Emissions

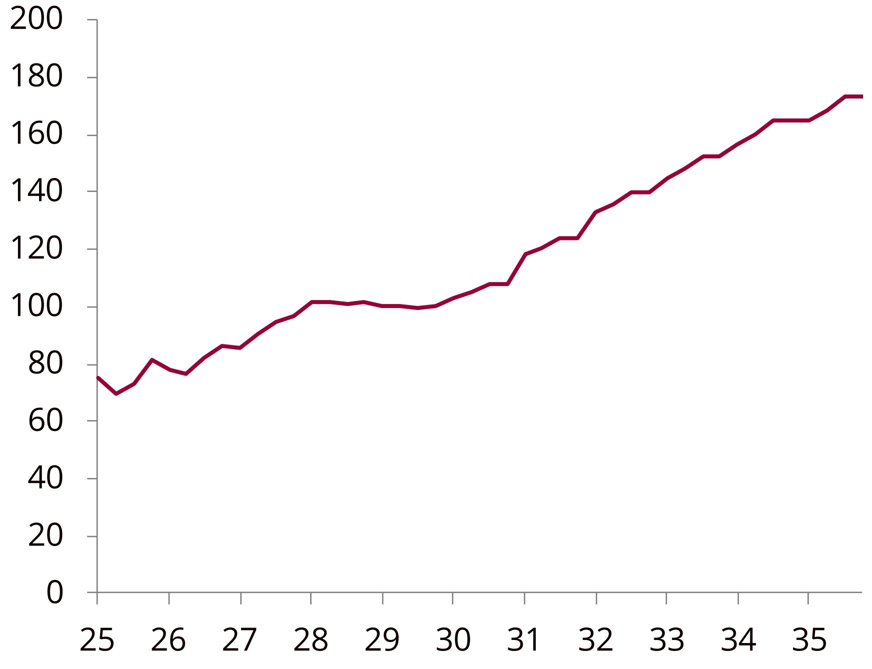
UniCredit Carbon Monthly | September 2026

Middle game

Policymaking enters European Parliament; expect changes

EUA price forecasts

EUR/t



Source: LSEG, Energy Aspects

- We forecast EUAs to average EUR 86/t in 4Q26, unchanged mom. The European Commission reform proposals have largely removed supply risks for 2027-28, but the proposals have now headed to the Parliament. The legislative road hold risks in both directions, although we still contend that the European Commission's version will be the least bearish iteration.

- Risks for 2027 balances are limited, with proposals for the Investment Booster and Industrial Decarbonisation Bank looking more likely to backload supply rather than frontload it. It is hard to see significant changes, although there will be some push to make it easier for industrials to qualify for the investment support.

- The biggest changes are likely to be focused on the LRF, making 2030–35 reductions less steep. We also expect free allocation to be made more generous, and still some push for offsets, although those have gone quieter since the proposals were made. The MSR's parameters could still be shifted.

- We still expect higher prices in 2027 and 2028, followed by a period of consolidation when the balances stop having such strong draws on surplus.

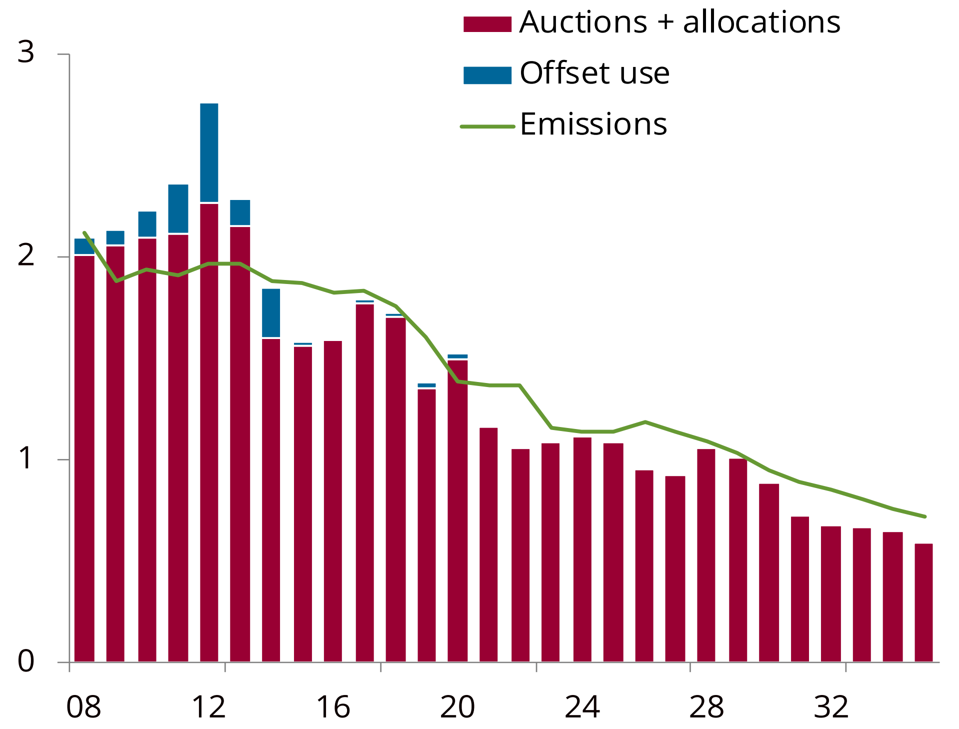
- We have made some changes to our modelling and data. The net changes to our price forecasts were modest.

Fundamental balances

Fundamentals still supportive for 2026-27; policy risks have abated

EU ETS cumulative balances

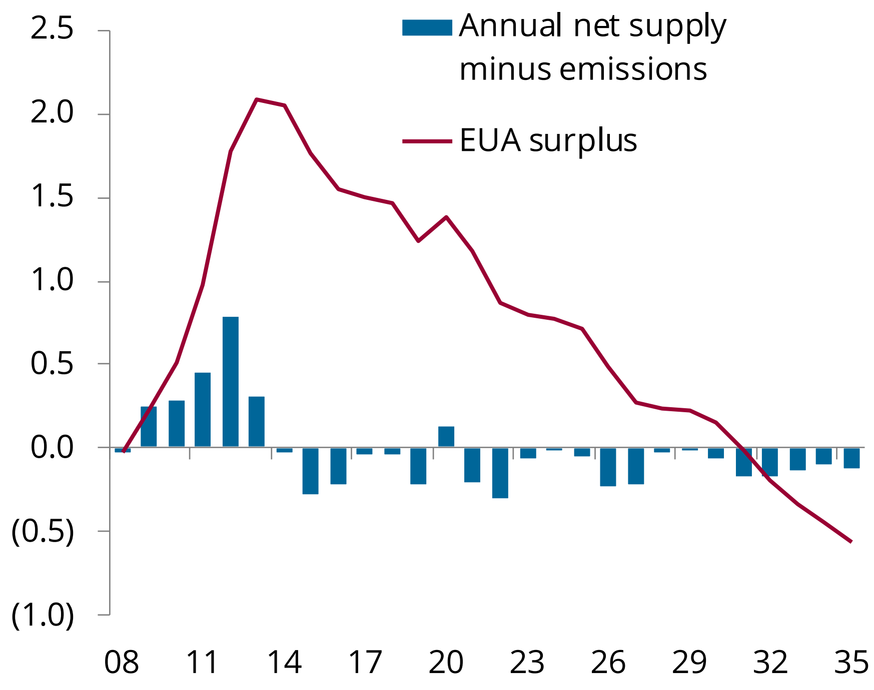
Gt



We forecast 234Mt of draws in 2026 (+8Mt mom) and another 216Mt in 2027, still supporting the bull story for the next two years.

EU ETS market balance

Gt



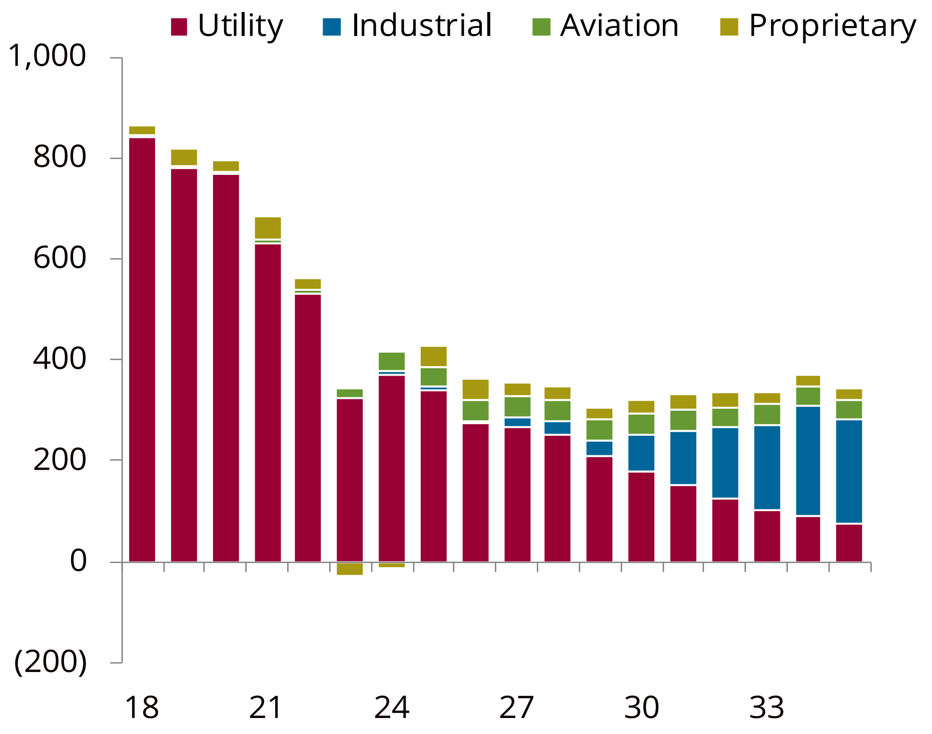
The pull on the EUA bank remains considerable and the cumulative balance could turn negative early in the next phase, supporting higher EUA prices.

Source: EEA, Energy Aspects

Compliance holdings have slowed on high energy prices

Hedging balance

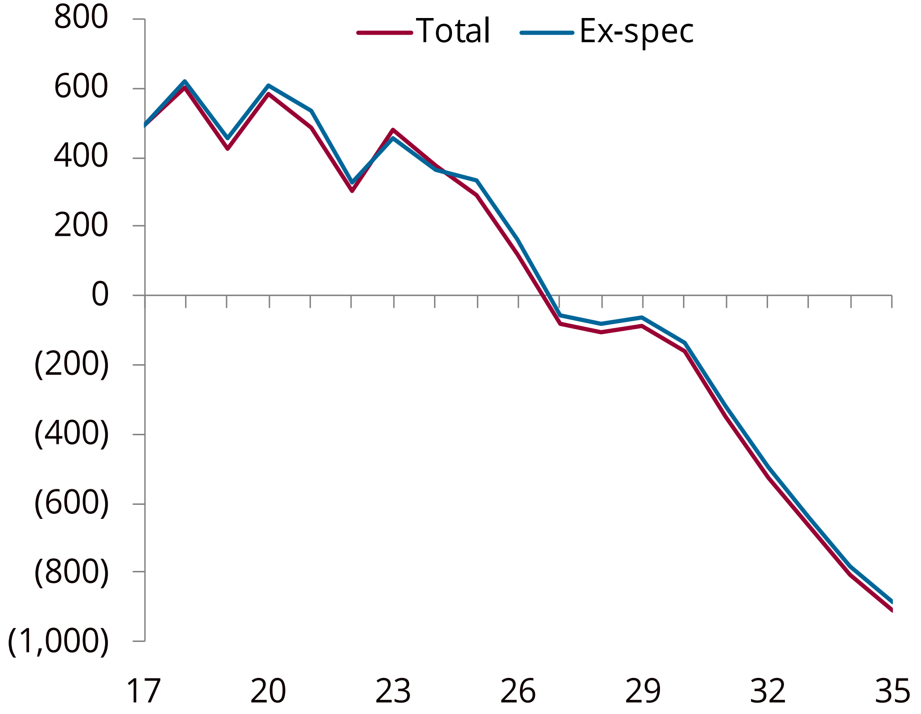
Mt



We think 2026 hedging will be near 321Mt. High gas and power prices are trimming hedging and speculative appetite among compliance participants.

Hedging demand forecasts

Mt

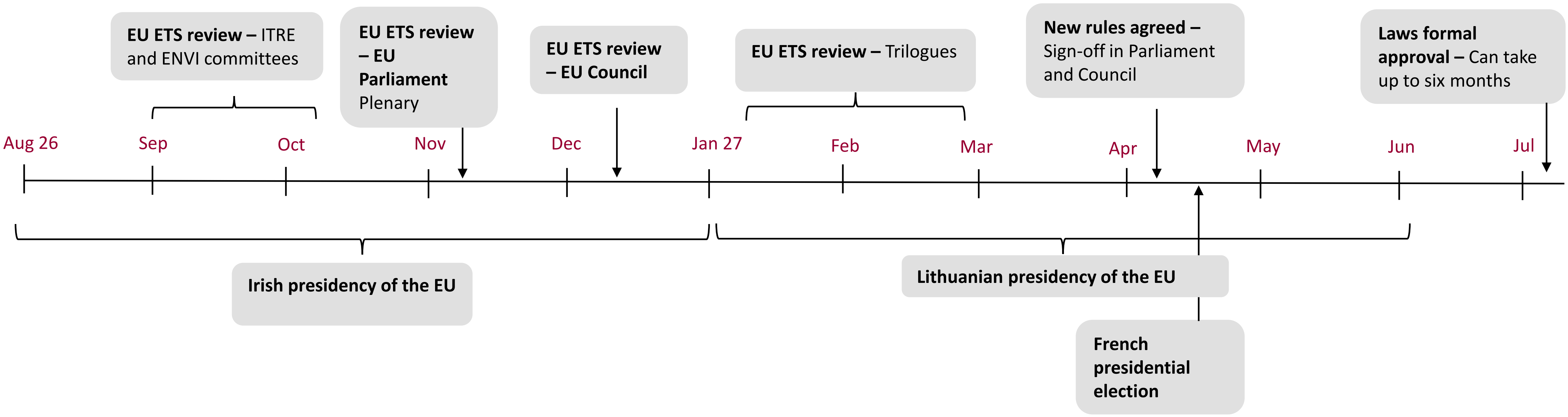


Steep reductions in the hedging balance continue to support our view of increasing prices yoy, but this is a far less sheer drop than we previously expected after 2030.

Source: EEA, Energy Aspects

Policy developments to continue well into 2027

Timeline for policy developments



Policy developments will dominate the remainder of 2026, even if new rules are unlikely to affect supply and demand before 2028. Substantive debate should start now, and we think risks are mostly focused on the rulemaking process taking longer than expected. The Irish presidency is targeting end-2026 for agreement, but this is optimistic, and it will likely fall to the Lithuanian presidency to finish, albeit the French elections could add a late complication.

Source: European Commission, Energy Aspects

Political alignment and voting patterns to result in some close votes

Political alignment in European Parliament

Left

Right

Group	Accronym	Seats	%
The Left Group	Left	46	6%
Greens / Europe Free alliance	G/EFA	53	7%
Socialists and Democrats	S&D	136	19%
Renew Europe	RE	77	11%
European Peoples Party	EPP	188	26%
European Conservatives and Reformists	ECR	78	11%
Patriots for Europe	PfE	84	12%
Europe of Sovereign Nations	ESN	25	3%
Non-Aligned	NI	32	4%

More modest loosening

More drastic loosening

Either of the shaded groups would deliver a majority of votes, which means the key question is whether the EPP seeks alignment with parties to the left or to the right.

Voting in the European Council

Group of 7 supporters	% of pop	It depends	% of pop	Group of 10 "pragmatists"	% of pop
Total	22.1%	Total	42.3%	Total	35.6%
Spain	10.7%	Germany	18.8%	Italy	13.1%
Netherlands	4.0%	France	15.2%	Poland	8.2%
Sweden	2.4%	Belgium	2.6%	Romania	4.3%
Portugal	2.3%	Austria	2.0%	Czechia	2.4%
Denmark	1.3%	Ireland	1.2%	Greece	2.3%
Finland	1.2%	Croatia	0.9%	Hungary	2.1%
Luxembourg	0.2%	Lithuania	0.6%	Bulgaria	1.4%
		Slovenia	0.5%	Slovakia	1.2%
		Latvia	0.4%	Estonia	0.3%
		Malta	0.1%	Cyprus	0.2%

The group of 10 “pragmatists” has a blocking minority, as 65% of population is required. If either France or Germany sides with the group of seven supporters, there is also a blocking minority.

Source: European Commission, Energy Aspects

Proposals will be changed with LRF; free allocation and ETS2 key battlegrounds

Proposals and likely final positions

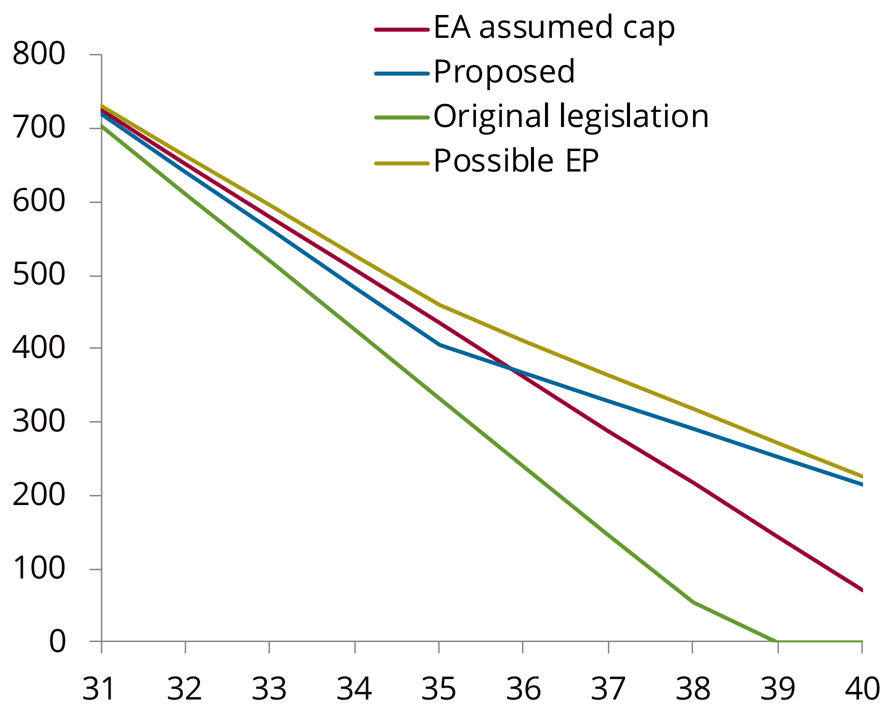
Topic	Commission proposal	EA expected final position
EU ETS review		
Change to LRF - post 2031	LRF of 3.7% LRF in 2031-35 and 1.7% in 2036-40.	Pressure to soften the 2031-35 LRF and increase the 2036-40 LRF. Expect 2040 cap to be unchanged.
Change to LRF - 2029-30	No proposal.	Little chance the 2029–30 LRF gets reduced. EPP seem to have dropped it.
MSR review part 2	Fixed 4% yoy reduction to threshold levels and on addition rate from 2029. Rebasing TNAC to reflect aviation balances pre-2024. Removal of invalidation rule. Upper withdrawal rate to be fixed at 12%. Lower bound to have lower buffer of 300Mt and injections of 300-400Mt to be less than 100Mt (400Mt–TNAC).	Main proposal likely to be at risk is the "dynamic" lower bound and reducing thresholds/rate of adding back but has very moderate impact in our balances.
Free allocation extension	The % reduction for CBAM removals modestly softened and 15% free allocation extended to 2038 for export support.	Expect free allocation reductions for CBAM introduction out to early 2030s to be materially softened compared to proposals.
International offsets for 2031-40	Offsets equal to 2% of the EU ETS cap to be used from 2036 but these to be sovereign purchases and just offsetting the reduction in the ETS LRF.	Will be some push to get offsets into the EU ETS for installations. Will be a quite heavily contested battleground.
International offsets for 2028-30	No proposal.	Small chance this gets added but hard to see enough political support.
EU removals	EU CRCF Regulation (CDR) removals to be allowed in EU ETS from 2031. EU to allow in up to 250Mt. Some 10Mt to be used to subsidise the CRCF-EUA price spread.	Likely accepted but some pressure from Parliament to get this in 2028.
Price corridor, cap or more active intervention	No proposal.	Potentially proposed as a change to Article 29a allowing more rapid policy intervention. Expect pushback on any such proposals.
Including other sectors in the ETS	Municipal waste incineration from 2031 and gradually phased in over four years.	Likely to be accepted but there is some opposition given how much municipal waste is publicly owned. Proposals delay to start to 2031 makes it more likely.
Postpone / Suspend EU ETS2	No proposal.	Very politically sensitive. Another delay could be passed in horse-trading for avoiding other things.
Position limits	No proposal.	Not enough support but likely raised during debates.
Aviation and CORSIA	Emissions from flights departing EU airports within a 5,000 km radius from the centre of Europe to be included in the EU ETS as well as all business flights.	Scale-back of the proposal makes this more likely to be palatable. Could be rejected in exchange for compromises elsewhere.
Investment booster	400 t investment booster. Expected balance impact potentially 2028-30. Moderate risk for 2H27. Sourced from unallocated allowances and NER.	Accepted. Potentially a push to make it easier to access funding but do not expect much detailed debate.
IDB funding	IDB to take 400 t from ETS cap for investment support over 2031-40 .	Accepted.

Source: Energy Aspects

Linear reduction factor likely to be further softened for 2031-35

Linear cap-reduction paths

Mt



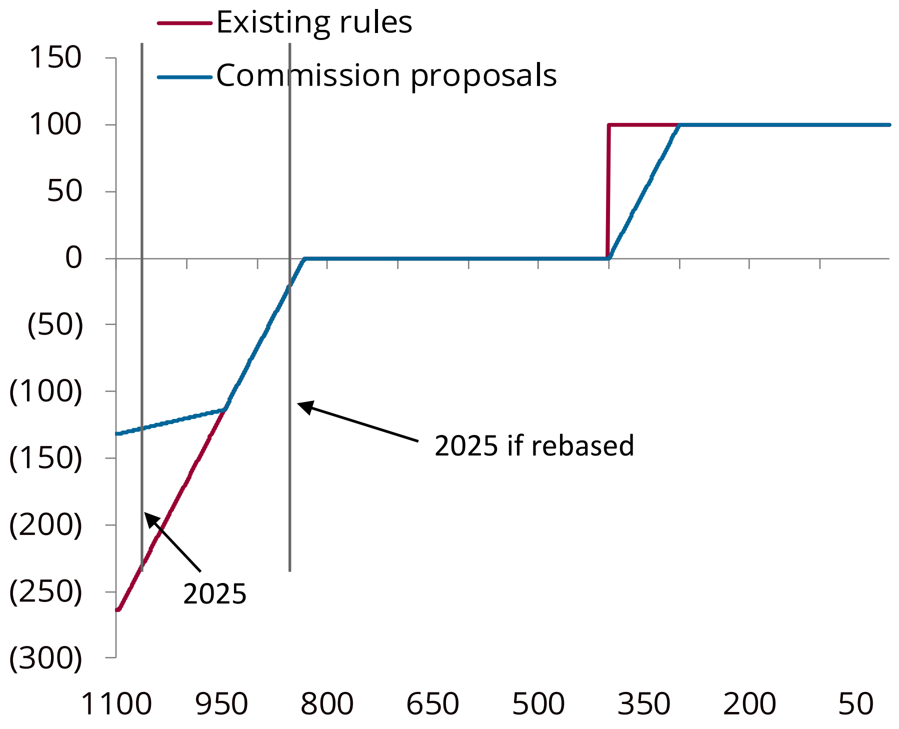
Source: Energy Aspects

- The LRF was shifted to be consistent with the 90% reduction target by 2040. The proposal is a 3.7% reduction in 2031-35 and a 1.7% reduction from 2036-40. Continuing the 1.7% LRF beyond 2040 results in an implied zero-cap level in 2045.
- We expect the European Parliament to push for the LRF to be lowered in the first half of the next phase (2031-35) and possibly steeper in the second half of the decade (2036-40).
- LRFs of 3.2% (2031-35) and 2.2% (2036-40), the yellow line in our chart, deliver largely the same 2040 cap but would add some 304Mt to the phase-5 base cap. The added supply would trim our EUA price forecasts by around EUR 13/t over the phase.

MSR proposals more market loosening than tightening

MSR removals and additions

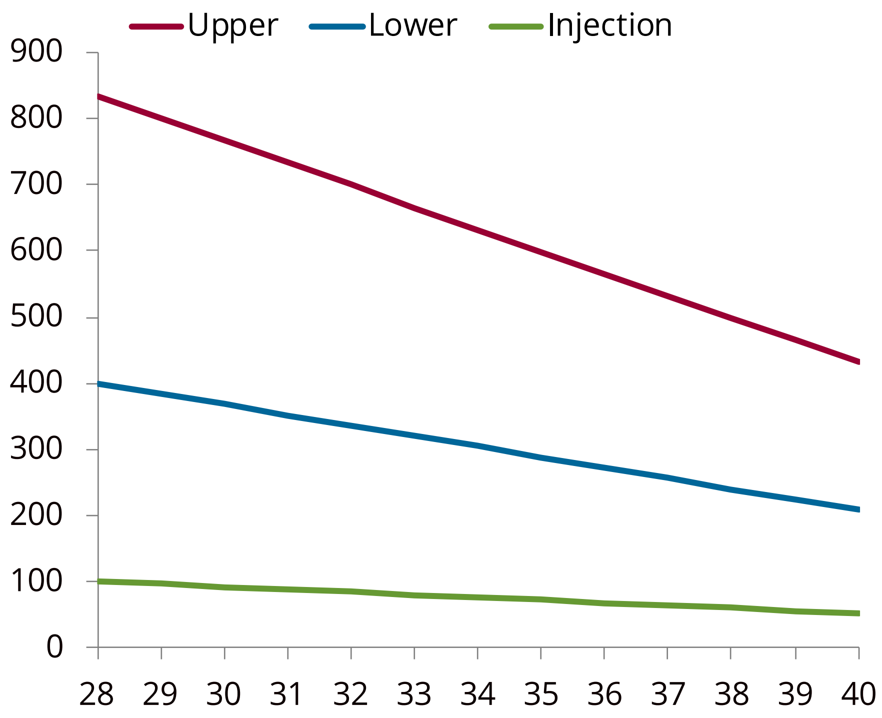
Mt



The biggest proposed change will be re-estimation of the TNAC to include aviation (173Mt) plus the removal of the invalidation rule.

MSR upper and lower thresholds, injection rates

Mt

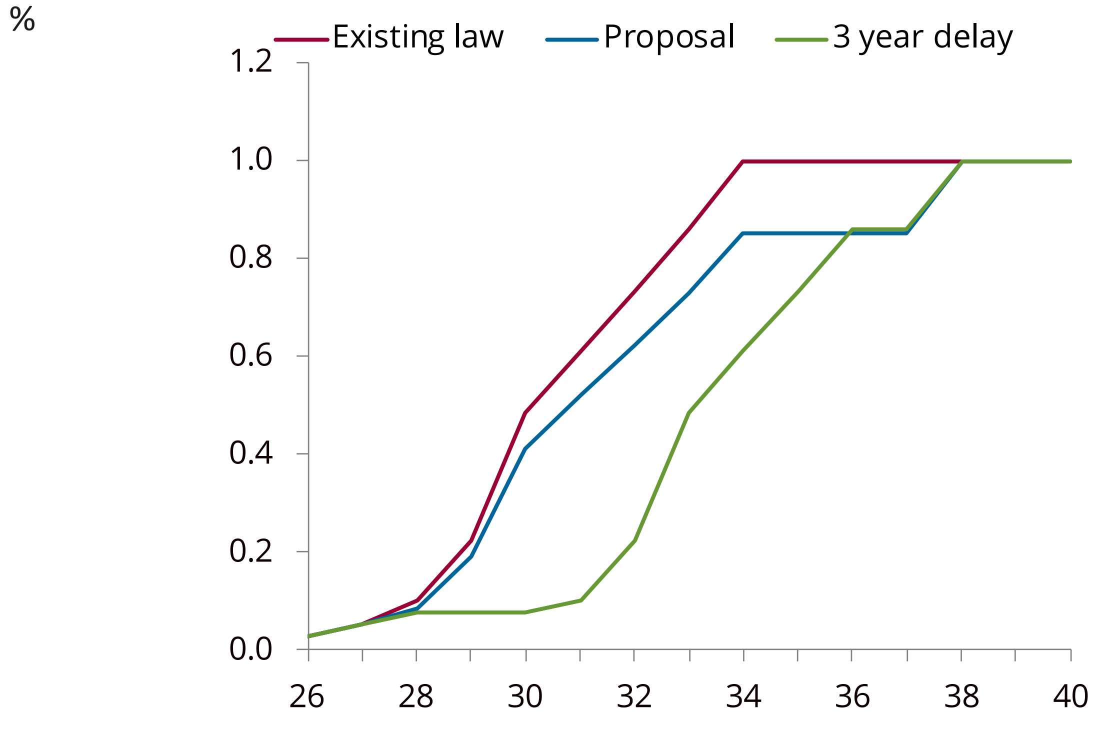


The Commission proposed moving thresholds and the injection level down by 4% per year. The upper threshold would be 60 Mt and down by 288Mt by 2035, with injection at 72Mt.

Note: In the LH chart, x-axis represents the TNAC
Source: Energy Aspects

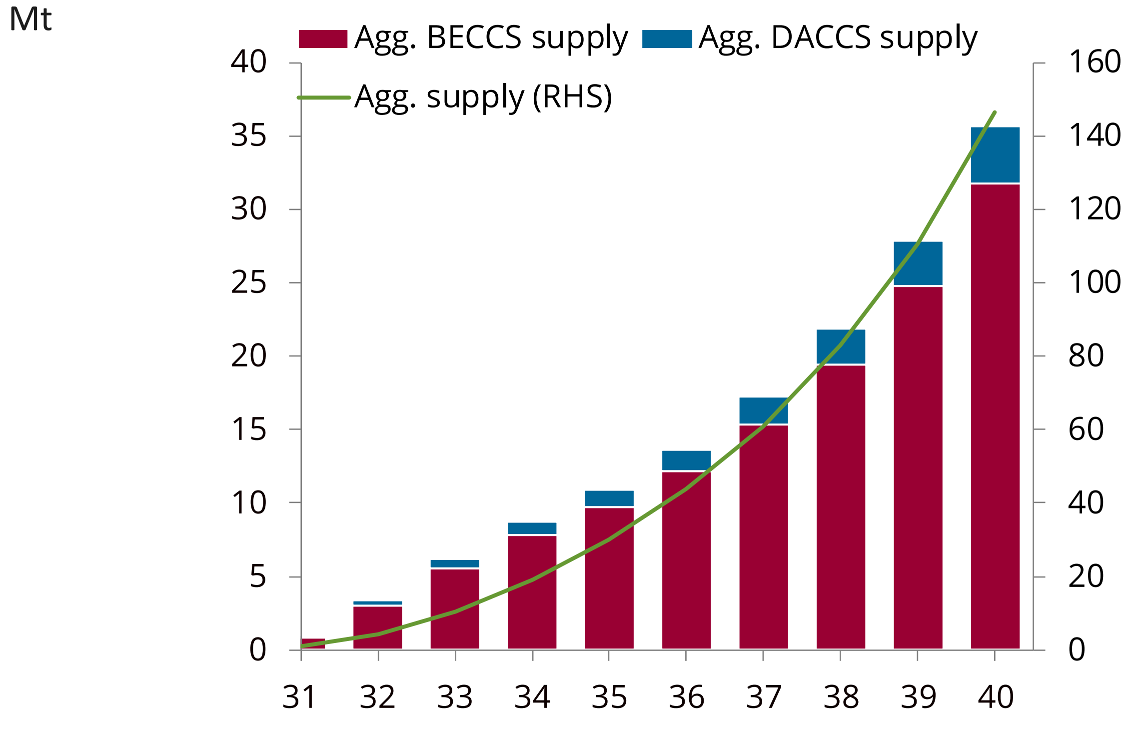
Proposed phaseout of CBAM and allowing removals have little impact before 2031

CBAM phaseout of free allocation



CBAM phaseout does not change supply and demand but does change subsidy distribution and hedging levels. Changes to proposals likely to delay phaseout more at the front end.

Carbon removals



We forecast 146Mt of eligible-removals supply into the EU ETS over 2031-40, well short of the Commission's 250Mt target.

Source: European Commission, DAC Coalition, Puro.earth, Isometric, Energy Aspects

IDB funding likely to backload supply

Potential booster funding process

Mt

Process	Months	Date
Invitation		Jan 28
Award	6	Jun 28
Period to FID/start construction	18	Dec 29
Construction period	24	Dec 31
Year of operation	12	Dec 32
Award	10% o 15%	
Total time elapsed	60	
Years		5

The Investment Booster has 400Mt of EUAs to be reserved. The EUAs will be allocated to individual qualifying projects upon completion of project and MRV of emissions reductions.

Booster and IDB supply implications

Mt

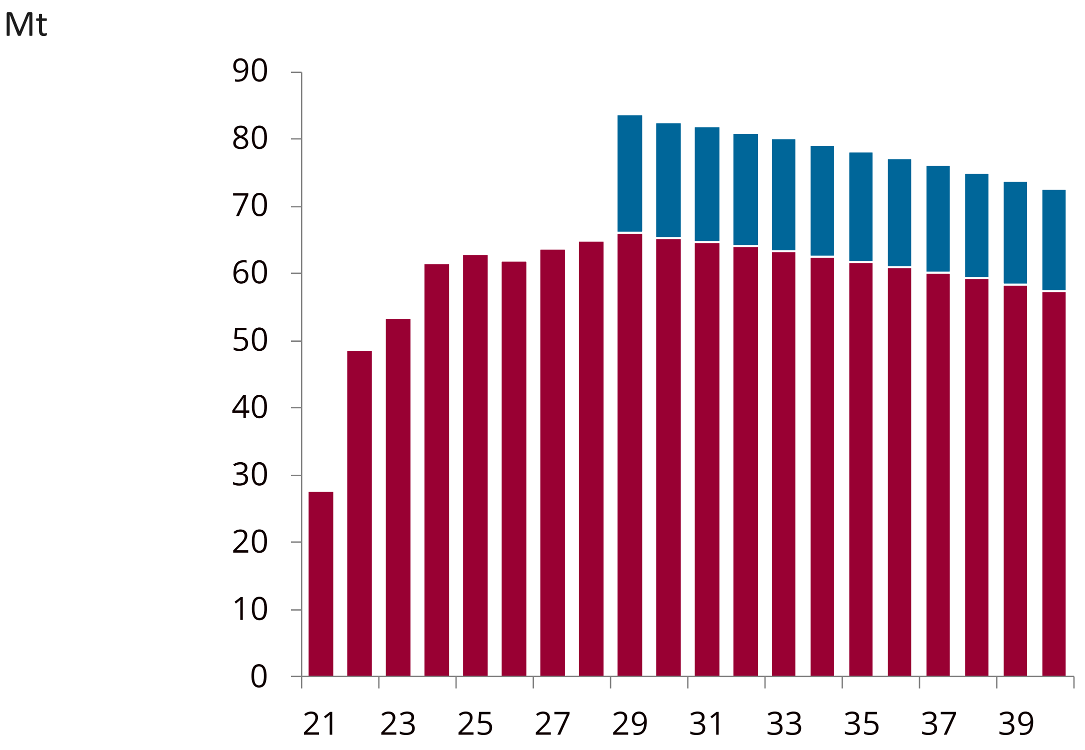
	Booster		IDB			Total	
	Reserved	Going out	from balances	Reserved	Going out	Reserved	Going out
2028	130					130	0
2029	170					170	0
2030	100					100	0
2031		2	40	75		75	2
2032		12	40	75		75	12
2033		28	40	75		75	28
2034		44	40	75	3	75	47
2035		53	40	100	9	100	61
2036		55	40		15		70
2037		55	40		24		79
2038		55	40		35		89
2039		52	40		45		97
2040		41	40		45		86
Total	**400**	**396**	**400**	**400**	**176**	**800**	**572**

We see a potentially large lag between when the volumes are reserved and when they are given out. We assume all volumes will be given out over a seven-year period.

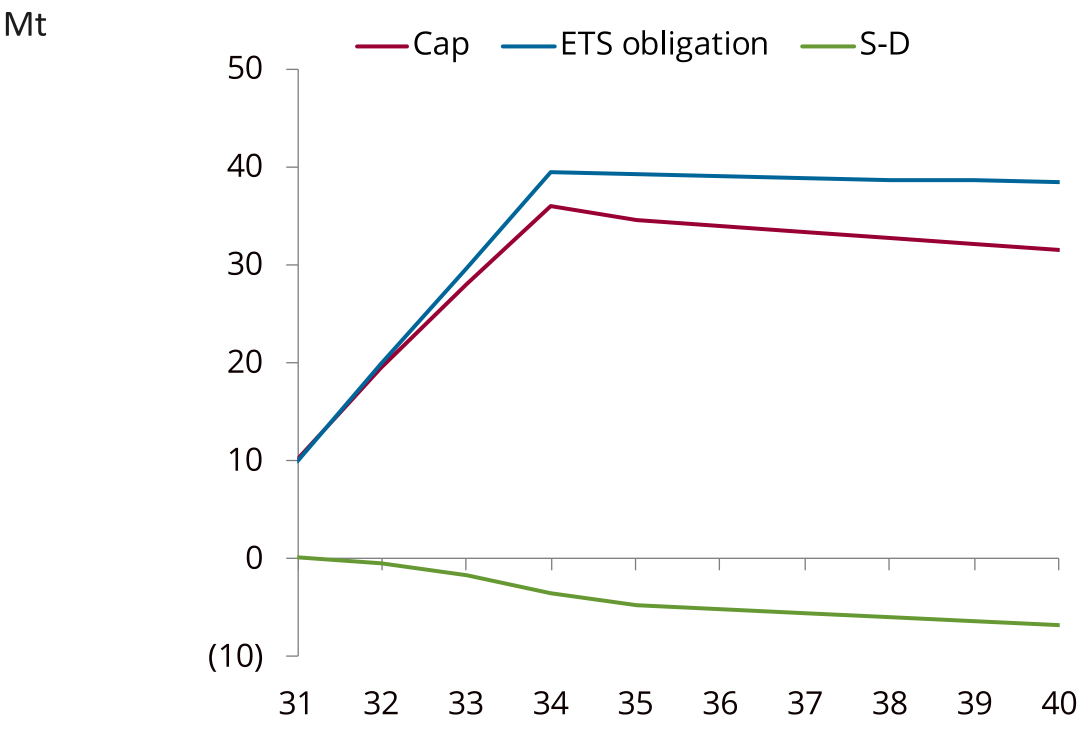
Source: Energy Aspects

Aviation and municipal waste being added, but smaller and slower than expected

Aviation sector ETS emissions



Municipal waste sub balances



The Commission proposed the inclusion of emissions of all departing flights within a 5,000 km radius in the EU ETS from 2029 – only about 8% of all international aviation emissions.

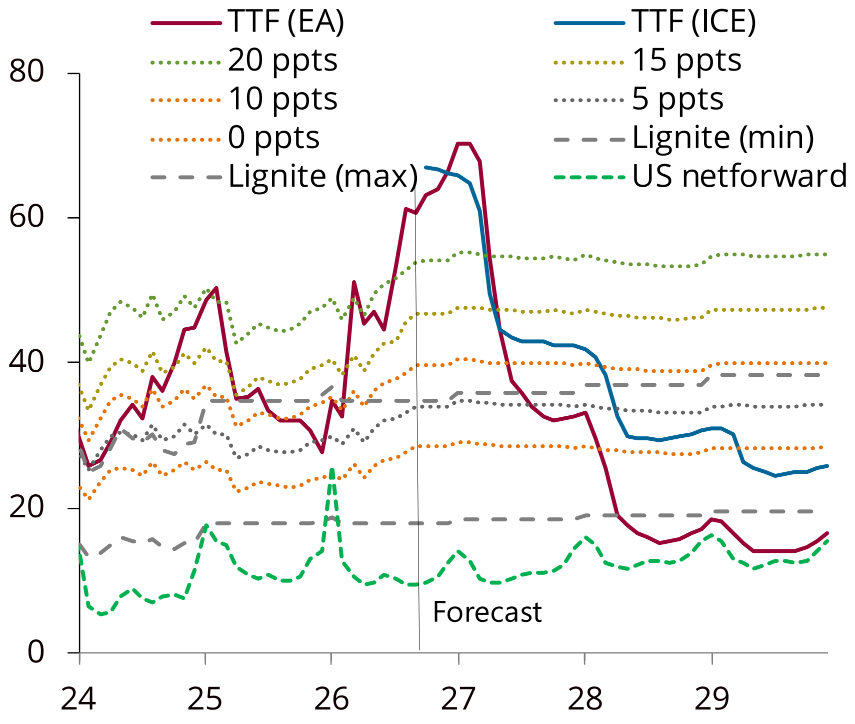
Municipal waste incineration is proposed to come in 2031 with phased entry, leaving the sector moderately short initially. This is a considerable delay from the expected 2028 start.

Source: Energy Aspects

TTF strength extending and backwardation requires return of Qatari volumes

Coal-to-gas switching triggers

EUR/MWh



Note: Legend shows switch needed for efficiency of a gas plant against a coal plant
Source: ICE, Argus Media Group, Energy Aspects

- TTF prices are now way above the top of the fuel-switch range for bal-2026 as the EU gas market has received no respite from the Qatari LNG disruption. The injection season is moving into its final phase and EU storage levels remain at historically low levels of around 70 bcm. The accelerated injections in September that the market need look increasingly unlikely, as Qatari exports remain a long way from being able to meaningfully start up.

- While the market could sell off a little on a reopening of the Strait of Hormuz, the need to still inject high levels of gas into storage and the weather risks endemic to the coming winter season limit downside.

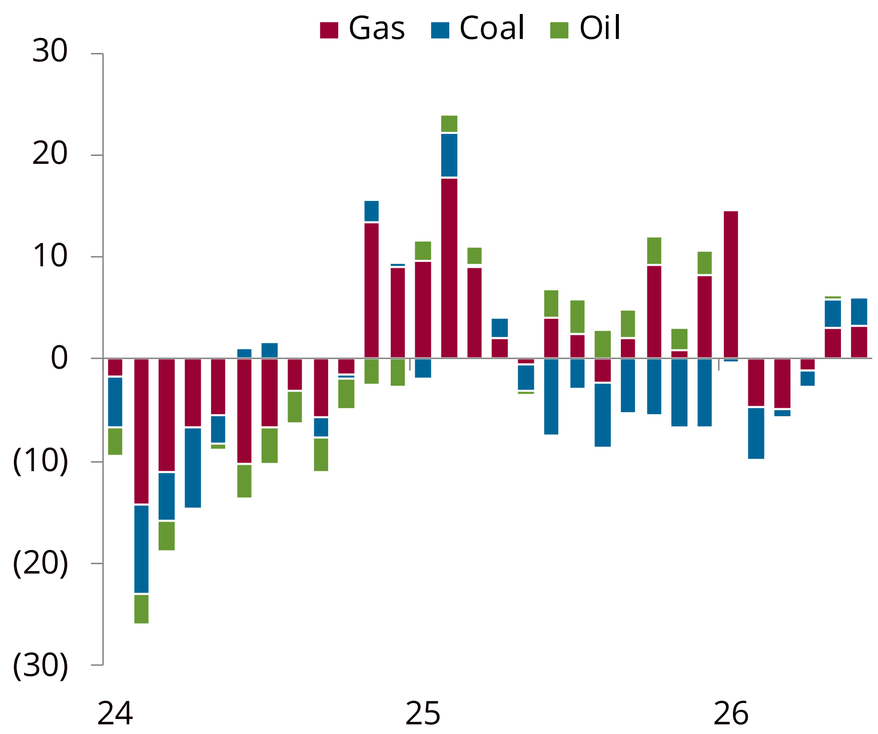
- We now think an end-October carryout of around 76 bcm looks likely. This suggests plenty of winter risk for the TTF, even in the event of normal weather, particularly in any storage-constrained areas. The low storage levels also mean storage will likely end March 2027 low.

- The main risk to emissions comes from another industrial recession, although activity indicators are showing a notable resilience to EU industry. High gas and power prices could start to deliver more negative economic data than we have seen YTD.

Power emissions increasing yoy in 2026 on load growth and lower hydro, nuclear

EU thermal power generation, yoy

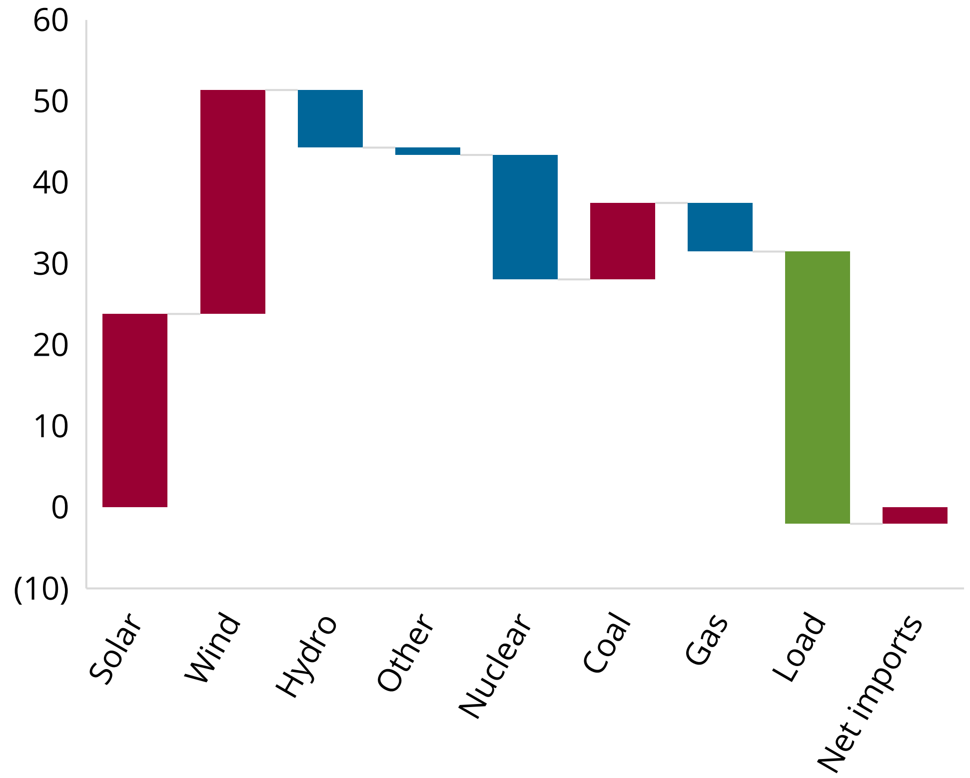
TWh



We estimate power sector emissions were 2Mt higher yoy in 1H26.

Western Europe 2026 power balance, yoy

TWh



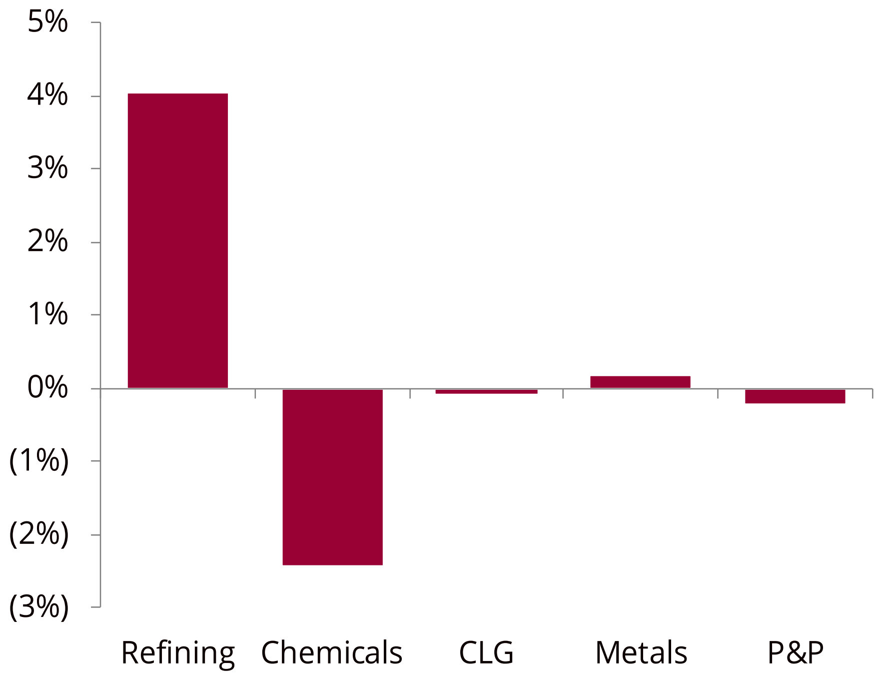
We now forecast a 24Mt yoy increase in power emissions in 2026, a 16Mt increase mom. Strong power demand coming from weather and new demand sources adding to thermal call.

Source: ENTSO-E, system operators, Eurostat, Energy Aspects

Eurozone manufacturing activity more resilient than we expected

EU industrial production, January-June, yoy

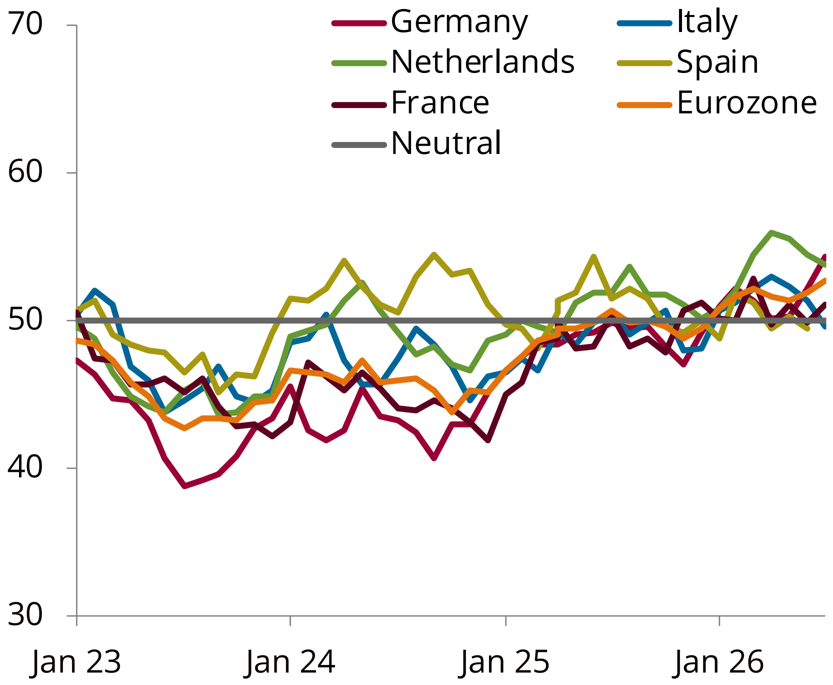
%



EU ETS sectors in June were mixed against forecasts, but refining remains strong on global disruption to oil products trade. Our forecast 2026 activity is unchanged (+0.7% yoy).

Eurozone PMIs

Index



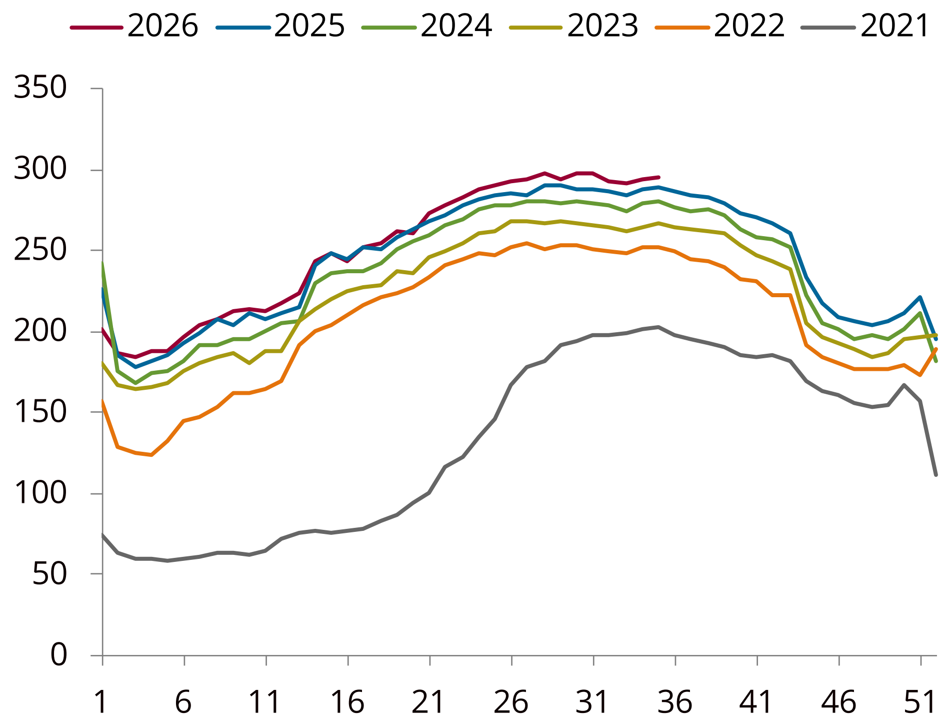
The August Eurozone PMI jumped to 52.7 (+0.8pp mom) as business confidence continues to gain momentum. Factory output and incoming new order volumes both rose quickly.

Source: S&P, Eurostat, Energy Aspects

Aviation activity moderately higher yoy; shipping lower on Hormuz disruption

Flights in EEA by week

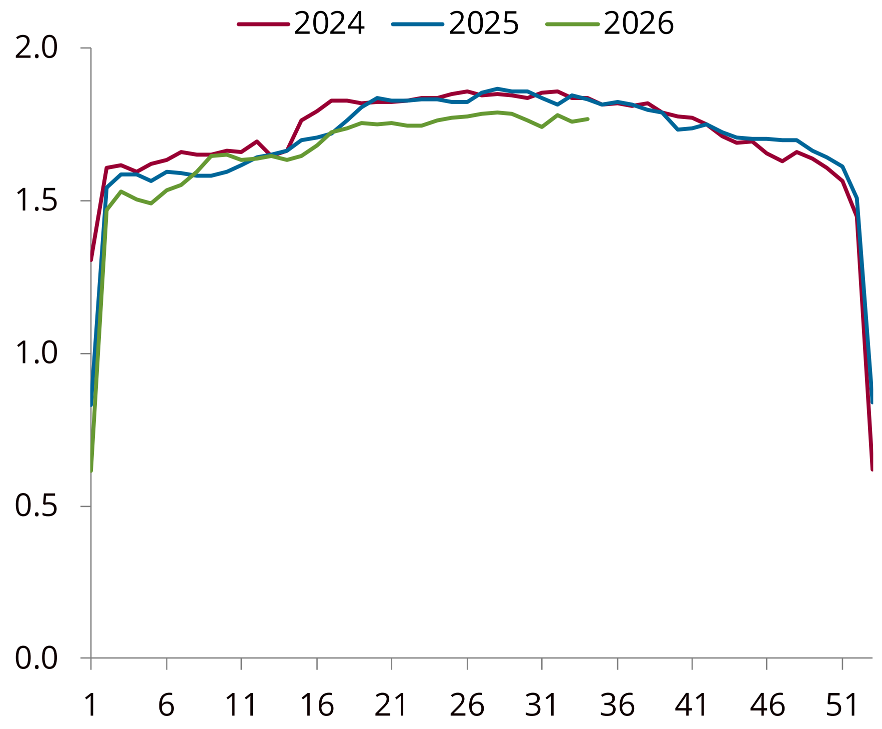
#



We have increased our forecast 2026 activity growth to 2% yoy, matching the YTD activity growth. We expect similar SAF use yoy on stable mandates, while activity has remained strong.

Shipping emissions by week

Mt



We have reduced our activity-level change assumption in 2026 from a 1.5% decrease to a 4% decrease yoy as the Middle East conflict drags on.

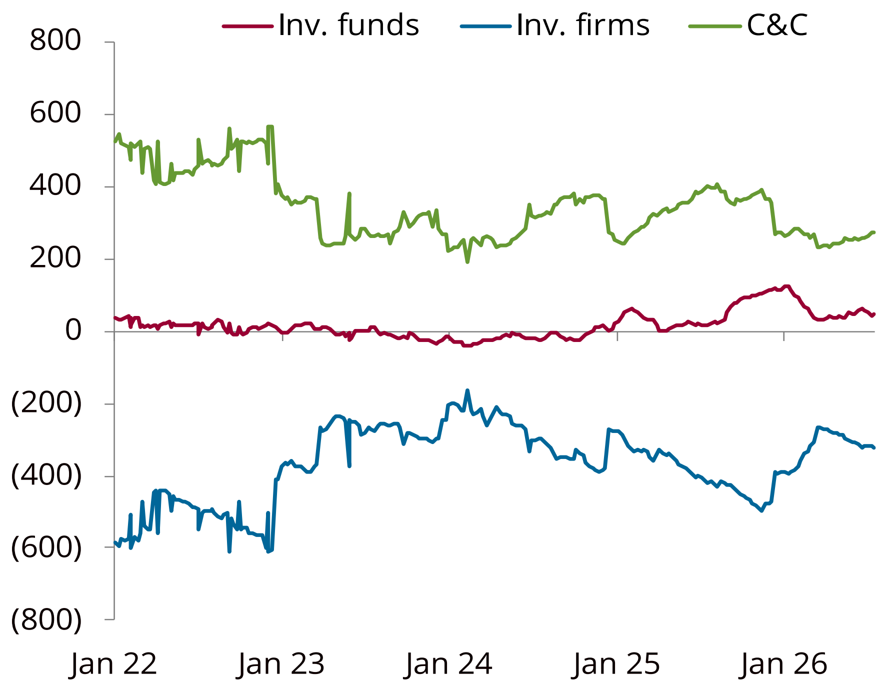
Source: EEA, Eurocontrol, Energy Aspects

Paper-market dynamics

Discretionary investors unwinding while CTAs hold

ICE COT data, all participants

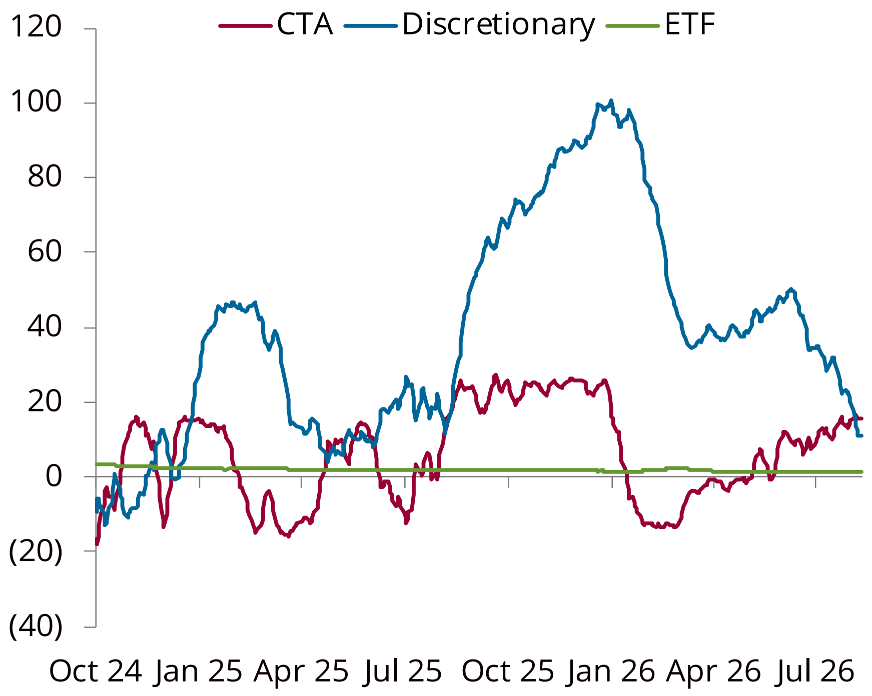
Mt



C&C positions remain gradually tracking upwards, but net length is still down by a sizeable 98Mt yoy. C&C buying will need to increase to keep hedging ratios whole.

Investment fund (net) positions

Mt



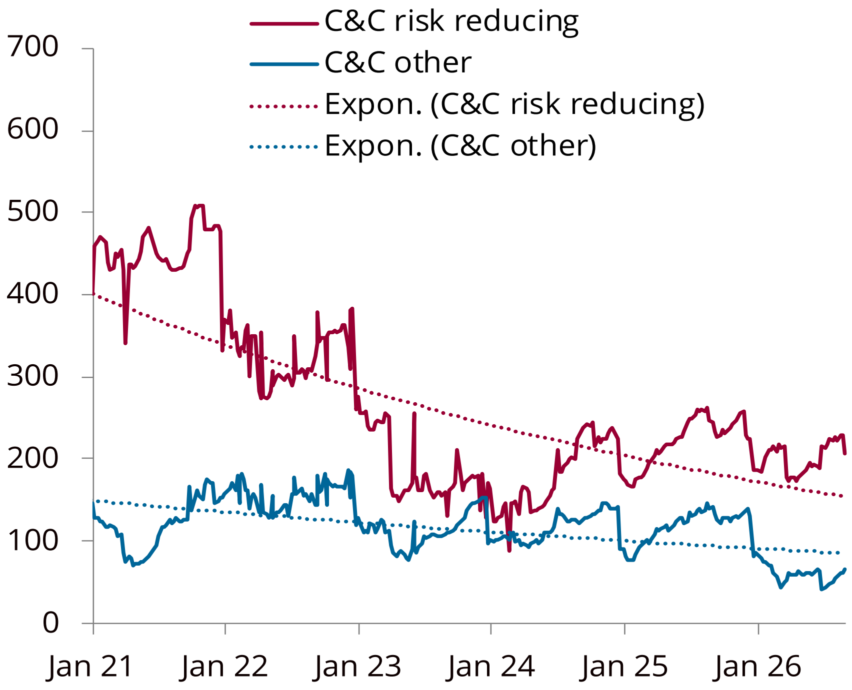
Discretionary investor EUA net-long positions shed another 18Mt mom over August, while CTAs held. Discretionary holdings are down to 11Mt of net length, suggesting far less downside.

Note: C&C is compliance and commercial
Source: ICE, Energy Aspects

Hedging activity largely unchanged, proprietary books should stay low

COT EUA C&C open interest

Mt



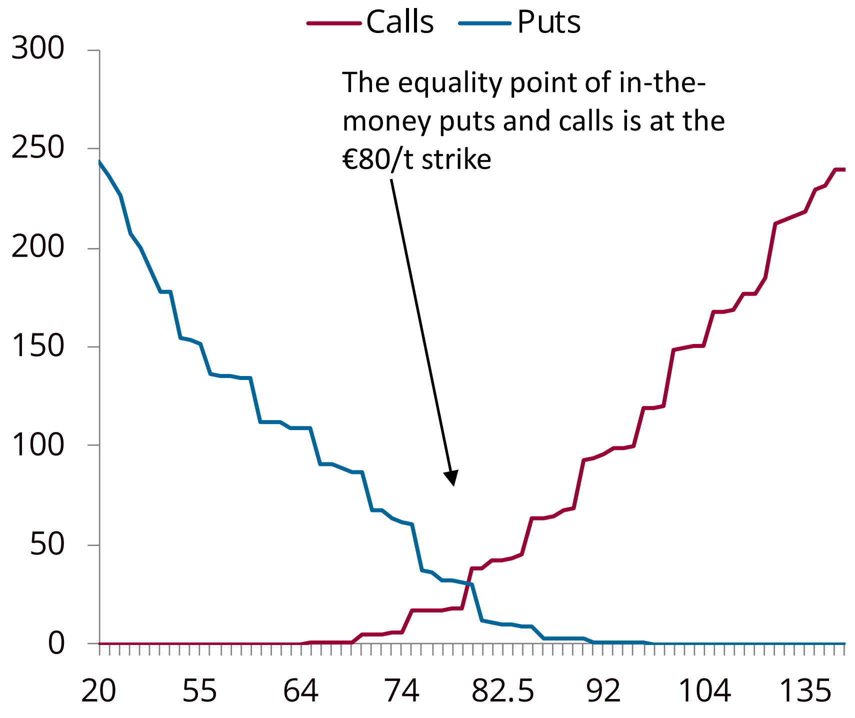
Source: ICE, Energy Aspects

- C&C positions were down by around 98Mt yoy at end-August – a smaller gap to last year mom, but still sizeable. Compliance hedging has fallen mom but did not fall as much as in August 2025. We maintain our C&C expectation of a 60Mt yoy drop in holdings.
- The yoy decrease in hedging has not materially changed, with risk-reducing positions now just 37Mt lower yoy. Free allocation information has been released suggesting most installations will have a clear idea of what they will still need to buy. An average reduction of about 7% yoy in those levels suggests industrial hedging should start to increase on previous years. The late release of free allocation still leaves some risk of late buying by industrials that have heavily sold previous allocation.
- A big gap remains on the proprietary component of C&C, which is down by some 75Mt yoy. This component of C&C positioning had been reasonably flat around 125 Mt for most of this decade. At 66Mt, these positions are responsible for most of the shrinking of the yoy gap. Still with gas and power hedges now eating up capital, the likelihood that this capital returns in volume this year seems low.

EUA put and call OI more or less equal; market pondering next direction

ICE EUA option OI, cumulative

EUR/t (x axis); Mt (y axis)

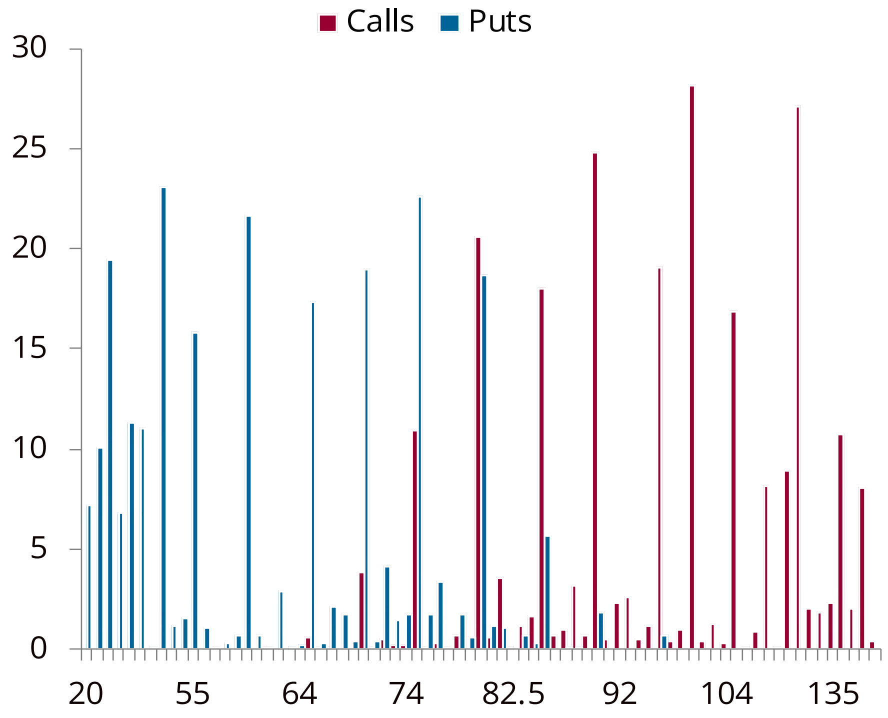


End-August open interest (OI) shows puts and calls as largely equal, with call OI increasing slightly more than put OI over the month. OI in-the-money equality is at EUR 80/t.

Note: OI numbers are for all contract expiry in LHS chart
Source: ICE, Energy Aspects

ICE EUA call and put option OI by strike

EUR/t (x axis); Mt (y axis)



The EUR100/t strike is still the most popular call, and most OI is in a +/- EUR 20/t range. The EUR 75/t strike is the most popular put in the vicinity of the market, with a lot of OI going to out-of-the-money strikes.

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