



Carbon Content: EUAs at €90: Why carbon is not “too expensive” — and why higher prices are increasingly tolerated

EUAs have reached **€90**, extending the recovery from last year's lows near €59 and returning the market to price levels that typically reignite two familiar concerns: that prices look elevated, and that political intervention will follow.

Both concerns are understandable — but increasingly incomplete as the drivers that defined the past two years start to fade.

The more relevant question today is not whether prices can hold in the very near term, but whether the EU ETS is entering a phase in which EUAs behave less like a cyclical energy trade and more like a **structural scarcity asset**, shaped by policy design, time, and inelastic demand. Viewed against the remaining trajectory of the EU ETS — rather than against historic trading ranges — current prices increasingly reflect future scarcity rather than past abundance.

As the EU ETS moves toward 2026, tightening is increasingly shifting from abstract legislation into visible market mechanics. The oversupply narrative that dominated sentiment through the last years is approaching its turning point, as temporary distortions fade and the system's underlying design — a declining cap and shrinking availability — becomes harder to ignore.

IN SHORT:

- Current price levels are **not elevated in structural terms**, but increasingly consistent with a declining cap and limited remaining time.
- The oversupply that weighed on sentiment over the past two years is **nearing its turning point**.
- **REPowerEU monetisation is self-limiting**: higher prices bring forward the end of incremental supply rather than relieving the market.
- Demand remains **inelastic by design**, while positioning remains elevated, increasing sensitivity around €90 and the €98–€100 zone.
- **Scope for political intervention is more constrained than in past cycles**, as the EU ETS has been reaffirmed as central to climate and energy-security objectives.

SALES OPINION

EUAs are being repriced not because near-term conditions are uniformly bullish, but because the structure of the system increasingly demands it.

The tightening path is legislated and visible. As prices rise, supply becomes more constrained rather than less, while demand remains anchored by compliance obligations, declining free allocation, and forward hedging behaviour. Taken together, this makes higher prices a feature of the system, not an anomaly.

From an allocation perspective, the market appears to be approaching a transition phase — first psychological around €90, then structural in the €98–€100 zone — where the implications of time compression and policy-backed demand become increasingly difficult to postpone.

1) Why this rally feels different: Carbon and the energy trade.

Historically, EUAs traded largely as a derivative of energy markets, rising with gas and power and easing when fuel prices softened. While this relationship remains relevant, it has become less dominant.

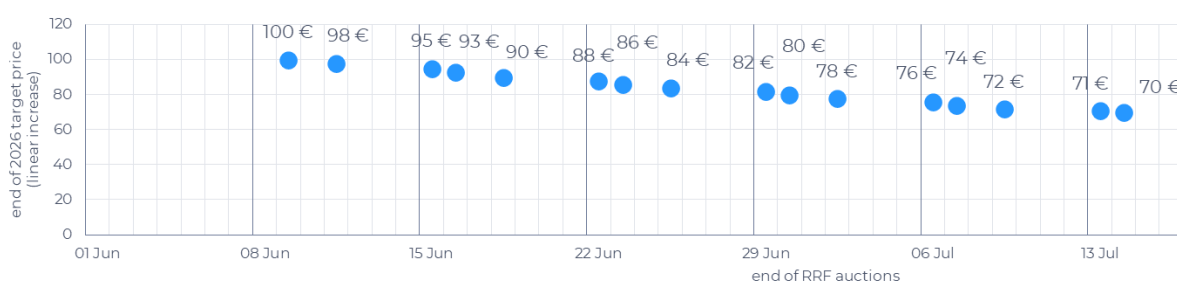
European energy markets are structurally tighter and more volatile than in previous cycles, while power prices are increasingly driven by weather variability rather than marginal fuel abundance. In this environment, carbon is no longer just an input cost within the energy complex. It plays a more central role in balancing the system, with pricing increasingly reflecting **policy design, scarcity, and time**, alongside — rather than purely through — energy spreads.

2) The REPowerEU mechanism: higher prices tighten supply faster

The **REPowerEU** programme was designed to raise €20bn through EUA auctions, making its end point a function of **price as well as time**.

As prices rise, fewer allowances are required to meet the revenue target, allowing the programme to conclude earlier than expected. Rather than acting as a release valve, this mechanism brings forward a reduction in auction supply, potentially with limited notice.

As a result, higher prices tend to **accelerate tightening**, rather than alleviate it. Once incremental supply ends, daily auction volumes are expected to fall materially — potentially by around 30% — reinforcing the structural repricing dynamic.



Source: SparkChange, EEX Calendar, EU Commission

3) Supply tightens — but demand explains why prices need to rise

Supply-side developments are only part of the story. **Demand dynamics are equally important.**

Compliance demand in the EU ETS is inelastic by design. Installations must surrender allowances regardless of price, even as free allocation declines and

CBAM reshapes industrial incentives. At the same time, forward hedging behaviour becomes more prominent as volatility persists and visibility improves.

Demand pressures are not static: rising electricity needs linked to data centres and AI-driven computing add an additional layer of structural demand to the system, reinforcing the requirement for higher prices as the cap continues to decline.

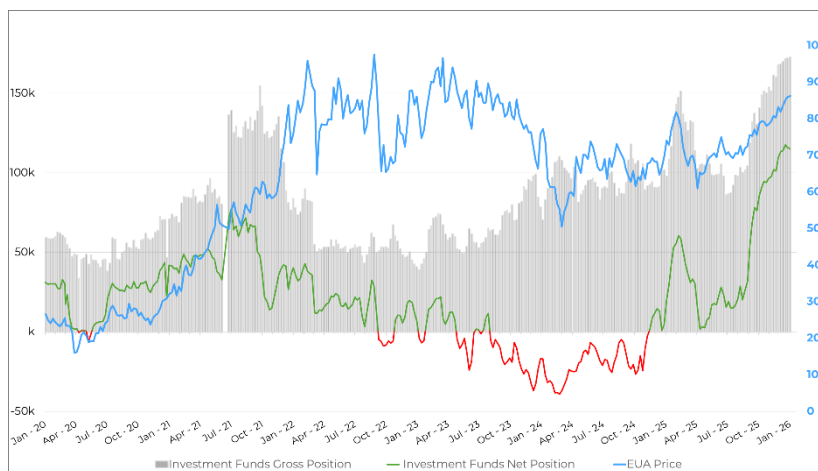
In this context, higher prices are not a sign of imbalance. They are a necessary mechanism to ration declining supply and incentivise abatement as the cap contracts.

4) Flows and behaviour confirm the regime shift

Recent market behaviour is increasingly consistent with this structural framing.

Auctions continue to clear with solid demand, even as prices test recent highs. Pullbacks have tended to attract buying interest, while investment funds remain positioned with elevated net length, suggesting repositioning rather than wholesale de-risking.

Positioning does increase sensitivity around key levels, but the broader signal is clear: carbon is increasingly being treated as a **structural scarcity exposure**, rather than a short-term energy proxy.



Source: COT, Bloomberg, Sparkchange

5) What to watch from here

From here, market attention is likely to focus on a narrow set of interlinked drivers rather than a long list of discrete catalysts. The €90 level remains the most immediate psychological reference point, while the **€98–€100 zone** represents a more **structural threshold** where technical significance and political sensitivity converge. In the near term, price action will continue to be influenced by **weather-driven volatility, auction schedules and clearing premiums**, and any signs that compliance entities are accelerating hedging activity as visibility improves. Against this backdrop, positioning dynamics may continue to amplify short-term moves, but they do not alter the broader tightening trajectory.

Importantly, policymakers are also acutely aware that ad hoc intervention risks undermining the credibility of the EU ETS itself. Regulatory decisions taken throughout 2025 under the EU Climate Law have reinforced the role of the EU ETS as the **cornerstone of Europe’s decarbonisation strategy**. Beyond emissions reduction, the system is increasingly framed as a critical tool for **reducing dependence on fossil fuel imports**, a priority that has taken on greater strategic weight in a world characterised by persistent geopolitical uncertainty. In that context, preserving the integrity and predictability of the EU ETS is not simply a market consideration, but a policy imperative — one that materially constrains the scope for discretionary price suppression.

BOTTOM LINE

EUAs at €90 should not be viewed as a late-cycle anomaly driven by short-term factors, nor as a price level that is inherently unsustainable. They reflect a market that is re-anchoring around the structural realities of the EU ETS: a declining cap, limited remaining time, and demand that is inelastic by design. While near-term influences such as energy markets, positioning, and residual supply effects will continue to shape volatility, they sit alongside a tightening framework that becomes increasingly difficult to defer as the system moves toward 2026. Temporary distortions that weighed on sentiment in recent years are fading, and mechanisms such as REPowerEU ultimately reinforce tightening rather than provide relief.

Crucially, the political context has evolved. Regulatory decisions taken under the EU Climate Law have consistently reaffirmed the EU ETS as the cornerstone of Europe’s decarbonisation strategy and an increasingly important tool for reducing reliance on fossil fuel imports in a geopolitically uncertain world. Preserving the credibility and predictability of the system is therefore a policy imperative, materially constraining the scope for discretionary intervention aimed at suppressing prices. From this perspective, current price levels are not merely being tolerated; they are increasingly required for the system to function as intended as time compression accelerates and the remaining supply window narrows.



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