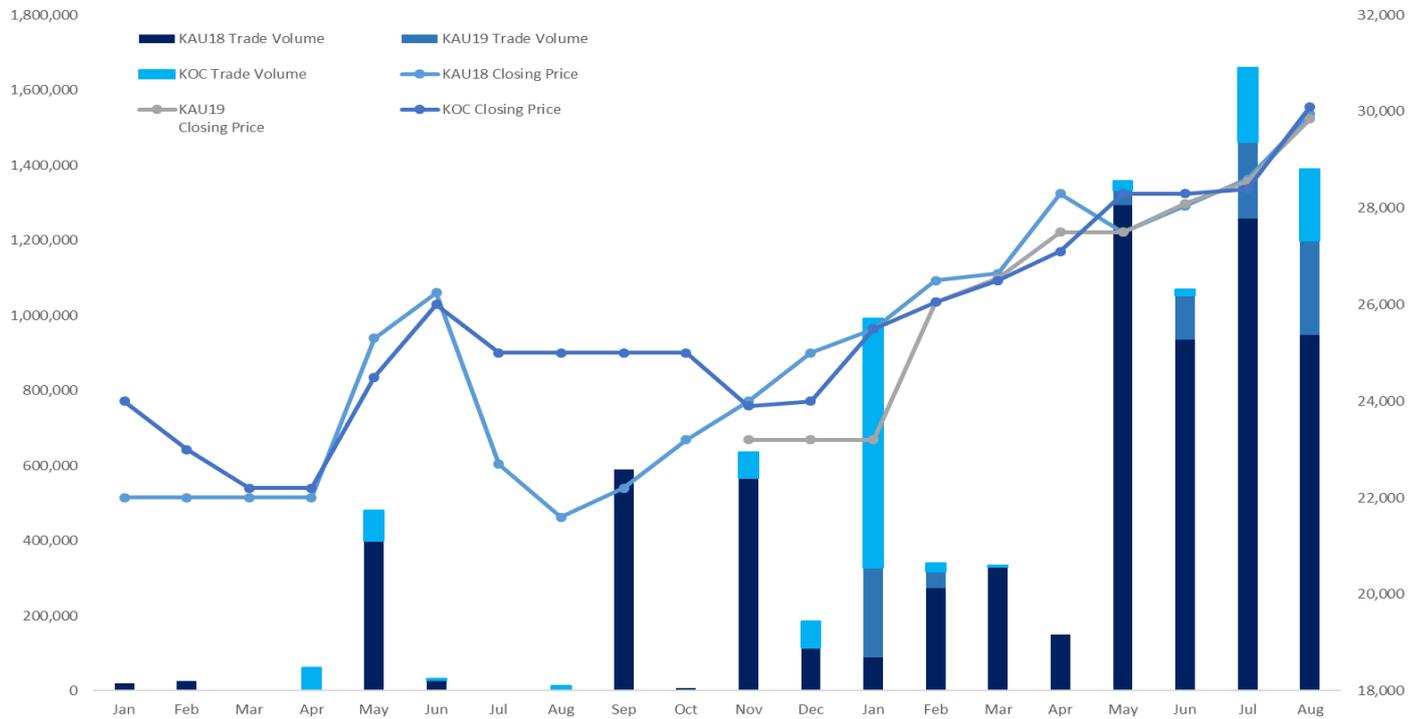
Closing Price	30,100 Won
- 1 Month Average	29,742 Won
- 3 Month Average	29,000 Won
- Total Average	26,030 Won
Total Trading Amount	1,424,393 Ton
- Intraday	341,070 Ton
- Negotiated	1,083,323 Ton
Total Trading Value	37.1 B Won

as of 30 August 2019, compared to previous month





*Emission Allowance Monthly Trading Information (January 2018 – August 2019)*



	KAU18			KAU19			KOC			
	Closing Price	Monthly Increase	Trade Volume	Closing Price	Monthly Increase	Trade Volume	Closing Price	Monthly Increase	Trade Volume	
2018	Jan	22,000	-	20,000			24,000	-	-	
	Feb	22,000	-	26,000			23,000	▼1,000	-	
	Mar	22,000	-	-			22,200	▼800	-	
	Apr	22,000	-	-			22,200	-	62,226	
	May	25,300	▲3,300	400,000			24,500	▲2,300	80,000	
	Jun	26,250	▲950	29,000			26,000	▲1,500	2,545	
	Jul	22,700	▼3,550	-			25,000	▼1,000	-	
	Aug	21,600	▼1,100	-			25,000	-	13,218	
	Sep	22,200	▲600	590,600			25,000	-	-	
	Oct	23,200	▲1,000	7,289			25,000	-	-	
	Nov	24,000	▲800	566,800	23,200	-	-	23,900	▼1,100	69,160
	Dec	25,000	▲1,000	113,553	23,200	-	-	24,500	▲500	72,433
2019	Jan	25,500	▲500	90,000	23,200	-	237,000	▲1,000	664,754	
	Feb	26,500	▲1,000	273,232	26,050	▲150	45,000	26,050	▲550	23,163
	Mar	26,650	▲150	330,000	26,550	▲500	-	26,500	▲450	4,229
	Apr	28,300	▲1,650	149,700	27,500	▲500	-	27,100	▲600	-
	May	27,500	▼800	1,292,837	27,500	-	40,500	28,300	▲1200	25,000
	Jun	28,050	▲550	935,301	28,100	▲600	118,000	28,300	-	16,702
	Jul	28,600	▲550	1,257,518	28,550	▲450	202,500	28,400	▲100	200,000
	Aug	29,950	▲1,350	948,483	29,850	▲1,300	250,300	30,100	▲1,700	190,963
<b>Total</b>	-	-	<b>7,030,313</b>	-	-	<b>893,300</b>	-	-	<b>1,424,393</b>	

\*End-of-the-month closing price



*(Trade)* Intraday trading volume of Korean allowances and credits (KAU18, KAU19, KOC) from January 2018 to August 2019 totaled to 9.3 million tons of which 61% or 5.7 million tons are dealt through bilateral transactions.

From January to 2018 to July 2019, the cumulative trading volume of KAU18 was 6.1 million tons, of which 2.4 million tons (39.6%) were sold through intraday exchanges and 3.7 million tons (60.4%) through negotiated trading.

OTC transactions since May 2019 accounted for 52.8% of the total trade and it is estimated to be more of KAU18 ↔ KAU19 SWAP transactions.

*(Price)* KAU18 price continuously increased since August of last year but temporarily dropped the line in mid-May 2019 due to the talks of the carryover restrictions and expected supply of large volume of surplus. However, by the end of May, prices swiftly rebounded after the finalization of the new measures—a pattern different from the price hikes seen in Phase 1 whenever the government introduces intervention measures. This is assumed to be because the allowances were not from the government reserves and that all compliance entities, regardless of their current long or short positions, fear that supply issues in the future might turn them into an emission-deficient entity.

KAU18 has traded at the level of KRW 28,000 for two months until a buying chase started raising prices and in August, KAU18 has exceeded the psychological resistance level of KRW 30,000 amid solid price increases due to limited supply and has been trading at the higher spectrum of KRW 29,000 for the whole month.

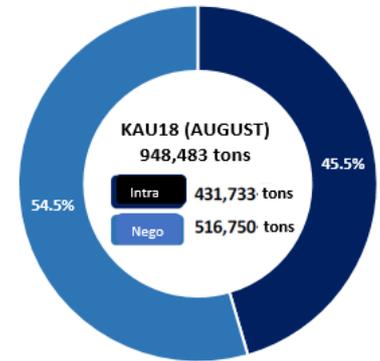
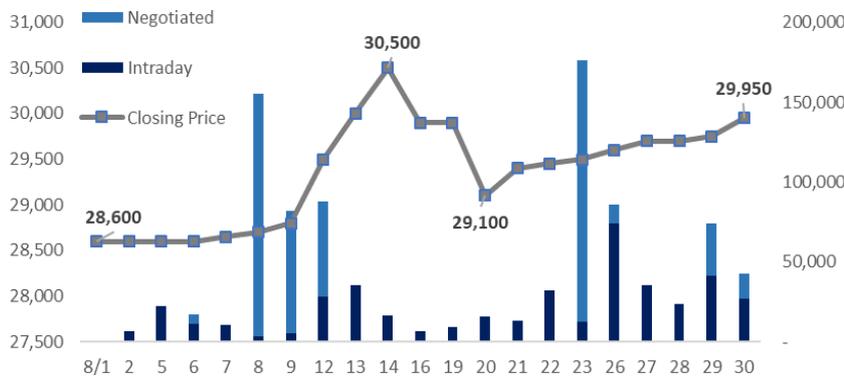
*(Buy/Sell)* Out of 26 industries, 21 are active buying sectors lead by the power generation/energy sector at 71.2% followed by petrochemicals (8.3%), industrial complexes (4.8%), waste (3.8%), and steel industries at 7.8%. On the other hand, 24 sectors are active in selling with the power generation/energy sector topping all other sectors at 24.6%, followed by cement (16.4%), collective energy (14%), steel (7.8%) and petrochemicals (6.5%).

Negotiations and OTC deals are the most preferred by big companies and many of the large-scale transactions are understood to have been completed in July leaving most of the remaining transactions to small and medium-sized companies.

*(Compliance)* It was confirmed that some companies have yet to fully secure their deficiencies even after borrowing 15% of their allowances a month ahead of the compliance deadline. However, it is expected that no company will be subject to penalties as the shortage is not large and there is still time to buy permits. For this reason, it is also expected that no market stabilization reserves will be supplied by the government.



KAU18 Trading Trends (August 2019)



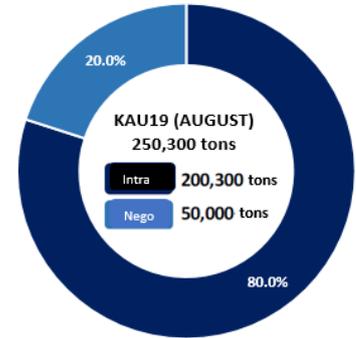
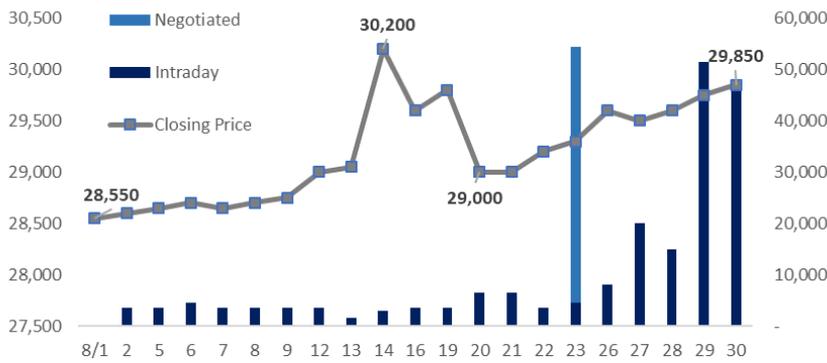
Price (KRW)	Closing Price	29,950	Trade Volume	Intraday	431,733
	Average Price	29,142		Negotiated	516,750
	Monthly Highest	30,500		Total	948,483
	Monthly Lowest	28,600		Total Trade Value (B won)	27.6

Date	Closing Price	Gap	Rate	Intraday	Negotiated	Total
1-Aug-2019	28,600	-	-	-	-	-
2-Aug-2019	28,600	-	-	6,918	-	6,918
5-Aug-2019	28,600	-	-	22,565	-	22,565
6-Aug-2019	28,600	-	-	11,500	5,475	16,975
7-Aug-2019	28,650	50	0.17%	10,649	-	10,649
8-Aug-2019	28,700	50	0.17%	3,500	151,791	155,291
9-Aug-2019	28,800	100	0.35%	5,500	76,188	81,688
12-Aug-2019	29,500	700	2.43%	28,100	59,479	87,579
13-Aug-2019	30,000	500	1.69%	35,724	-	35,724
14-Aug-2019	30,500	500	1.67%	16,406	-	16,406
16-Aug-2019	29,900	-600	-1.97%	6,500	-	6,500
19-Aug-2019	29,900	-	-	9,500	-	9,500
20-Aug-2019	29,100	-800	-2.68%	15,705	-	15,705
21-Aug-2019	29,400	300	1.03%	13,344	-	13,344
22-Aug-2019	29,450	50	0.17%	31,850	-	31,850
23-Aug-2019	29,500	50	0.17%	12,682	163,600	176,282
26-Aug-2019	29,600	100	0.34%	73,989	11,990	85,979
27-Aug-2019	29,700	100	0.34%	35,332	-	35,332
28-Aug-2019	29,700	-	-	23,500	-	23,500
29-Aug-2019	29,750	50	0.17%	41,256	33,000	74,256
30-Aug-2019	29,950	200	0.67%	27,213	15,227	42,440
Total	-	-	-	431,733	516,750	948,483

- KAU18 traded a total of 948,483 tons in August
- The average monthly trading volume between May and August was 1.1 million tons accounting for 63.1 of the total trading volume
- KAU18 reached KRW 30,500 mid-month before ending the month at KRW 29,950, up by 4.72% compared to the first day of August



KAU19 Trading Trends (August 2019)



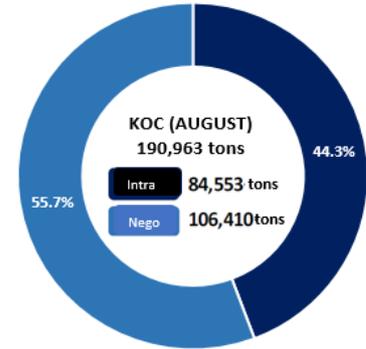
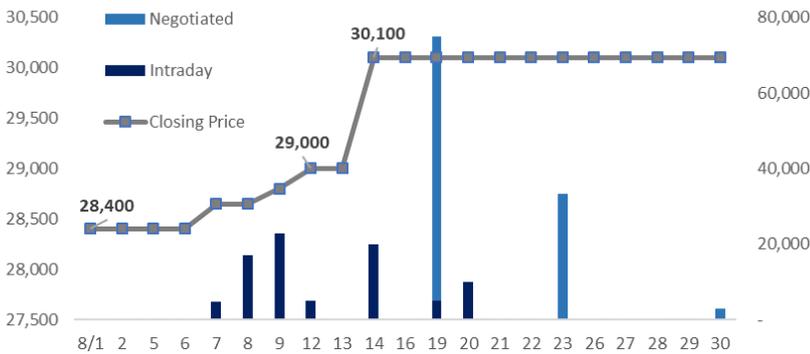
Price (KRW)	Closing Price	29,850	Trade Volume	Intraday	200,300
	Average Price	29,491		Negotiated	50,000
	Monthly Highest	30,200		Total	250,300
	Monthly Lowest	28,550		Total Trade Value (B won)	7.4

Date	Closing Price	Gap	Rate	Intraday	Negotiated	Total
1-Aug-2019	28,550	-	-	-	-	-
2-Aug-2019	28,600	50	0.18%	3,500	-	3,500
5-Aug-2019	28,650	50	0.17%	3,500	-	3,500
6-Aug-2019	28,700	50	0.17%	4,500	-	4,500
7-Aug-2019	28,650	-50	-0.17%	3,500	-	3,500
8-Aug-2019	28,700	50	0.17%	3,500	-	3,500
9-Aug-2019	28,750	50	0.17%	3,500	-	3,500
12-Aug-2019	29,000	250	0.87%	3,500	-	3,500
13-Aug-2019	29,050	50	0.17%	1,500	-	1,500
14-Aug-2019	30,200	1,150	3.96%	3,000	-	3,000
16-Aug-2019	29,600	-600	-1.99%	3,500	-	3,500
19-Aug-2019	29,800	200	0.68%	3,500	-	3,500
20-Aug-2019	29,000	-800	-2.68%	6,500	-	6,500
21-Aug-2019	29,000	-	-	6,500	-	6,500
22-Aug-2019	29,200	200	0.69%	3,500	-	3,500
23-Aug-2019	29,300	100	0.34%	4,500	50,000	54,500
26-Aug-2019	29,600	300	1.02%	8,000	-	8,000
27-Aug-2019	29,500	-100	-0.34%	20,000	-	20,000
28-Aug-2019	29,600	100	0.34%	15,000	-	15,000
29-Aug-2019	29,750	150	0.51%	51,500	-	51,500
30-Aug-2019	29,850	100	0.34%	47,800	-	47,800
Total	-	-	-	200,300	50,000	250,300

- KAU19 reached the price of KRW 30,200, the highest since its listing
- The average trading price is KRW 29,491 with average increases of KRW 1,025
- Intramarket trading volume of the month is about 250,000 tons
- 80% of the month's volume traded through intraday deals and 78.6% of August's volume traded in the last six trading days



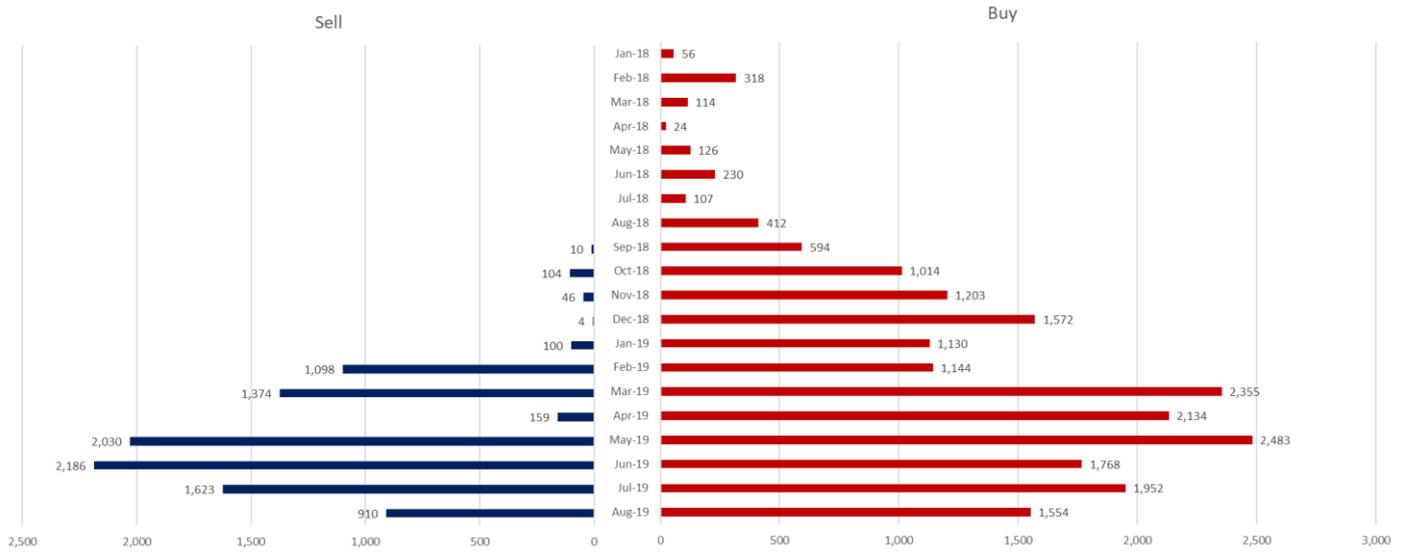
*KOC Trading Trends (August 2019)*



Price (KRW)	Closing Price	30,100	Trade Volume	Intraday	84,553
	Average Price	29,742		Negotiated	106,410
	Monthly Highest	30,100		Total	190,963
	Monthly Lowest	28,400		Total Trade Value (B won)	5.7

Date	Closing Price	Gap	Rate	Intraday	Negotiated	Total
1-Aug-2019	28,400	-	-	-	-	-
2-Aug-2019	28,400	-	-	-	-	-
5-Aug-2019	28,400	-	-	-	-	-
6-Aug-2019	28,400	-	-	-	-	-
7-Aug-2019	28,650	250	0.88%	4,800	-	4,800
8-Aug-2019	28,650	-	-	17,072	-	17,072
9-Aug-2019	28,800	150	0.52%	22,681	-	22,681
12-Aug-2019	29,000	200	0.69%	5,000	-	5,000
13-Aug-2019	29,000	-	-	-	-	-
14-Aug-2019	30,100	1,100	3.79%	20,000	-	20,000
16-Aug-2019	30,100	-	-	-	-	-
19-Aug-2019	30,100	-	-	5,000	70,000	75,000
20-Aug-2019	30,100	-	-	10,000	-	10,000
21-Aug-2019	30,100	-	-	-	-	-
22-Aug-2019	30,100	-	-	-	-	-
23-Aug-2019	30,100	-	-	-	33,410	33,410
26-Aug-2019	30,100	-	-	-	-	-
27-Aug-2019	30,100	-	-	-	-	-
28-Aug-2019	30,100	-	-	-	-	-
29-Aug-2019	30,100	-	-	-	-	-
30-Aug-2019	30,100	-	-	-	3,000	3,000
Total	-	-	-	84,553	106,410	190,963

- Due to rising KAU prices, KOC price rose to KRW 30,100 in the middle of August and has stayed at the same level until the end of the month
- KOC's total trade volume amounted to 190,000 tons with the average trading price of KRW 29,742, an increase of KRW 1,392 from the previous month
- About 2.2 million tons of KOCs were issued in July through three certification committees. However, this has been insignificant to the market as majority have been traded OTC or kept for own use

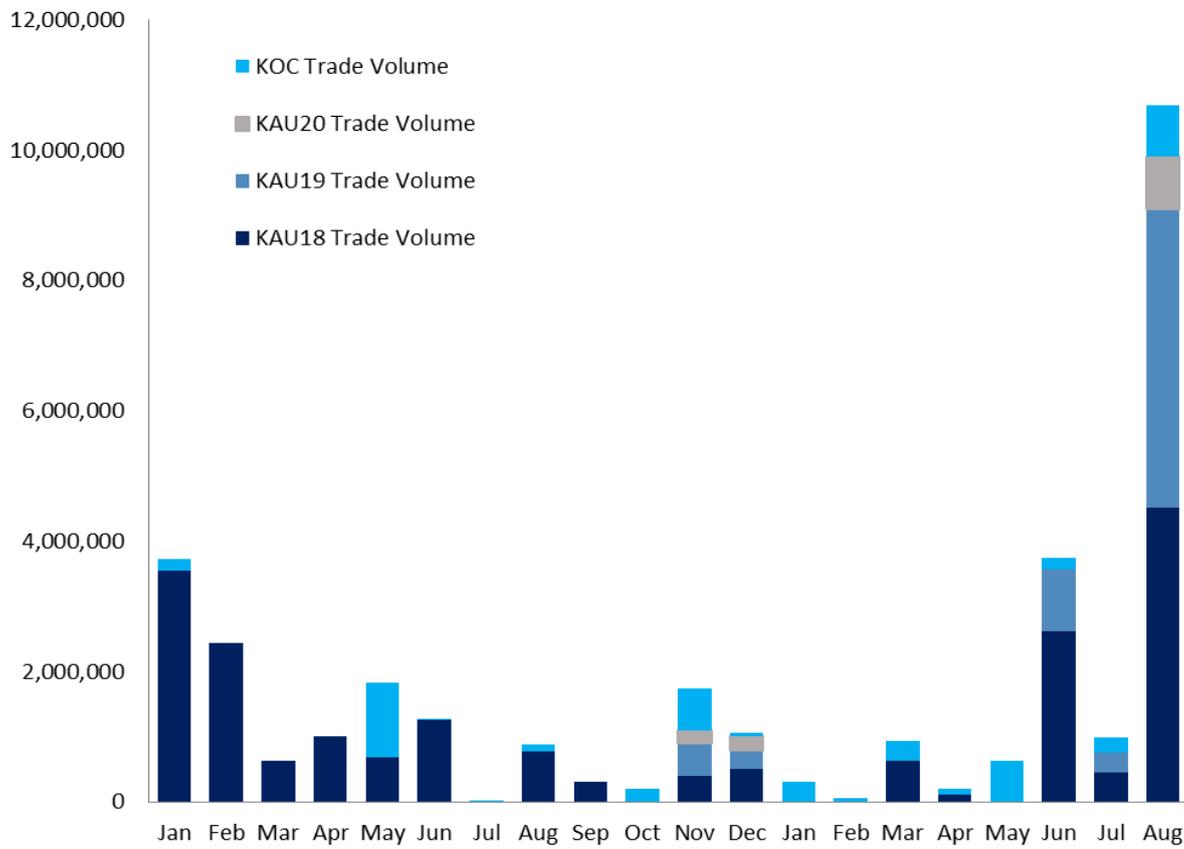


The supply rate in June was 123.6% as the banking restrictions was enforced but the rate dropped to a half (58.5%) in August. After July, the buy orders exceeded KRW 30,000 as buying orders surpassed the volume of selling orders. On the 16<sup>th</sup> of August, units were traded at a record high of KRW 31,000.

Due to the demand from lacking companies that failed to complete their purchases ahead of KAU18’s banking and borrowing applications and KAU18 submissions, the transaction rate based on selling orders rose by 18.3% to 47.5% in comparison to the previous month.



*Over-the-Counter Transactions (January 2018 – August 2019)*



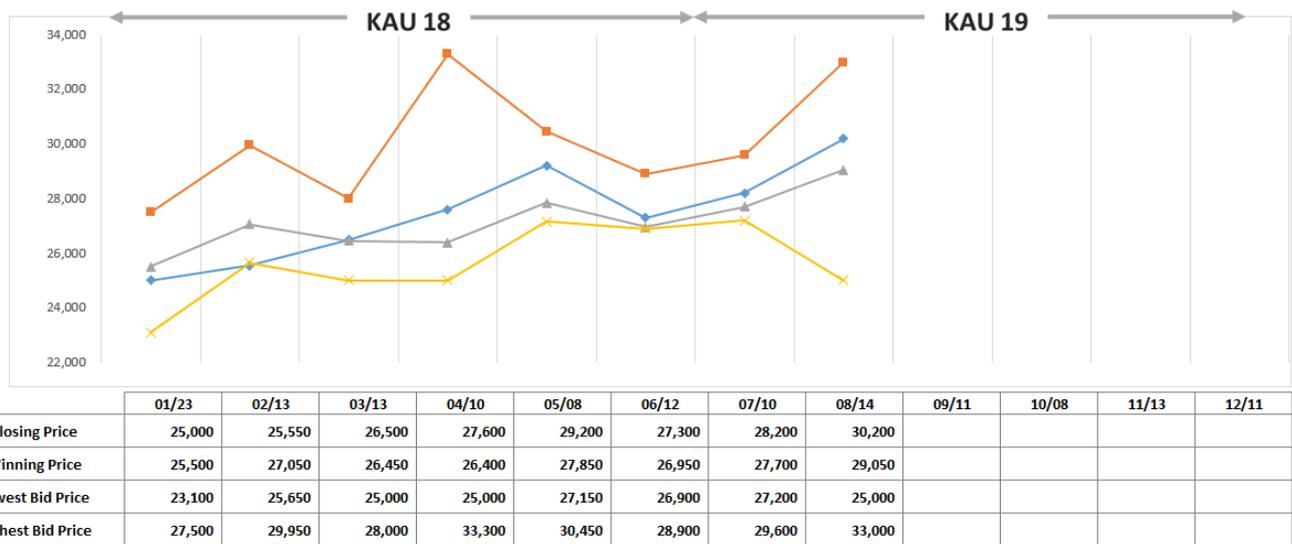
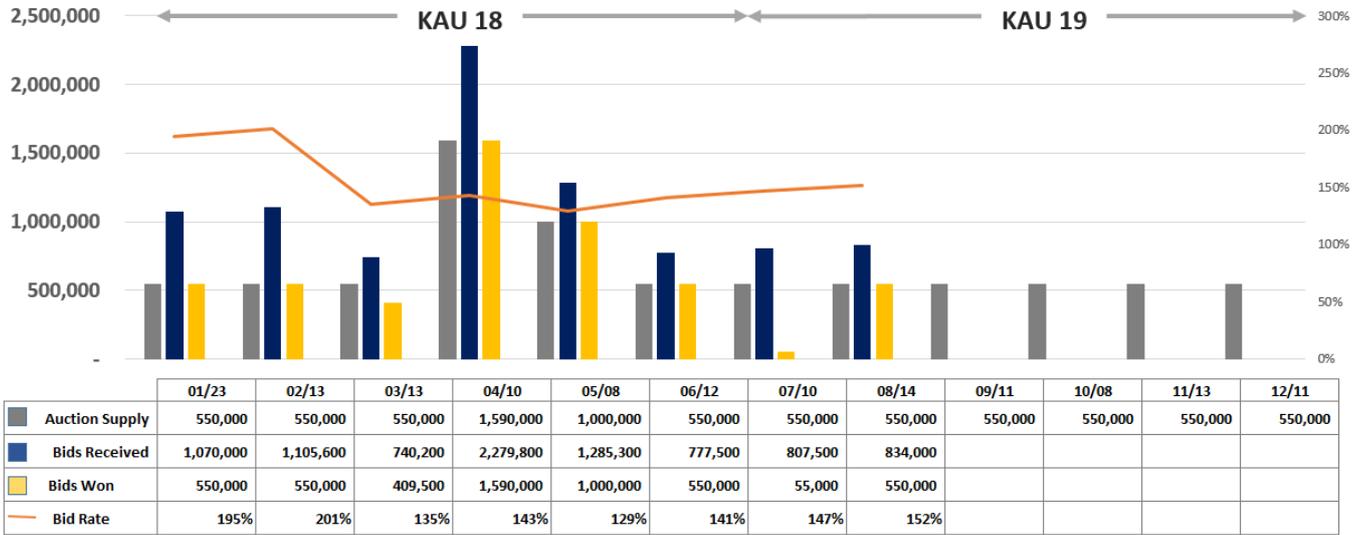
Year	Month	KAU18 Trade Volume	KAU19 Trade Volume	KAU20 Trade Volume	KOC Trade Volume
2018	Jan	3,542,517	-	-	191,484
	Feb	2,440,000	-	-	-
	Mar	630,000	-	-	-
	Apr	1,000,000	-	-	-
	May	684,163	-	-	1,143,590
	Jun	1,264,652	-	-	8,084
	Jul	-	-	-	1,000
	Aug	770,000	-	-	102,409
	Sep	300,000	-	-	-
	Oct	-	-	-	208,025
	Nov	400,000	500,000	200,000	648,372
	Dec	500,000	300,000	200,000	67,041
2019	Jan	-	-	-	300,000
	Feb	-	-	-	64,116
	Mar	630,000	-	-	300,000
	Apr	112,500	-	-	96,369
	May	-	3,000	-	632,253
	Jun	2,610,164	955,000	-	179,085
	Jul	450,000	300,000	-	246,484
	Aug	4,523,000	4,580,000	800,000	784,422
<b>Total</b>		<b>19,856,996</b>	<b>6,638,000</b>	<b>1,200,000</b>	<b>4,972,734</b>



## MONTHLY AUCTION

	August
Auctioned Permits	550,000 tons
Total number of received bids	834,000 tons
Bid Rate	152%
Participating companies	9
Winning companies	7
Lowest Bid Price	KRW 25,000
Highest Bid Price	KRW 33,000
Market Closing Price	KRW 30,200
Winning Bid Price	KRW 29,050
Total amount of bids won	550,000 tons
Total value of bids won	KRW 15,977,500,000

- Seven companies won 550,000 tons of KAU19 at a bid price of KRW 29,050. The lowest bid price was KRW 25,000 while the highest was KRW 33,000, still lower than the secondary market price.
- KAU18 and KAU19 prices maintained their daily increases influencing the clearing price for this month, a KRW 1,350 difference from the previous auction price.
- So far, all clearing prices of this year's auctions were lower than the secondary market price, except those from the month of January and February.
- The number of participating companies is 10 or less, which is only 7.9% of the total allowance quota (126 companies) while the bidding ratio fell in the range of 130% - 150% since March.
- It is expected that KAU19 bid price may increase further in the future as the demand is anticipated to increase after the delisting of KAU18.





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## MARKET OUTLOOK

*(Market)*

*(Near-term)* Actual transactions of KAU18 is expected to be completed after the end of the banking and borrowing application period (August 30 – September 11), and the buy/sell orders of allowances will significantly decrease after September.

*(Long-term)* According to Ecoeye's supply and demand analysis, the second phase is expected to be a supply-deficient period. As allowance quota decreases, short companies are starting to increase in number. It is expected that the release of a portion of MSR and market-maker reserves is inevitable.

Accordingly, some large companies are already actively purchasing allowance at the current market price level to secure their supplies and are also keeping their eyes on the value of SWAP transactions for the third phase.

*(Price)* Price volatility is expected to increase temporarily due additional demand and last-minute buying of allowances as companies take advantage of the remaining surplus before the completion of the carryover/borrowing application period.

The current market is expected to trade in the level between the support price of KRW 28,000 and the resistance price of KRW 31,000.

After the surrender of allowances for the 2018 implementation cycle, it is expected that the market will enter a stagnant period but allowances prices will continue its modest increases as the demand for allowances remains.

**Table 1. K-ETS Phase 2 (2018-2020) Schedule**

	1Q	2Q	3Q	4Q	
2018 (1st Year)	Jan	2: KAU 18 Listing ~31: MP submitted by new entities of 2nd year	May	30: 2017 notification of certified emissions/additional quota	
	Mar	~31: 2017 MP submission application for additional allocation	Jun	~11: 2017 banking application (borrowing X, 5/31~) 22: KCU 18 Listing ~29: notification/application for appeals	
			Jul	~02: 2017 Emission certificate submission (5/31 ~) ~02: Application for ETS Voluntary Participation Aug	
			31: designation and notification of new entrants ~09: 2017 Submission of emission allowance 10: Delisting of KAU17/KCU17 31: Phase 2 Allocation	Oct	31: Phase 2 Quota Notification
				Nov	8: KAU19/KAU20 Listing
				Dec	~31: 2018 request for MP review
2019 (2nd Year)	Jan	23: First auction of allowances	Apr	10 Fourth auction of allowances	
	Feb	13: Second auction of allowances	May	8: Fifth auction of allowances	
	Mar	13: Third auction of allowances ~31: 2018 emissions certification and MP submission (est) 2018 additional allocation application	Jun	31: 2018 notification of certified emissions/ allocation addition or cancellation 10: (est) Operation of market maker system 12: (est) Sixth auction of allowances	
			Jul	1: (est) deadline of notification of complaints/objections 10: (est) Seventh auction of allowances ~29: (est) notification of results (carry-over) ~31: (est) designation and notification of new entrants	
			Aug	2: 2018 additional quota/cancellation amount notification of results 14: (est) Eight auction of allowances	
			Sep	11: (est) carry-over/borrowing 11: (est) Ninth auction of allowances ~30: surrender of allowances (incl. companies with complaints)	
2020 (3rd Year)	Jan	~15: (est) 2019 request for MP review	May	31: (est) 2019 notification of certified emissions/additional allocation	
	Mar	~31: (est) 2019 emissions certification and MP submission (est) 2019 application for additional allocation	Jun	~10: (est) 2019 allowance banking and borrowing ~30: (est) 2019 surrender of allowances (est) 2019 notification/application for appeals	
			Jul	31: (est) notification of results (complaints/objection) ~31: (est) Phase 3 Allocation Plan (est) Phase 3 Assignment of compliance entities (est) designation and notification of new entrants	
		Aug	~10: (est) 2019 surrender of allowances (for companies with objection) ~31: (est) Phase 3 application for allowances allocation	Oct	31: (est) notification of Phase 3 allocation quota
2021	Jan	~15: (est) 2020 request for MP review	May	31: (est) 2020 notification of certified emissions/additional allocation	
	Mar	~31: (est) 2020 emissions certification and MP submission (est) application for additional allocation	Jun	~10: (est) 2020 banking of allowances (borrowing X) ~30: (est) surrender of allowances (est) 2020 notification of appeals	
			Jul	31: (est) notification of results (complaints/objections)	
			Aug	~9: (est) 2020 surrender of allowances (for companies with objections)	



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