UKA Market Updates (February – March 2025)

Summary: There has been a noticeable convergence between UKA and EUA price performance as of 28 January 2025 following a news report that [Britain is seeking talks on linking its carbon market with that of the European Union](https://www.reuters.com/sustainability/climate-energy/uk-carbon-prices-close-135-higher-eu-linking-talks-report-2025-01-28/). There has been no further reporting on whether such talks have been scheduled, however.

Key UKA Price Drivers:

* **Gas**: A strengthening gas market (higher prices) is correlated with higher UKA prices – higher energy consumption leads to higher CO2 emissions, which must be offset by additional UKAs under the UK ETS scheme.
* **Weather**: UKA prices are negatively correlated with warmer-than-expected weather (less energy required to heat up homes).
* **Renewable Generation Output**: UKA prices are negatively correlated with renewable energy production – increased or outsized production drives down fossil-fuel based power generation. Strong wind generation in the UK, for example, can be a key driver of this effect.
* **Auction supply**: Halted UKA auctions, or little to no auction supply, support UKA prices.
* **Trading Activity**: Higher demand (e.g., due to bullish sentiment) supports higher UKA prices.

UKA Price Outlook:

Redshaw’s 3 March 2025 Weekly Report pronounced a Neutral-Bearish outlook for UKA prices, citing that “*[t]he return of the bi-weekly auction and warmer temperatures towards the second half of the week are likely to weigh on prices*.”

However, it is important to note that UKA price outlooks have been fluctuating on a weekly basis during the past month. For example, the Redshaw 24 February 2025 outlook was Neutral-Bullish for UKAs citing the following: *Although the fundamental drivers remain largely unchanged, the bi-weekly auction hiatus, coupled with weaker renewable energy generation and slightly cooler temperatures, looks set to provide a platform for the bulls to build from.*

Market Commentary:

Redshaw (3 March 2025): *Bearish momentum builds, as EUAs fall below the 100 day and 200 day moving average. Dip buying, technical trading and a short-term cold snap helped UKAs gain nearly £2.*

Vertis (25 February 2025): *On the regulatory side, last Thursday, the UK Authority announced a 14% drop in UK Free Allocation for 2025 compared to 2024, reducing allowances by 4.8 million. This bullish signal for the UK ETS may have contributed to the market stabilizing on Friday, alongside support holding at the £40 level.*