ONE
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Tradition
OTC Cleared Financial trading for the Romanian power

About Tradition

Tradition A world leader in professional brokerage activities

Compagnie Financière Tradition (CFT) is one of the world’s top interdealer broking firms, with a presence in 28 countries. In the last decade, the company has significantly expanded, primarily through organic growth.

We provide brokerage services in a comprehensive range of financial and commodity-related markets.

About Tradition

Our commodity-related markets include derivatives in oil, natural gas, power, coal, weather, emissions, precious metals, pulp and paper, and property.

We are a member of several exchanges, operating in both exchange-traded and over-the-counter markets.

Our electricity desk is doing brokering for CEE, Poland, Czech Republic, Slovakia, Hungary, Romania, Serbia, Slovenia, Croatia, Greece and Turkey markets.

Romanian Power market History

We did our first trade in Romania in August 2008 and we are keep facilitating trading in the Romanian power market

In 2011, Tradition traded 30,835,262 MWh Romanian physical power

In 2012 bilateral physical trading was banned in Romania

In the same year Tradition started to trade OTC Financial SWAPS (LFC Financial or ISDA contracts).

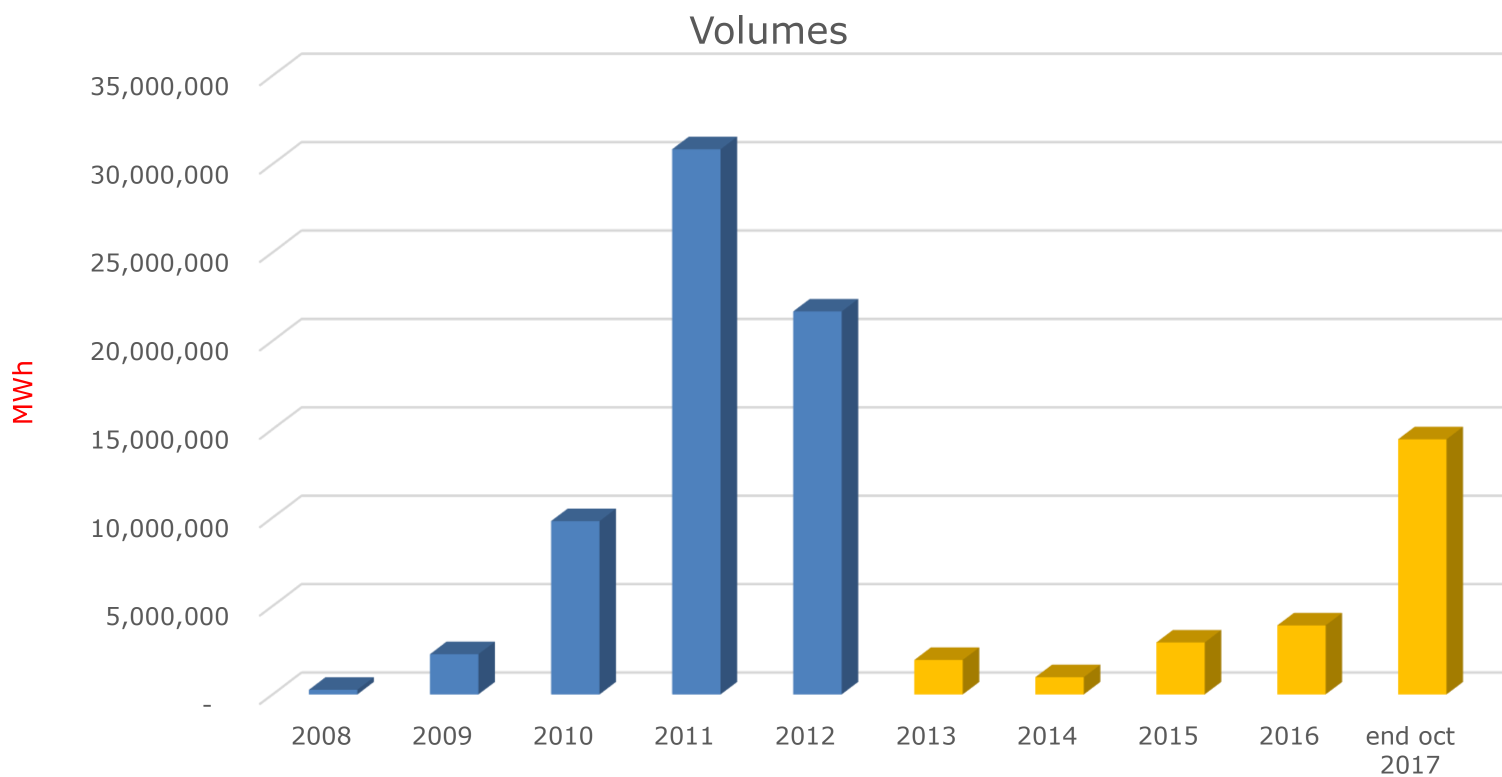
Romanian Power market History

In October of 2012, Tradition in cooperation with EEX organised the conference in Bucharest to introduce OTC Exchange cleared futures for Romanian power market

Since we had registered an increasing interest for the exchange cleared futures

However, we had registered only one Romanian company to actively trade exchange cleared futures

Achievements



- In 2017 Tradition traded 14,432,660 MWh exchange cleared futures

OTC Exchange Cleared Futures

What is OTC clearing?

Transactions that are concluded bilaterally (over the counter – OTC) that will be settled via the clearing house of an exchange.

It gives the opportunity to trading participants to benefit from the advantages of clearing and settlement at an exchange even with OTC-transactions.

OTC Exchange Cleared Futures

Requirements

As the exchange futures are standardised products the OTC-transactions should correspond to the specifics of exchange transactions.

Companies that would like to use the OTC-Clearing services have to be an admitted exchange member.

OTC Exchange Cleared Futures

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Product specification

- The maximum delivery periods comprise the following seven months, seven quarters and six years respectively.
- All products, base and peaks, are in CET time
- The final settlement price of the cash settled Romanian Power futures is the average of the prices of OPCOM, calculated for a particular delivery date, for the hours between 00:00 and 24:00, for all days in the respective delivery period

Advantages of cleared futures

- Cross Commodity margining and clearing.
- A wealth of experience of clearing solutions
- A robust strong International Mechanism.
- Risk is spread across the market
- Access to other cleared markets.
- Monitoring of market activity and open interest.
- EUR Margining. Not advantage for all.

Financial Power

Explanation and Examples

Example one: Speculation

- Company A wishes to speculate the difference (spread) between Romanian and Hungarian power markets for delivery December in baseload.
- The company A thinks the difference (spread) of two euro is a good opportunity to buy Romania and sell in HU.
- The company A enters long (buys) Romanian December baseload PXE (EEX) cleared and in the same time he will short (sells) Hungarian December baseload PXE (EEX) cleared and locks in two EUR spread (difference)

Example one: Speculation

- The clearing member (bank) will ask at his turn and initial margin followed by variation margins
- Initial margin is therefore based on an estimate of potential future adverse price movements, across the portfolio and over a close-out (or “holding”) period.
- Variation margin is a daily collect/pay in cash what covers this risk by accounting for the change in price since the previous day.
- In the case of this trade the variation margins will be substantially lower as EEX is doing multilateral netting of positions and payment flows

Scenario two: Hedging

- A producer wishes to hedge his future production. The producer must sell it on OPCOM (as this is the only allowed platform to trade physical future contracts) or he thinks he can get a better value by selling a Hungarian PXE (EEX) cleared future without the need of having any licence or balancing group in Hungary.
- The final settlement price of the cash settled Romanian Power futures is the average of the prices of HUPX, calculated for a particular delivery date, for the hours between 00:00 and 24:00, for all days in the respective delivery period.

From both views

- Both parties are only concerned with the difference between the Contract price and the Settlement price which is only a small proportion of the total power price.
- Margining of positions.
- Centralised Counterparty – Lower payment risk
- No Delivery risk on the Financial Trade.
- No Scheduling.
- No Grid fees.
- Possible to go in and out on the position several times, no need to schedule different counterparties each time.

Conclusions

- A way to unite Producers, Speculators, Distributors in one market where all can trade in any direction they wish, bringing benefits to those who wish to increase their risk and those who want to reduce their exposure through a mutually acceptable market price.
- It could enable producers to sell power forward to the market alongside OPCOM enabling them to reach new counterparties.
- A method to reduce start up costs and bring new players who will help to diversify the market risk and improve overall liquidity in Romania.

Thank you

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