

Carbon Market Strategist

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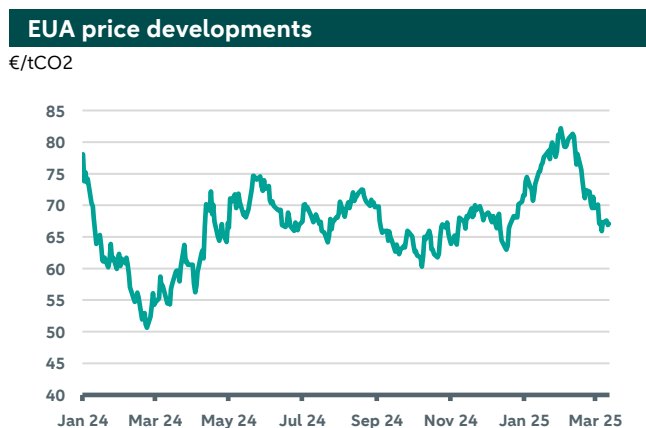
Carbon prices cool following peace talks

- After rallying, EUA prices have dropped to 69 €/tCO₂ due to eased uncertainty in the gas market
- High correlation between gas and carbon markets persists, driven by gas's role in power pricing and recent peace negotiations
- Peace talks to end the Ukrainian war, favorable weather conditions and potential flexibility in storage targets reduced market uncertainty
- Eurozone manufacturing PMI shows improvement, but growth may slow due to potential US tariffs
- Ongoing peace talks and trade policies to influence market sentiment and price movements
- We forecast prices to range between 65 and 70 €/tCO₂ in the coming weeks, while geopolitical risks and weather conditions could impact volatility

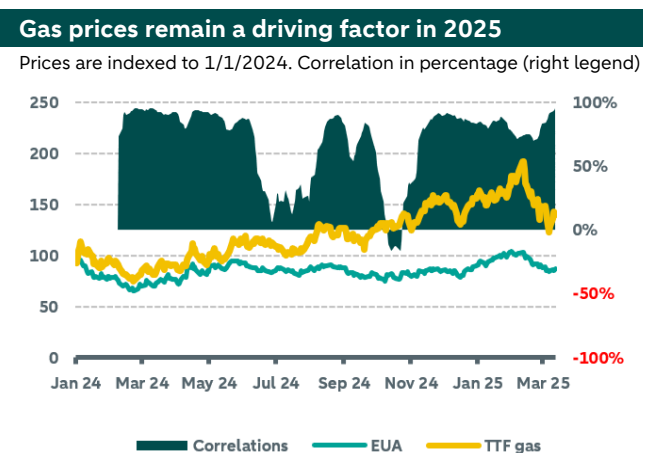
EUA prices have averaged 73.3 €/tCO₂ since February. The rally in EUA prices since the start of 2025 has reversed. The ease in carbon markets follow that in the European gas markets where peace talks to end the Ukrainian war, favorable weather conditions, and the possible flexibility to storage targets helped decreasing uncertainty and speculation in both markets. While the market is still dominated by bullish positions, the bearish sentiment is back as traders adjust their perceptions. The momentum in European industrial demand is ramping up but growth may slow down due to US tariffs. EUAs were trading at around 69 €/tCO₂ at the time of writing.

EUA market developments

The correlation between carbon and gas prices remains at the high side, as can be seen in the right hand chart below. Correlation stems from the role that gas plays in power markets, where gas is the main marginal fuel determining power prices, and its price further determines whether coal power plants are dispatched or not. The rally in both markets is subdued as uncertainty and speculation have been mitigated by several developments.



Source: Bloomberg, ABN AMRO Group Economics



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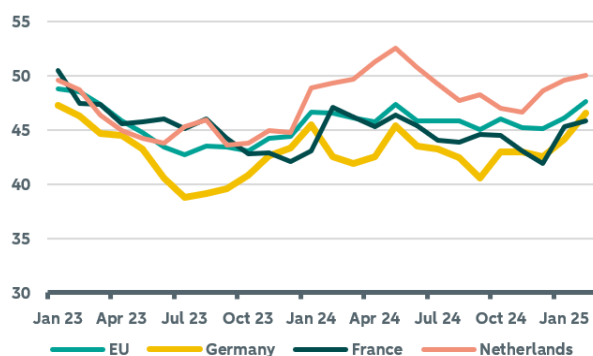
More precisely, the current peace talks facilitated by the new US administration to end the war between Ukraine and Russia gave some hopes for a return of some Russian gas flows, or at least increase Russian LNG shipments on which Europe still rely on. Meanwhile, several countries requested the European Commission to relax regulated inventory targets as storage level concerns have resulted in a flipping in summer-winter spread where summer gas futures have

been trading above winter gas futures, disincentivizing storage injections over summer and raising the risk of not meeting the target (90% full by 1st of November). The Commission is expected to announce flexible gas storage plan in April¹, which also helped shifting market sentiments. Additionally, favorable weather conditions of warm temperatures and speedy wind helped decreasing storage withdrawal rate. Gas storage levels are still below their seasonal averages, but are expected to end the heating season with higher levels than previously anticipated, especially since we are only two weeks away from the end of the season.

European industrial demand recovery continues. The Eurozone composite PMI for February remained constant, just above neutral in expansionary territory at 50.2. However, the eurozone economy witnessed an expanding manufacturing activity and a shrinking in the services sector. Crucially for carbon prices, manufacturing started to ramp up to 47.6 (46.6 in January). The pace of manufacturing contraction eased in main economies, most notably, with a surprising performance, in the industrial heavyweight Germany 46.5 (44.1 in January), as can be seen in the chart below (left). Current output and new (export) orders contributed to this improvement in the manufacturing PMI. This could be attributed to front loading impacts of the expected US tariffs under the new US administration. At the same time, these tariffs are expected to have adverse impacts on trade flows and growth in the EU (see our global outlook for 2025 [here](#)). This is expected to slow down the recovery in industrial demand, starting from the second half of 2025.

Eurozone PMI shows signs of a recovery

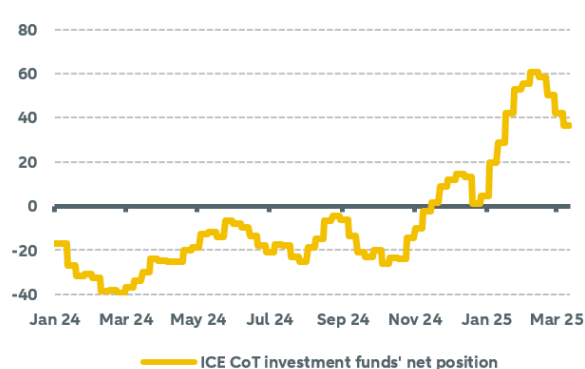
Index level (50 = neutral level)



Source: Bloomberg, ABN AMRO Group Economics

Bullish sentiments eased

Contracts (thousands)



Source: ICE, ABN AMRO Group Economics

The bullish sentiment on the outlook for EUA prices is easing, as illustrated in the chart above (right) where net positions by investment funds reversed its upward trend as traders and speculators adjust their positions following the reduced uncertainty that dominated the European gas market, as explained above.

Outlook

Even with the favorable developments in the gas market, as long as no agreement to end the Ukrainian war is reached, carbon prices will stay responsive to developments in the gas market. If an agreement is reached we expect lower gas prices and a relative decoupling between gas and carbon prices. However, any rise in geopolitical risks could affect these markets to the other side, especially those related to the current trade war affecting energy markets, cost structures, output, and emissions. Furthermore, as we approach the end of the heating season, weather conditions remain a source for volatility in the carbon market through their impacts on power generation but to a lesser extent than during winter. Accordingly, we expect carbon prices to range between 65 and 70 €/tCO₂ in the coming weeks. Our outlook for upcoming months remains unchanged.

The table below summarizes our EUA price outlook for 2025. You can find the logic of our 2025 outlook in our previous note [here](#).

	March-25	Q2-25	Q3-25	Q4-25
EU-ETS Outlook (EUR/tCO₂)	68	67	73	78

¹ The flexible storage plan is part of the European commission's clean industrial deal that has lowering consumer energy prices as one of its key goals.

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