Former BAML, Gazprom emissions trader joins London-based carbon fund

Published 17:02 on May 11, 2021 / Last updated at 17:09 on May 11, 2021 / Americas, Bavardage, EMEA, EU ETS, International, UK ETS, US / No Comments

A former emissions trader for Bank of America Merril Lynch and Gazprom has joined a London-based carbon investment firm.

Ed Bratton was this month hired as a co-portfolio manager by Carbon Cap Management, the company said.

Carbon Cap Management runs the World Carbon Fund, which invests in emissions trading schemes around the world.
Bratton's previous role was commodity manager at UK supermarket chain Tesco, while prior to that he was a cross-commodity broker at London's PVM. Before those positions, he traded emissions for Gazprom and BAML, also in London.

Carbon Cap said Bratton will contribute to the continuing development of the Fund's 'Alpha Strategies'.

Bratton joins Nigel Felgate, formerly head of emissions at Bank of America, who is Carbon Cap's other co-portfolio manager.

As well, the firm last year hired Weiying Wang as a trader and quantitative analyst.

Wang previously worked as an investment analyst at Astarte Capital Partners, and before that at Deutsche Bank modelling derivatives pricing risk.

Carbon Cap's World Carbon Fund invests in the world's largest liquid carbon markets, including the EU ETS and North American schemes.

It deploys two complementary strategies: 'Core Long' returns from a rising carbon price "combined with disciplined risk management", while Alpha Strategies seeks arbitrage and relative value opportunities across physical carbon units, futures, and options.

The fund reported a 4.9% return in April, according to an update seen by Carbon Pulse, with both of the strategies recording positive performances. This puts the fund down 2.3% for the year to date, with the loss being incurred due to an 11.5% month-on-month drop in January.

“Within the ‘Core Long’ strategy, we are maintaining our overweight position in the USA carbon markets relative to EU carbon, reflecting our fundamental supply/demand modelling,” the company wrote.

“With EUAs now approaching $60 per tonne and the CCA and RGGI carbon markets [respectively] priced at $19 and $8 per tonne, our valuation models indicate that the US carbon markets represent better value and a better risk/reward over the next 6 to 12 months.”

Front-year EUA futures hit a fresh all-time high of €53.45 on Tuesday, with speculators said to have helped drive prices up by nearly 65% so far this year.

“Record high EUA prices are triggering a significant amount of fuel-switching by electric utilities and hastening the adoption of renewable and biomass power generation. This lowers carbon demand and also releases significant amounts of supply from utility forward hedges,” Carbon Cap added.

The company said the US – under the Biden Administration – appears determined to address climate change with a range of policies, and that on balance this is positive for US carbon markets.

Carbon Cap labels itself a a “value investor” in carbon, relying on deep fundamental analysis of supply and demand in each carbon market it invests in to generate its price outlook.

“Asset prices often deviate from intrinsic value but almost always mean revert and we believe that this discipline will serve us well as we add more carbon markets to the fund,” it added.

The World Carbon Fund was launched in Feb. 2020, and recorded a 9.46% return last year.