

## EU Carbon Market Monthly Report | July 2025

### Market Developments

July <sup>1</sup>		MoM Change	YoY Change
EUA Price EoM (€)	71.96	5.53%	5.61%

EUAs ended July at €71.96, a +5.5% MoM change, with the market increasingly focused on tightening supply and increased visibility on longer-term policy signals.

Structural positives emerging in July:

- **EU-UK carbon market linkage moves forward** - On 16th July the EU took a major procedural step forward and formally authorized negotiations on linking the UK ETS with the EU ETS. A merged systems pulls UK emitters into the same shrinking EUA supply pool, adds structural demand, deepens market liquidity, and strengthens the long-term price signal for decarbonisation.
- **Policy tightening even in coal-heavy states** – On 28th July Poland's updated NECP (National Energy and Climate Plan) was formally approved by the Polish Ministry of Climate and Environment, with tightened renewables targets. This is significant as Polish politics have been influenced by right-wing resistant to decarbonisation.
- **EU/US Trade Deal** – This was announced July 27<sup>th</sup>, with tariffs set at 15% on most EU exports, the tail risk of the threatened 30% tariffs has been removed, which would have driven a significant decline in European industrial production and emissions. The EU has also committed to large US gas purchases which will, at the margin, constrain the economics of coal-based generation within the EU.
- We re-note June's publication of the EU's 2040 Climate Target (-90% vs 1990), further reducing political risk to the ETS framework.

**Energy Fundamentals:** Power emissions rose 35% MoM / 7% YoY in July mainly due to a fall in renewables and a greater reliance on fossil fuels. Whilst the TTF gas price rose ~8% MoM in July MoM, the correlation of EUAs declined.

### Primary Market and Auctions

	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Avg EUAs sold per auction (m)	2.75	2.77	2.81	2.76	2.75	2.80
Avg subscription rate	179%	179%	170%	172%	157%	168%

Source: EU Commission, EEX, SparkChange

**Supply Tightening Confirmed.** The Revised 2025 and Provisional 2026 Auction Calendars were published. The 2025 calendar, in line with expectations, saw a modest tightening of auction supply from September to December (-6% compared to 2024 mainly due to a higher TNAC and therefore MSR withdrawal). The 2026 provisional calendar effectively reduces daily Auctions from Dec 25 to Jan 26 by -10.2% to Jan 26 (from 3.2m EUAs to 2.9m EUAs). This calendar will be revised next year, Sep-Dec volumes will most likely be adjusted. Contact us if you'd like to get more information on this.

### Secondary Market

		Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
EUA Spot	Avg Volume Traded (k)	3.01	3.52	3.06	2.15	3.61	2.14
	EoM Price (€)	69.4	66.66	63.82	69.99	68.19	71.96
Dec FUT	Avg Volume Traded (k)	39.1	38.9	31.6	31.8	32.3	27.1
	Call OI EoM (k)	249	233	296	320	288	308
	Put OI EoM (k)	190	141	163	186	162	180

Bloomberg

### EUA Market Outlook and Events to Watch

- **Trump/ Russia deadline:** Late in July, President Trump shortened his ultimatum for Russia to show progress to ending the war in Ukraine. Yet, there is little sign of compromise by Putin as we head to a deadline at the end of this week. Trump has already put higher tariffs on India and similarly threatened higher tariffs on countries buying Russian oil. Although correlations are reducing, EUAs may get dragged upwards if Trump follows through on some of his threats.
- **Short-term fundamentals:** Auction volumes are scheduled to be 10% lower in August MoM which could lead to increased volatility. Whilst we are not weather forecasters, August has so far been cooler than normal, which could see renewable supply normalise. Entities have until end September 2025 to surrender EUAs equivalent to verified emissions for 2024. This is the first compliance deadline for Maritime Sector; there is a possibility of raised near-term demand and strong primary auction bids in seasonally less-liquid markets

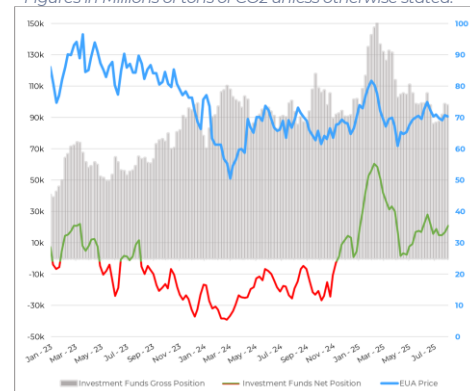
### Investment Fund Positioning

Without any major surprises in Policies, Investment Funds' Net Position hardly moved from 16mT to 17mT. Signalling to an unchanged conviction during July (Net Long since November 2024).

However, Gross Positions increased 15%. The increase could be aligned with the upcoming September Compliance Deadline.

Investment Fund Positioning *		MoM Change
Long	58 mT	13.8%
Short	41 mT	17.1%
Net	17 mT	6.25%
Gross position	98 mT	15.8%
Gross position in €m	6955	15.3%

\*Figures in Millions of tons of CO2 unless otherwise stated.



Investment Funds Gross Position

<sup>1</sup> EUA Spot Price (ICEDEU3 retrieved from Bloomberg. Emissions retrieved for 1<sup>st</sup> of the past month from Ember)

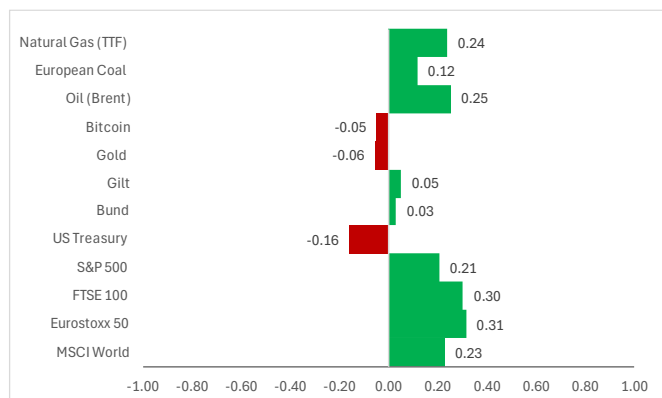
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### Carbon as an Asset Class Source; monthly EUA spot price (ICEDEU3) from Jan 2018 <sup>2</sup>

#### Statistics

Performance		Risk/Return		Return Distribution	
Cumulative Returns:	784%	Sharpe Ratio:	0.87	Standard Deviation	11.21%
Average Monthly Performance	3.04%	EAR:	36.46%	Skewness	0.114
Best Month:	31.55%	Annual Risk-Free rate	2.5%	Kurtosis	0.087
Worst Month:	-25.54%	Annualised Volatility	38.8%	Maximum Drawdown	-43.81%
% of Winning Months	55.56%				

#### Correlation and Volatility



EUAs have historically exhibited low or negative correlation to most asset classes. Correlation to equity markets has generally remained low since 2018 due to the demand dynamics of EUAs. Correlation to gas and coal tends to increase when prices are close to fuel switching ranges. More information available upon request.

#### As the EUA Market matures, volatility decreases



#### EUAs as a Portfolio Diversifier

By holding a small allocation of EUAs in a portfolio, returns been enhanced, volatility is largely unchanged, leading to an improved Sharpe ratio.

##### Euro STOXX50/Bund Portfolio

	Expected Annualised Return	Annualised Volatility	Sharpe Ratio
60/40 Portfolio*	5.81%	10.9%	0.30
60/40 + 1% of EUA	6.11%	10.9%	0.33
60/40 + 2% of EUA	6.41%	11.0%	0.36
60/40 + 5% of EUA	7.32%	11.1%	0.43

\* 60%EuroSTOXX50 / 40%Bund and EUA spot price from Jan 2018 to Date.

##### MSCI World / US Treasury Portfolio

	Expected Annualised Return	Annualised Volatility	Sharpe Ratio
60/40 Portfolio*	8.1%	9.6%	0.58
60/4 + 1% of EUA	8.4%	9.6%	0.61
60/40 + 2% of EUA	8.6%	9.6%	0.64
60/40 + 5% of EUA	9.5%	9.6%	0.72

\* 60%MSCI World / 40% US Treasury and EUA spot price from Jan 2018 to Date

#### EUAs reducing Carbon Footprint of a portfolio

AN INVESTMENT OF 1% OF €100M (€1M) IN JANUARY 2018 AT €8.46/EUA (BEGINNING OF THE MARKET STABILITY RESERVE REGIME) WOULD HAVE ACQUIRED A POSITION OF **118,203 EUAS**. HOLDING THEM FROM JANUARY 2018 TO JULY 2025 WOULD HAVE RESULTED IN 6 MSR WITHDRAWALS WITH AN ESTIMATE OF ~ **95K EUAS** REMOVED FROM AUCTIONS VIA THE MSR THROUGHOUT THIS PERIOD. WHICH TRANSLATES IN EFFECTIVELY LOWERING THE SUPPLY OF EUAS FOR COMPLIANCE COMPANIES TO SURRENDER IN THE SCHEME.

<sup>2</sup> All statistics performed on monthly EUA spot price (ICEDEU3) from Jan 2018 to date. For Correlations and Portfolio Diversification metrics, monthly data has been used (source: Bloomberg). For more information, please contact salesfp@sparkchange.io



## About SparkChange

SparkChange is a specialist provider of carbon data, analytics, insight and financial products empowering financial institutions to capitalise on the opportunities — and manage the risks — arising from the transition to a low-carbon economy. Combining extensive industry experience across carbon markets, financial products and data analytics, our team shares a passion for SparkChange's mission: to link the financial world to carbon markets.



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