

Market Developments

January ¹	MoM Change	YoY Change	
EUA Price EoM (€)	79.53	-6.7%	-2.76%

EUAs began the year strongly, extending momentum and trading above €90 before a sharp mid-to-late Jan retracement pushed EUAs back to high €79.

January price action was characterised by heightened volatility, driven less by changes in

EU ETS fundamentals and more by macro-led risk-off behaviour and the unwinding of crowded speculative positioning (more on the left).

The speed of the decline contrasted with the preceding rally, which had unfolded gradually alongside tightening supply expectations. January's pullback was abrupt and macro-driven, coinciding with geopolitical uncertainty — including developments around Greenland and escalating tensions in Iran — and reflecting position adjustment rather than a reassessment of the structural balance of the EU ETS.

Colder-than-normal weather across parts of Europe during January lifted power demand and drove a month-on-month increase in power-sector emissions, supporting EUA demand during the early part of the month. Fossil generation increased despite strong renewable output, with wind generation reaching multi-year highs but insufficient to fully offset demand.

Gas markets remained volatile, with EU storage levels falling to their lowest levels for the time of year since 2022. However, correlations between gas and carbon weakened again over the month, reinforcing the view that short-term EUA price movements were driven more by financial positioning and macro sentiment than by fuel-switching economics alone.

Primary Market and Auctions

	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Avg EUAs sold per auction (m)	2.69	2.84	2.78	2.79	2.85	2.15
Avg subscription rate	162%	155%	167%	169%	166%	191%

Source: EU Commission, EEX, SparkChange

EUA auctions resumed in January following the seasonal December pause, restoring primary-market liquidity against a structurally tighter annual supply backdrop. While auction operations normalised, the broader supply outlook remains constrained by the higher linear reduction factor, reduced free allocation and the conclusion of REPowerEU-related front-loading. Auction cover ratios remained resilient despite heightened secondary-market volatility, indicating continued underlying demand even as financial participants adjusted positioning.

Secondary Market

		Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
EUA Spot	Avg Volume Traded (k)	1.97	2.20	1.51	2.15	2.59	2.86
	EoM Price (€)	72.46	75.35	78.31	83.18	85.24	79.53
Dec FUT	Avg Volume Traded (k)	27.3	33.3	32.7	43.5	27.5	27.5
	Call OI EoM (k)	388	411	437	454	333	333
	Put OI EoM (k)	192	193	237	272	153	153

Bloomberg

Secondary-market activity increased markedly in January, reflecting early-year portfolio rebalancing and a rapid adjustment of speculative positioning following January highs above €90. Elevated spot and futures volumes accompanied a sharp reduction in front-year open interest as investment funds cut net length from recent record levels. Options markets reflected a defensive shift, with increased demand for downside protection during the sell-off, while overall liquidity remained robust, consistent with an orderly position unwind rather than market stress.

EUA Market Outlook and Events to Watch

EU ETS framework, MSR and policy debate.

Attention in 2026 is shifting to the review of EU ETS framework and Market Stability Reserve for Phase V (2031–2040). Elevated MSR intake rates remain central to balancing auction supply, and the ETS pathway continues to be anchored to the agreed 2040 climate target.

Free allocation benchmarks and CBAM.

Updated free allocation benchmarks are expected in early 2026 and remain an important source of certainty for industrial participants planning compliance and investment decisions. Benchmark clarity is also relevant for CBAM, where certificate obligations are directly linked to ETS benchmarks, making publication a key milestone for both EU installations and CBAM compliance entities.

Macro and geopolitical developments.

Recent price action has reinforced the sensitivity of EUAs to broader macro and geopolitical developments. Trade-related uncertainty, geopolitical tensions and shifts in global risk sentiment have continued to influence short-term price dynamics, primarily by affecting the timing and intensity of financial flows rather than underlying ETS fundamentals.

Investment Fund Positioning

Investment fund net long positioning peaked at a record 126 Mt before declining to around 100 Mt by month-end.

The retracement reflected macro-driven risk-off behaviour and the adjustment of an unusually elevated starting position. Net length remains high relative to historical norms.

Investment Fund Positioning *	MoM Change	
Long	124mT	-13.6%
Short	23mT	-14.9%
Net	100mT	-13.8%
Gross position	148mT	-13.8%
Gross position in €m	11781	-20%

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



■ Investment Funds Gross Position
 ■ Investment Funds Net Position
 ■ EUA Price

** 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)

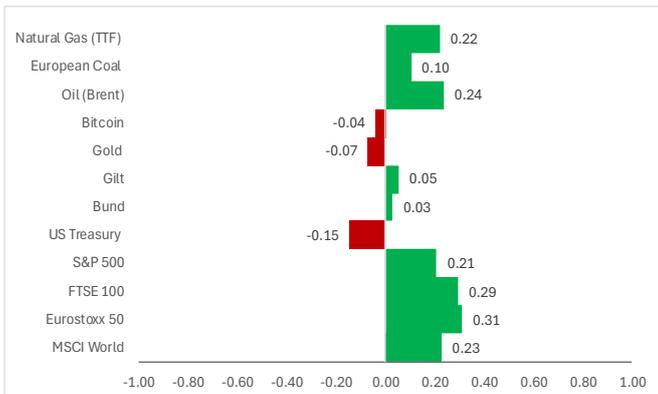
EU Carbon Market Monthly Report | January 2026

Carbon as an Asset Class Source: monthly EUA spot price (ICEDEU3) from Jan 2018²

Statistics

Performance		Risk/Return		Return Distribution	
Cumulative Returns:	877%	Sharpe Ratio:	0.87	Standard Deviation	10.91%
Average Monthly Performance	2.96%	EAR:	35.5%	Skewness	0.13
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	57.73%				

Correlation and Volatility

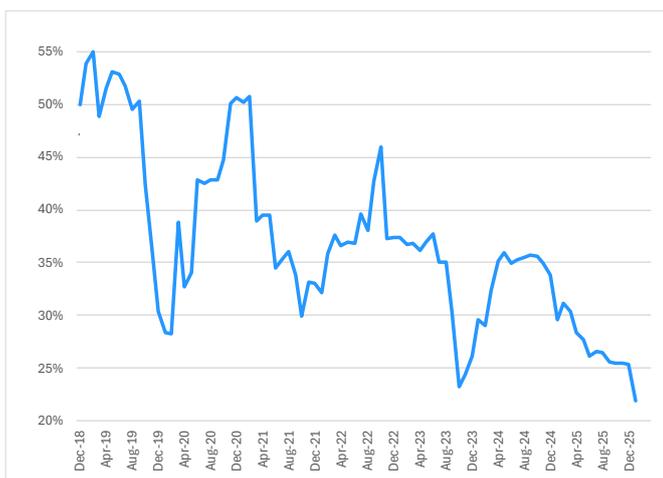


EUAs have historically exhibited low or negative correlation to most asset classes. Correlation to equity markets has generally remained low since 2018 due to the demand dynamics of EUAs. Correlation to gas and coal tends to increase when prices are close to fuel switching ranges. More information available 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*	6.34%	10.7%	0.36
60/40 + 1% of EUA	6.63%	10.7%	0.39
60/40 + 2% of EUA	6.92%	10.7%	0.41
60/40 + 5% of EUA	7.78%	10.8%	0.49

* 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*	8.10%	9.4%	0.59
60/4 + 1% of EUA	8.38%	9.4%	0.63
60/40 + 2% of EUA	8.65%	9.4%	0.65
60/40 + 5% of EUA	9.46%	9.4%	0.74

* 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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