

## Market Developments

February <sup>1</sup>	MoM Change	YoY Change
EUA Price EoM (€)	68.93 -13.33%	-0.68%

EUAs ended February at €68.93, down 13.33% month-on-month. The move reflected a combination of macro-driven risk aversion, speculative position adjustment and renewed political debate surrounding the EU ETS framework.

February saw intensified discussion around potential reforms ahead of the July 2026 ETS Review. Italian officials publicly called for a temporary suspension of the EU ETS, citing industrial competitiveness concerns, while several economy ministers advocated for regulatory simplification and cost-efficiency adjustments. A detailed report on this can be found [here](#).

Macro conditions amplified the adjustment. Geopolitical tensions in the Middle East, trade-related uncertainty and cross-asset de-risking led to a reduction in speculative exposure.

From a physical fundamentals' perspective, the start of the year has been mixed. Colder-than-seasonal temperatures earlier in the quarter lifted power demand and supported fossil generation, although renewable output — particularly wind — remained comparatively strong, limiting the extent of incremental emissions. As temperatures normalised into late February, heating demand eased.

Industrial activity remains subdued, with energy-intensive output indicators continuing to track below historical averages, tempering near-term compliance demand. While elevated gas prices intermittently improved coal-switching economics, fuel-switching signals have been inconsistent, reinforcing that February's repricing was driven more by positioning and political uncertainty than by a structural deterioration in the EU ETS balance.

### Primary Market and Auctions

	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Avg EUAs sold per auction (m)	2.84	2.78	2.79	2.85	2.15	2.22
Avg subscription rate	155%	167%	169%	166%	191%	178%

Source: EU Commission, EEX, SparkChange

Average EUA volumes sold per auction increased slightly in February to 2.22m allowances (Jan: 2.15m), while the average subscription rate eased to 178% from 191%. Auction supply normalised following the January restart, and cover ratios remained elevated despite increased secondary-market volatility.

### Secondary Market

		Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
EUA Spot	Avg Volume Traded (k)	2.20	1.51	2.15	2.59	2.86	4.67
	EoM Price (€)	75.35	78.31	83.18	85.24	79.53	68.93
Dec FUT	Avg Volume Traded (k)	33.3	32.7	43.5	27.5	76.9	95.5
	Call OI EoM (k)	411	437	454	333	333	422
	Put OI EoM (k)	193	237	272	153	153	370

Bloomberg

Secondary-market turnover accelerated during February as prices repriced lower. The sell-off was accompanied by a sharp increase in trading activity and a visible shift in options positioning toward downside protection. Volatility rose significantly during the month, with front-year price variability materially higher than in January. The reduction in investment fund net length indicates that the move was driven primarily by financial de-risking rather than disorderly liquidity conditions.

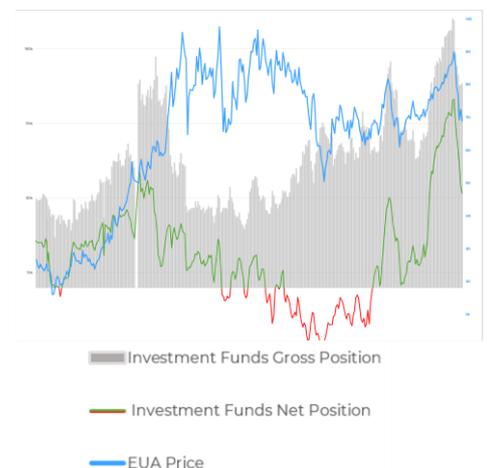
## Investment Fund Positioning

Investment fund net long positioning declined sharply in February to 63 Mt, reflecting a significant reduction in long exposure alongside a marked increase in short positioning.

The adjustment coincided with intensified political debate around potential EU ETS reforms ahead of the July 2026 Review, prompting de-risking from previously elevated levels. While net length fell 37% month-on-month, overall participation remains active, suggesting repositioning rather than disengagement from the market.

Investment Fund Positioning *	MoM Change
Long	99mT -19.7%
Short	36mT 54.1%
Net	63mT -37.1%
Gross position	136mT -7.6%
Gross position in €m	9408 -20%

\*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.

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

## EU Carbon Market Monthly Report | February 2026

### EUA Market Outlook and Events to Watch

#### **Policy risk and the July 2026 Review**

Political debate around the EU ETS intensified in February, with renewed calls from certain member states to revisit cost impacts on industry ahead of the July 2026 Review. While suspension of the system remains legally unlikely under current legislation, reform rhetoric has introduced a visible policy risk premium into pricing. Market participants will monitor whether upcoming discussions focus on free allocation adjustments, competitiveness safeguards or potential changes to the Market Stability Reserve parameters.

#### **Free Allocation Publication – A Near-Term Catalyst**

Updated free allocation benchmarks are expected to be published next month. This remains a key event for compliance entities, as allocation clarity directly determines forward hedging requirements at installation level. Benchmark publication is also significant for CBAM implementation, given that certificate obligations are linked to ETS benchmarks. The release may therefore act as a catalyst for renewed industrial hedging activity after a period of positioning-driven volatility.

#### **Energy Markets, Iran and Fuel Switching**

Escalating tensions involving Iran have contributed to heightened gas market volatility and renewed LNG supply concerns. Elevated gas prices have improved coal and lignite economics, with clean dark spreads moving back into positive territory. As a result, more carbon-intensive generation has become competitive at the margin, and power-sector emissions have edged higher in recent days. The degree to which sustained fuel switching materialises will remain an important short-term demand driver for EUAs.

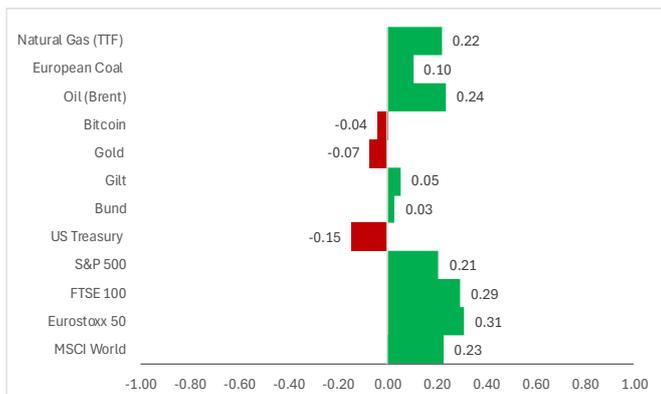
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## Carbon as an Asset Class Source: monthly EUA spot price (ICEDEU3) from Jan 2018<sup>2</sup>

### Statistics

Performance		Risk/Return		Return Distribution	
Cumulative Returns:	747%	Sharpe Ratio:	0.87	Standard Deviation	10.98%
Average Monthly Performance	2.79%	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	57.14%				

### Correlation and Volatility

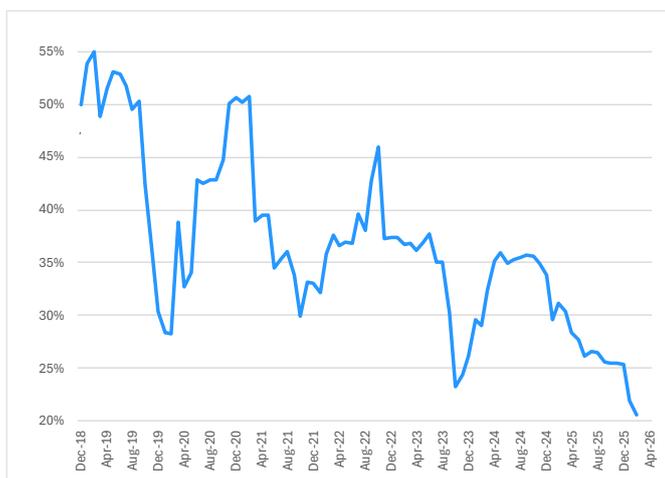


EUAs have historically exhibited low or negative correlation to most asset classes. Correlation to equity markets has generally remained low since 2018 due to the demand dynamics of EUAs. Correlation to gas and coal tends to increase when prices are close to fuel switching ranges. More information available 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*	6.61%	10.6%	0.39
60/40 + 1% of EUA	6.87%	10.6%	0.41
60/40 + 2% of EUA	7.14%	10.7%	0.44
60/40 + 5% of EUA	7.94%	10.8%	0.50

\* 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*	8.27%	9.4%	0.61
60/4 + 1% of EUA	8.52%	9.4%	0.64
60/40 + 2% of EUA	8.77%	9.3%	0.67
60/40 + 5% of EUA	9.52%	9.4%	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.

<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.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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