

EU Carbon Market Monthly Report | December 2025

Market Developments

December ¹	MoM Change	YoY Change	
EUA Price EoM (€)	85.24	2.48%	20.14%

EUAs extended gains into year-end, closing December at **€85.24**. European carbon finished 2025 up over 20%, with late-month trading influenced by thin holiday liquidity and expiry-related year-end flows. Prices nevertheless consolidated near the upper end of the recent range.

Following the roll in expiry, pricing focus shifted toward the forward year and its tightening supply outlook, shaped by lower auction volumes, a higher linear reduction factor and declining free allocation.

Auction supply for 2026 was further tightened. On 11 December, the EEX published its updated 2026 auction calendar; **auction volumes are c9% below** the indicative figures released in July. The reduction was driven primarily by the cancellation of allowances linked to the **maritime sector's** phased inclusion into the ETS.

Speculative positioning continued to increase through December and remains above the previous highs observed in 2021. Commercial positioning, by contrast, remains comparatively subdued, reflecting structurally lower power-sector hedging and hesitant demand from industrials.

On 10 December, the European Commission, Parliament and Council agreed the EU's 2040 climate target, formalising a 90% net emissions reduction pathway. This removed a key source of noise that persisted through 2025.

Final CBAM parameters were published on 17 December, with tighter embedded emissions assumptions applied to several import categories. The immediate market impact was limited.

Primary Market and Auctions

	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Avg EUAs sold per auction (m)	2.80	2.69	2.84	2.78	2.79	2.85
Avg subscription rate	168%	162%	155%	167%	169%	166%

Source: EU Commission, EEX, SparkChange

Seasonal halt in auctions : Primary EUA auctions were suspended from **15 December**, with issuance scheduled to resume on **8 January**, temporarily removing primary-market liquidity. The year-end auction pause coincided with the expiry and roll of the December 2025 futures contract, concentrating trading activity in secondary markets.

Secondary Market

		Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
EUA Spot	Avg Volume Traded (k)	2.14	1.97	2.20	1.51	2.15	2.59
	EoM Price (€)	71.96	72.46	75.35	78.31	83.18	85.24
Dec FUT	Avg Volume Traded (k)	27.1	27.3	33.3	32.7	43.5	27.5
	Call OI EoM (k)	308	388	411	437	454	333
	Put OI EoM (k)	180	192	193	237	272	153

Bloomberg

Rolling activity: Secondary-market activity adjusted into year-end following the mid-December futures expiry. Spot trading volumes increased **c.20% MoM**, while front-December futures volumes declined **c.35%** after expiry. Options open interest fell sharply, with call OI down **c.27%** and put OI down **c.44%**, reflecting the clearing of expiry-related positions. Prices nevertheless firmed, with EUAs closing December at **€87.37**.

EUA Market Outlook and Events to Watch

Free allocation benchmarks and CBAM. Updated free allocation benchmarks are expected in early 2026 and will determine installation-level allocation for the coming years.

While preliminary figures leaked in November were broadly in line with expectations, formal publication remains a key milestone for compliance entities assessing forward hedging needs. CBAM certificate obligations will be linked to ETS benchmark values, and greater benchmark clarity may increasingly factor into hedging decisions by importers alongside traditional compliance entities.

Weather and power-sector dynamics. Short-term EUA price dynamics will continue to be influenced by weather conditions and renewable output. Periods of low wind or colder temperatures can push fossil generation back onto the margin, supporting allowance demand. While structural correlations with gas prices have weakened, scarcity episodes in the power sector remain relevant for near-term demand fluctuations.

EU ETS framework and Market Stability Reserve (MSR). Elevated intake rates and the continued invalidation of accumulated surpluses are set to remain key drivers of effective supply, while focus will increasingly turn to the next ETS review cycle, including implementation of the 2040 climate target, further reductions in free allocation and the integration of additional sectors. Expectations around future cap trajectories and MSR operation are likely to remain an important backdrop through 2026.

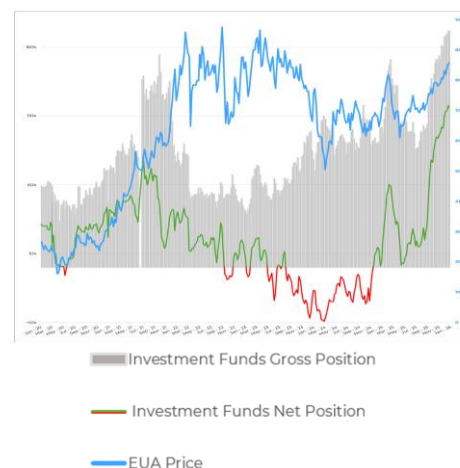
Investment Fund Positioning

Investment Funds long conviction kept growing in December to a record high of 116mT.

In a market increasingly shaped by visible supply tightening —especially 2026 regulatory revisions— the persistence of elevated speculative length suggests that positioning remains focused on medium-term fundamentals rather than short-term price fluctuations.

Investment Fund Positioning *		MoM Change
Long	144 mT	3.9%
Short	28 mT	-3%
Net	116 mT	5.8%
Gross position	172 mT	2.6%
Gross position in €m	14756	5.9%

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



** Bloomberg and Commitment of Traders report published by the IntercontinentalExchange. Investment Fund positioning available to EoM.

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

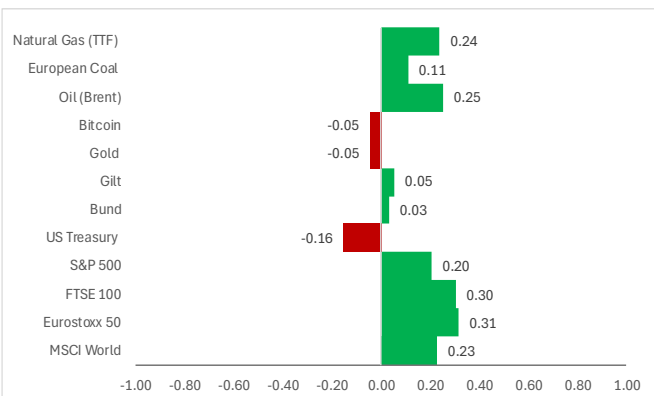
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Carbon as an Asset Class Source: monthly EUA spot price (ICEDEU3) from Jan 2018 ²

Statistics

Performance		Risk/Return		Return Distribution	
Cumulative Returns:	947%	Sharpe Ratio:	0.9	Standard Deviation	10.9%
Average Monthly Performance	3.06%	EAR:	36.7%	Skewness	0.11
Best Month:	31.55%	Annual Risk-Free rate	2.5%	Kurtosis	0.24
Worst Month:	-25.54%	Annualised Volatility	38%	Maximum Drawdown	-43.81%
% of Winning Months	58.33%				

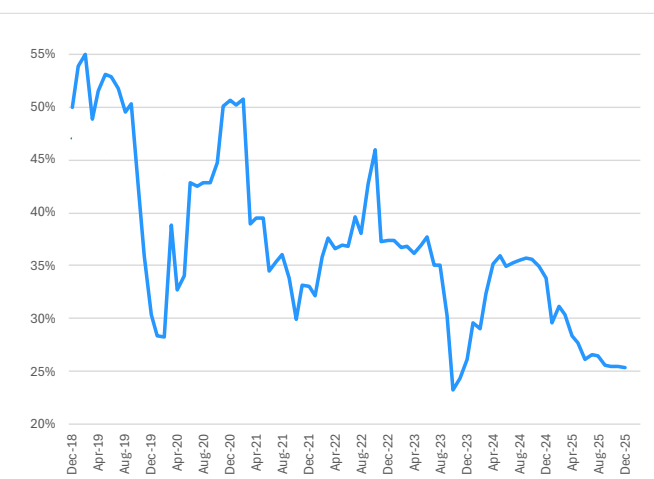
Correlation and Volatility



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

Volatility of EUAs is on a downward trend. As new sectors are covered and free allocation decreases, we expect more compliance companies and other players to participate in the market with a better knowledge of the market characteristics and fundamentals.



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*	6.17%	10.7%	0.34
60/40 + 1% of EUA	6.47%	10.7%	0.37
60/40 + 2% of EUA	6.78%	10.8%	0.40
60/40 + 5% of EUA	7.68%	11.0%	0.48

* 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*	8.18%	9.5%	0.60
60/4 + 1% of EUA	8.47%	9.5%	0.63
60/40 + 2% of EUA	8.75%	9.4%	0.66
60/40 + 5% of EUA	9.59%	9.5%	0.75

* 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 OCTOBER 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.

² 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.financial



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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