UKA Market Updates (31 March 2025)

Summary: The closer convergence between UKA and EUA prices continues to hold, largely due to perceived policy tailwinds in the form of increased reporting around a possible UK-EU ETS linkage and the [expansion of UK ETS to include shipping](https://www.gov.uk/government/news/course-charted-for-carbon-free-shipping-by-2050). Beyond the usual indicators below, it is important to keep track of building negative sentiment in the form of:

1. Growing optimism over a potential Ukraine-Russia peace deal – would drive UKA bearish sentiment (due to prospect of resumed gas flows to Europe). Current news, however, report [stagnating peace prospects](https://apnews.com/article/russia-ukraine-war-trump-truce-putin-zelenskyy-9eb7e46ca4bd7a970b0837e94745f6ba);
2. [British Steel](https://britishsteel.co.uk/news/british-steel-to-consult-on-proposed-closure-of-scunthorpe-blast-furnaces-rod-mill-and-steelmaking-operation/) (top buyer of UKAs) announced it is currently considering closing some of its steelmaking operations inciting selling pressure; and
3. [Trump tariffs on carmakers](https://www.reuters.com/business/autos-transportation/carmakers-weigh-risk-price-hikes-trump-tariffs-loom-sources-say-2025-03-28/) – escalating trade tensions that leak to other industries beyond European car makers can lead to drops in production volumes, thereby reducing carbon prices.

A graph showing the price of a product

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Key UKA Price Drivers This Month:

* **Energy Markets**: Broader weakness in power and gas markets have added to selling pressures in March.
* **Weather**: Temperatures are set to rise slightly above seasonal norms (less energy required to heat up homes, less UKAs offsets needed) while renewable generation is expected to stay at seasonal average.
* **Auction supply**: The return of bi-weekly auctions is likely to weigh on UKA prices (upcoming ICE Auction on 2 April 2025).
* **ETS Linkage**: Continued reports of UK and EU MPs pushing for ETS linkage are sustaining bullish sentiments.
* **Trading Positions**: Investment Funds increased their net long position to 14.5Mt (vs 13.2 Mt for 28 February) – as of COB 21st March 2025.

UKA Price Outlook (Bearish-Neutral):

Redshaw (31 March 2025): Bearish sentiment likely to be driven by 1) return of bi-weekly auctions, 2) further news on the British Steel consultation, and 3) escalating trade tensions.

Market Commentary:

Redshaw (24 March 2025): *In the absence of further linking news, a reversion to fundamentals is likely to weigh on prices.*

Vertis (24 March 2025): *The government penciled in its position on the linkage ahead of the* ***UK-EU summit*** *on* ***May 19th****. It’s given specs a date to circle especially after the market has jolted four times off the back of the linkage headline since Starmer first floated it in late January.*

Vertis (11 March 2025): *Last week’s slump signals a position offload by hedge funds that have been persistently holding long UKA positions, with the net position hovering around 14 million UKAs. Since mid-February, funds have been aggressively unwinding their total short exposure, bringing it down to 2.3 million UKAs by the week ending February 28, a sharp drop from 15 million UKAs at the end of January. While the longs have been reduced too, the pace remains much slower on this front.*