ALPHA
COMMODITIES

CARBON MARKET REPORT

A REPORT ON AN ATTRACTIVE SOFT COMMODITY.

Many investors are currently and understandably hugely disappointed with the returns they are seeing from their investment portfolios. A combination of miserly bond and savings account yields coupled with high levels of inflation mean investors holding either of those traditional asset classes are suffering. For the vast majority the stock market is equally unattractive with increased volatility brought about in part by the current Greek Debt crisis and the looming threat of a double dip recession.

But a mix of old and new alternative investments are starting to turn heads.

The best example of an asset class bucking the trend is that of VER carbon credits, for some people still hard to understand, but in reality actually quite simple to get your head around once you've begun to have a proper look. Akin to the dotcom tech boom several years ago the market is making a case to be recognised as one of the most attractive investment opportunities of the last 20 years.

What is a carbon credit and where does one come from?

One carbon credit is equal to reducing, or preventing the production of, one tonne of CO_2 or CO_2 equivalent gas.

Carbon credits are produced by projects from all over the world with a carbon positive impact on the atmosphere. For example, a project which plants trees takes carbon out of the atmosphere and a methane capture project prevents Methane (a dangerous greenhouse gas) being released into the atmosphere.

In order to produce a tradable Carbon Credit, project must be first verified by official bodies that calculate the amount of CO_2 a project has reduced or prevented being released into the atmosphere. The project is then accredited with the equivalent number of Carbon Credits by the project verifier. An example of a project verifier is Det Norske Veritas known more simply as DMV.

So where does the opportunity to make money come in?

Well Carbon Credits effectively monetize pollution –each credit comes with a price tag, and much the same as shares, these prices can fluctuate. Currently the typical cost of offsetting emissions is approximately £5.50-£7.50 per credit (based on credits retailed by BP and JP Morgan), and this is predicted to rise rapidly.

What are the Catalysts for this rise?

The fundamental aspect to comprehend is that the carbon market is a unique market compared to other financial markets around the world, chiefly because of who is involved and why.
In other markets there are a group of counterparties who may either be buyers or sellers depending on their opinion – some days there will be more buyers and prices will rise, on other days there will be more sellers and prices will fall.

The carbon credit market is different. A quarter (25%)of buyers are investors as described above, the other three quarters are pure buyers (75%), they never sell – instead of selling they 'retire' their credits. By this, it is meant that they buy the credit to offset some of their emissions and so render it retired which removes it from the market, it now cannot be sold on or used again to offset any further emissions. This creates a unique set of circumstances in that the buyers will be obliged to buy again and again and again – a major, pivotal difference to any other financial market.

This means that the market is extremely buyer heavy, this would be fine if the market was equally as supply heavy on the other side, with millions of projects churning out credits. However, in reality it is Impossible for that to be the case, you can simply build a carbon credit producing Wind Farm or Hydro-Electric PowerStation overnight! In real terms that has translated as a 102% increase in carbon credit prices over the last four years.

For instance in November 2007 the average price for credits traded on the Chicago Climate exchange was $4.00* or £2.67 – recently London Olympic Games sponsor, BP, have been offsetting the emissions at £5.46.**

*Source: Chicago Climate Exchange.
** Source: Metro Newspaper, article dated 29/09/11.

Continuing the investment case

To add to this, governments are looking to bring more companies in to the market over time, with big legislative changes such as Mandatory Carbon Reporting due to come in to effect in the short term, more companies than ever before will be forced to enter the market as repeat buyers, further inflating demand.

Let us also not forget that it is fashionable to be green – more parties, from individuals right the way up to entire government departments and even countries, are voluntarily offsetting carbon. Figures show that that is not predicted to slow down, coupled to the fact that more speculative investors are flocking to the market it only adds yet another layer of buying pressure to a market already in short supply.

It doesn't take someone with a degree in economics to realise that with so much buying pressure and a lack of supply (which could take a decade to balance out) that there is a real and serious investment opportunity.

New markets and perfect sets of circumstances like these don't often come about, and it takes a wise head to put all of the pieces of the jigsaw puzzle together and see the bigger picture, but the fact of the matter is that there is a lot of money to be made.

Potential return on investment

Over the medium term (1-5) years,returns in excess of 200% are not impossible, improbable, but not impossible. Look at the price of gold (chart below) – one of the world's largest commodity markets to see proof staring straight back at you that this sort of performance can be achieved if you buy and hold the right type of asset.

Gold grew in excess of 200% from its 2007 level of $600, rising to a high of more than $1800 in 2011 when it was traded at $1889.7/oz.

Carbon credits are rapidly becoming the private investors favourite, furthermore investment banks and large institutions are currently taking big positions in the most exciting new financial product which is tipped to become the world's largest financial market.* The potential for triple digit medium term returns is completely viable; this could be a portfolio stalwart for some time.

*Source: Barclays Capital

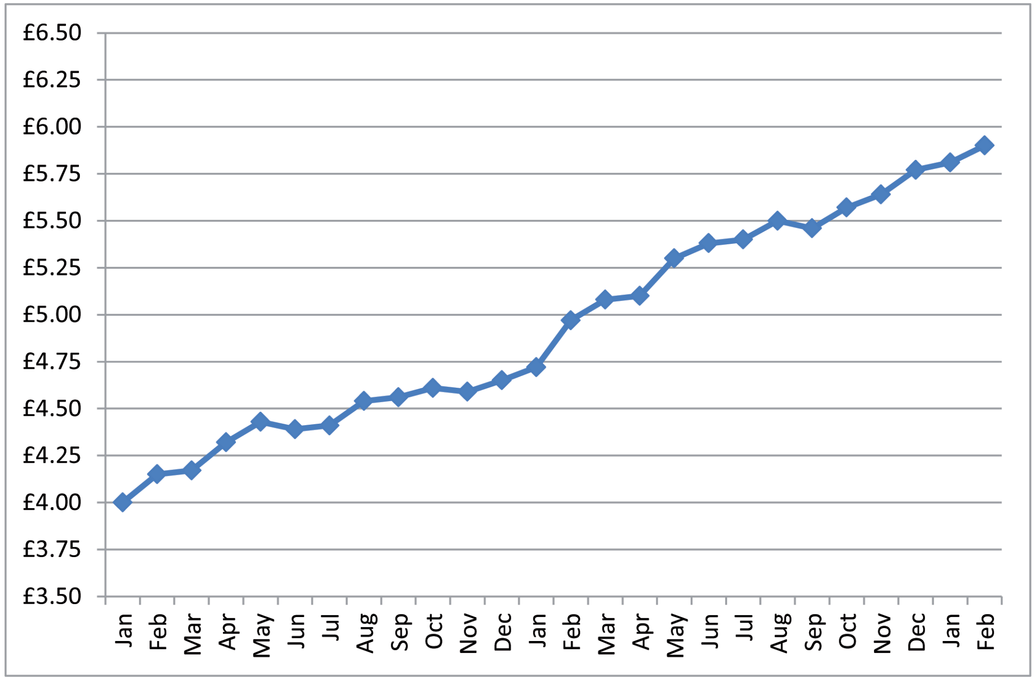
Carbon credits are a soft commodity, falling within the bracket of alternative investments; this means that they are not directly linked to the same fundamentals which are causing the current woes of 5% plus inflation and low yields of the aforementioned bonds and savings accounts. This makes them an ideal addition to the portfolio for any investor who is seeking higher returns on their investment capital with the acceptance of limited risk.

With the level of entry as low as £5000 with most leading city brokerages, what was once the preserve of the city's institutions is now available and crucially affordable to the private investor as well.

CARBON MARKET ANALYSIS

Year	Month	Avg Price	Change	Change %
	January	£4.00	-£0.07	-1.71%
	February	£4.15	£0.15	3.75%
	March	£4.17	£0.02	0.48%
	April	£4.32	£0.15	3.60%
	May	£4.43	£0.11	2.55%
	June	£4.39	-£0.04	-0.90%
	July	£4.41	£0.02	0.46%
	August	£4.54	£0.13	2.95%
	September	£4.56	£0.02	0.44%
	October	£4.61	£0.05	1.10%
	November	£4.59	-£0.02	-0.43%
2010	December	£4.65	£0.06	1.31%
	January	£4.72	£0.07	1.51%
	February	£4.97	£0.25	5.30%
	March	£5.08	£0.11	2.21%
	April	£5.10	£0.02	0.39%
	May	£5.30	£0.20	3.92%
	June	£5.38	£0.08	1.51%
	July	£5.40	£0.02	0.37%
	August	£5.50	£0.10	1.85%
	September	£5.46	-£0.04	-0.73%
	October	£5.57	£0.11	2.01%
	November	£5.64	£0.07	1.26%
2011	December	£5.77	£0.13	2.30%
	January	£5.81	£0.04	0.69%
2012	February	£5.90	£0.09	1.55%

Month on Month Changes in VER Prices



Time vs. Price (Jan '10 - Feb '12)

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107 Cheapside
London
EC2V 6DN

www.AlphaCommodities.co.uk