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EU carbon prices hold steady above Eur80/mt amid strong open interest

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Carbon credits | Emissions

Colder weather could spur more demand

Funds reach record 102 million EUAs in net longs

Limited impact from release of provisional CBAM benchmarks

European carbon prices held onto bullish momentum, settling above Eur80/mtCO2e for a second consecutive week as rising open interest in higher call options and strong builds from investment funds drove gains.

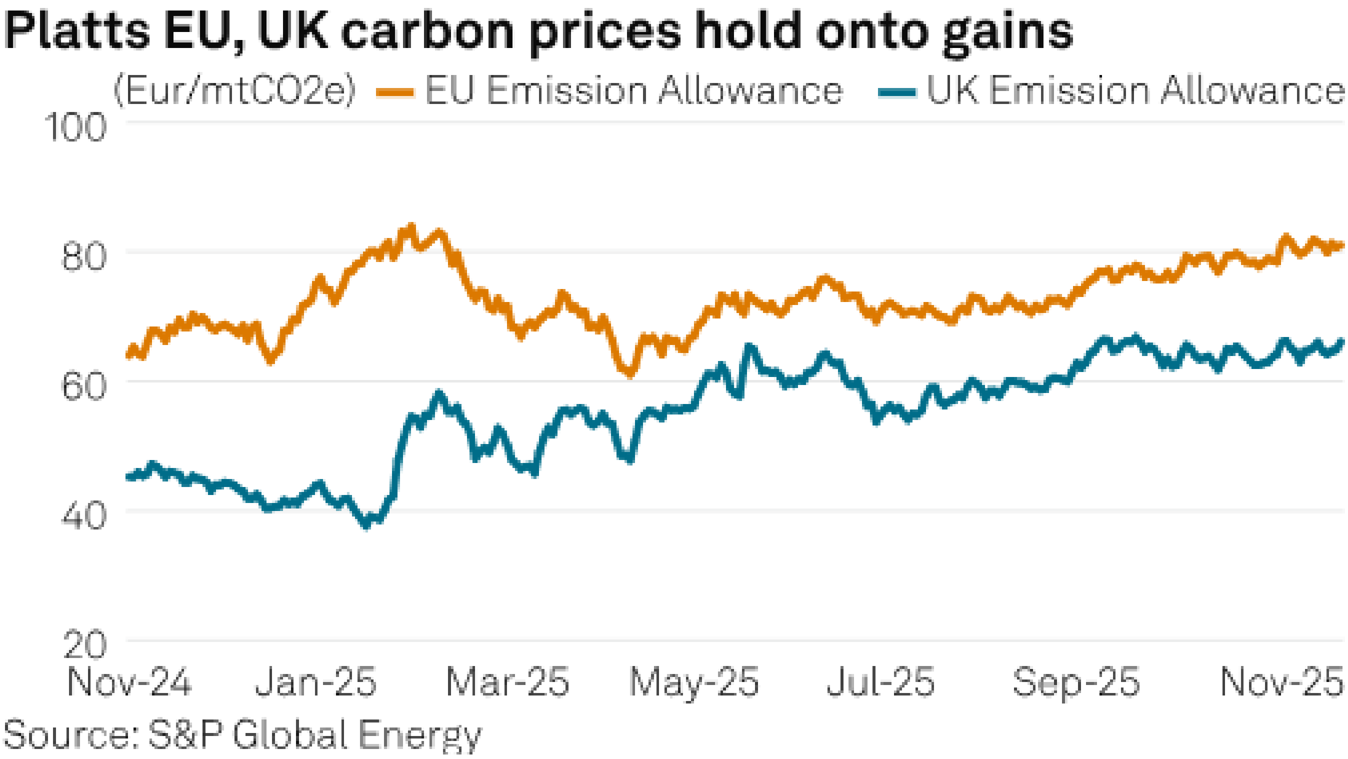
EU Allowances were trading at Eur80.50/mtCO2e ($92.80/mtCO2e) as of 1229 GMT on Nov. 21, according to Intercontinental Exchange data, down around 0.7% from Nov. 14. Platts, part of S&P Global Energy, assessed the nearest December EUA price at Eur81.31/mtCO2e ($93.63/mtCO2e) on Nov. 20.

High open interest in call options above Eur80/mtCO2e is likely to continue supporting prices, market participants told Platts throughout the week.

“The open interest in options with a strike price of Eur80 in the options market is crucial,” said a China-based carbon trader. “Without any special events, the options market may have a greater influence on the market trend over the last month of this year.”

Traders and analysts said EUA demand could see a modest rebound with lower temperatures forecast for the coming days.

"The arrival of cold weather in Europe this week has helped to support valuations via physical demand from the power sector," analysts at S&P Global Energy Horizons said in a recent note.



Bullish funds

Investment fund exposure stands at a more than four-year high of 102 million allowances, as financial entities position themselves ahead of the anticipated 2026 supply tightness.

Funds have been building positions over the last year, increasing exposure in the market nearly fivefold since the beginning of January. But there is a risk of a bearish reversal if funds sell off positions, considering the high volumes they would need to unwind.

“Some people think that if the market reverses to a bearish move, this high position of funds will be dangerous, which can accelerate the slide,” said the China-based trader.

The overall picture for the EU Emissions Trading System in 2026 is bullish. An end of supplementary auctions is expected under REPowerEU, the EU’s 2022 plan to reduce reliance on Russian fossil fuels and accelerate the green transition.

A reduction in free allocations for industries subject to the Carbon Border Adjustment Mechanism is also expected. No free allocations will be given to the aviation sector, and coverage of the maritime sector will expand, putting a strain on demand for carbon permits.

Auction supply in the primary market will also be reduced as the Market Stability Reserve absorbs allowances from circulation.

Limited CBAM impact

Provisional benchmarks, a key pillar for calculating overall obligations under the EU’s upcoming carbon tax, were released over the week ending Nov. 21, providing clarity for importers set to be impacted by CBAM.

This had a limited impact on EU carbon prices, which held on to last week’s gains, tracking wider fundamentals. CBAM costs and EU ETS prices are interlinked, with the cost of certificates based on average auction prices in the primary EUA market. With allowance prices set to rise next year, CBAM costs are likely to be impacted.

“It's more complex than initially expected, especially for cases where you have complex goods and you want to use actual data," Victor Perez Prieto, cofounder and CEO at Carbon Glance, a climate analytics company, told Platts.

The calculation method of CBAM liabilities will depend on various factors, including production routes, emissions data availability and the complexity of the production process.

“While it is true that a steel distributor finds it detestable to be forced to delve into a document of such complexity, the uncertainty experienced until now -- caused by the Commission’s inexcusable lack of communication and clarity -- was far worse," Christophe Lagrange, executive board member at metals industry association Euranimi, told Platts.

CBAM is currently in a transitional phase, during which importers are required to report emissions without incurring financial penalties. The mechanism enters its definitive phase on Jan. 1, 2026, with companies liable for their emissions.

This is expected to have significant implications for carbon-intensive industries. CBAM currently covers the cement, iron and steel, aluminum, fertilizers, electricity and hydrogen sectors.