



WORKSHOP – Zagreb

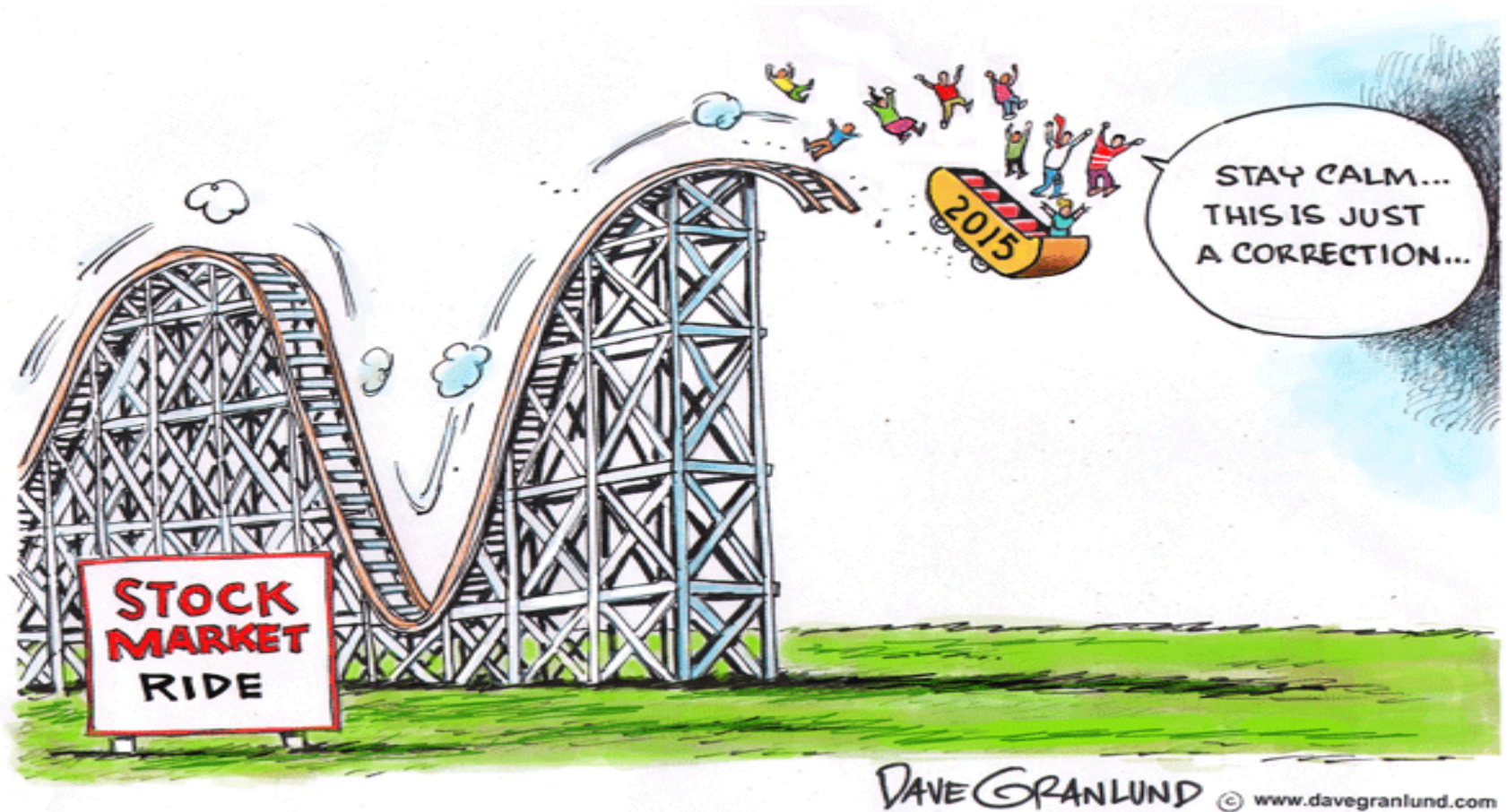
October 29th 2015

Yesterday – Today – the Future(s)



Frank O. Brannvoll

Learning from history ?
Always good to look back before moving forward





Frank Brannvoll **Trading: Energy , FX, Commodities, Equities**

- **Brannvoll Bvba:** founder – Trading & Energy services

- Trading and risk management advisory services
- Management support
- Promoting Energy efficiency services to end users / providers

Brannvoll Bvba

- **Draupner Capital Bvba:** multi family investment office , Equity, Energy , Commodities & FX



- **Danske Commodities:** Established Swiss trading company : **2012-2014**



- **GDFSUEZ Trading / Engie :** **Head of Power /Oil / CO2 / FX 2007 -2012**

- President – GDF Suez Trading Romania , Board member Bulgaria & Greece
- Responsible Power Market Making CEE and establishing SEE markets



- **Point Carbon :** Director – established Brussels office

POINT CARBON



- **Stora Enso Finance** – Established Global Energy & Commodity Risk Management 1997 – 2005

- Largest industrial power consumer in Scandinavia / Nordpool trading



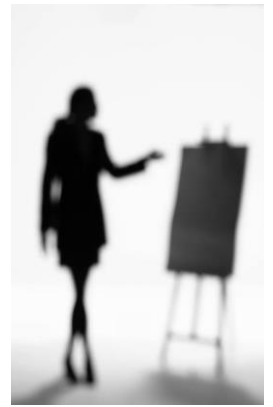
- **Fls Industries Finance** – Treasurer 1987 – 1997



- **Nordea bank & Citibank** Global FX & options Trading 1982 – 1987



Yesterday – Today – The Future(s)



CEE SEE markets since 2008 ...

Yesterday ...Start up of the CEE exchanges

- Why Power exchanges are good for traderscredit
- From national to regional - the trend

Today...**Opportunities** for exchanges in SEE

- What is important in the beginning
- The regional challenge is onSEE region
- Vision for Product development

Future (s) **What's up next** – Where to go for the SEE exchanges

- **The** regional SEE exchange
- Product development long term
- Multi commodities



CEE SEE Trading background 2008-2011

Power markets, CO2 and Oil

First MM at all 3 CEE exchanges + OTC ROM-GRE



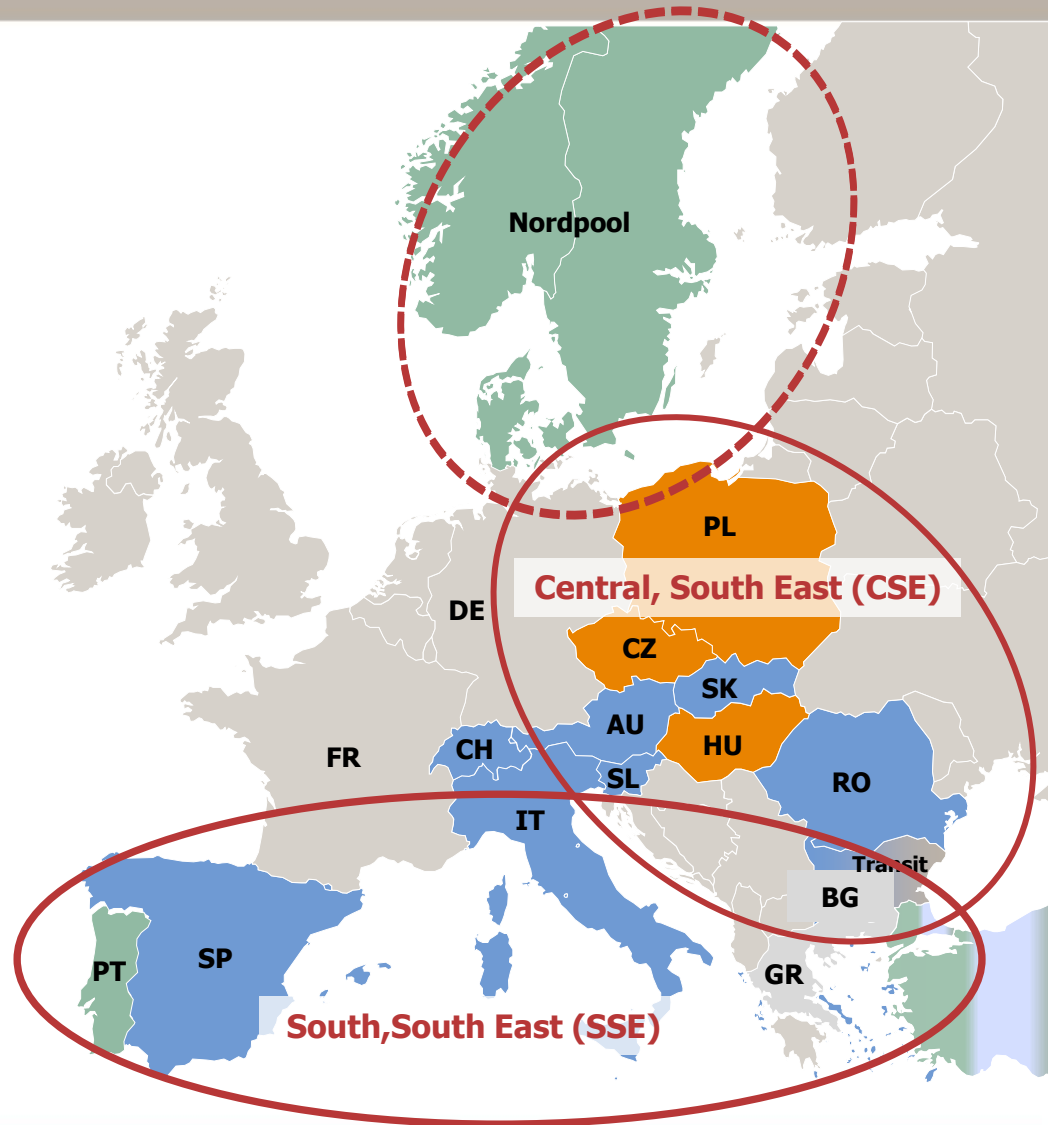
Market maker: committed 2 way prices / exchanges



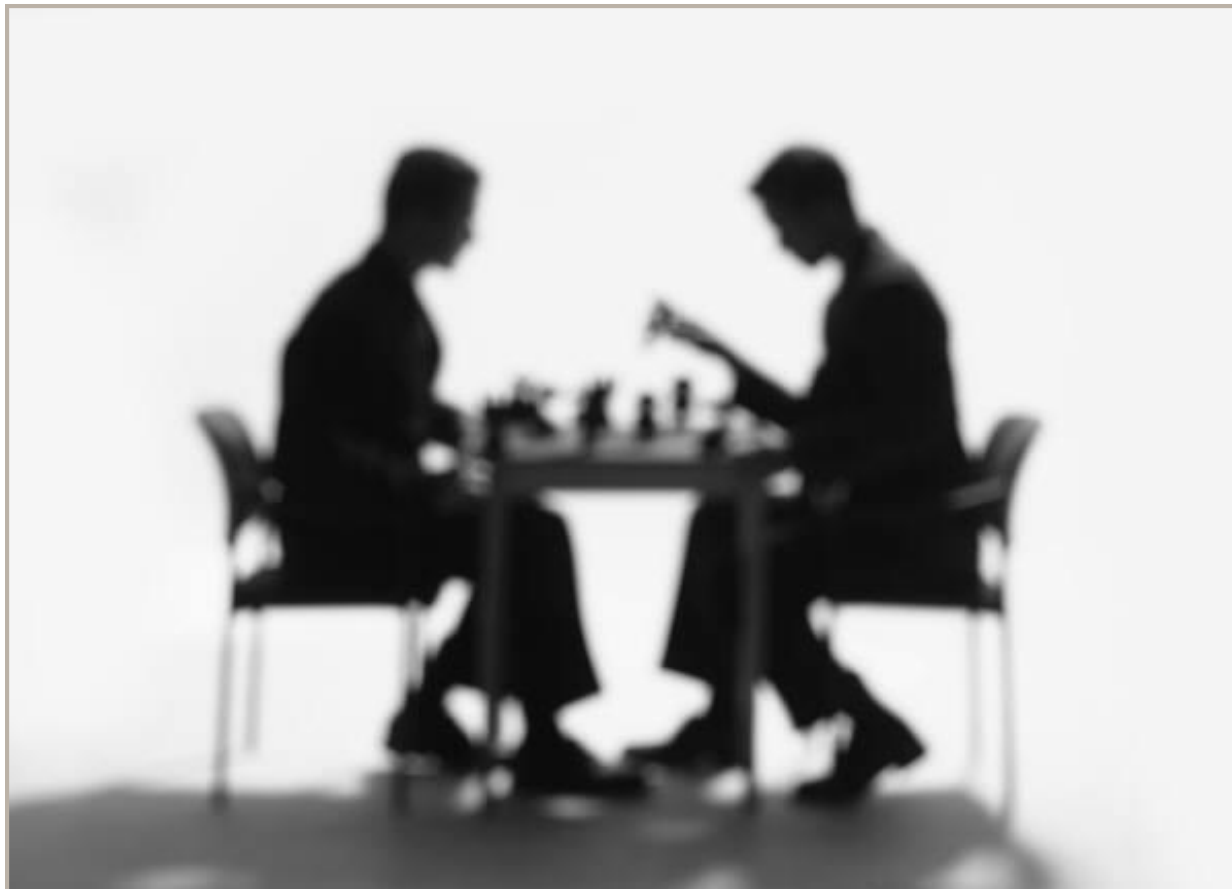
Market support: OTC and exchange pricing



Market participant: Ad hoc OTC & exchanges



Yesterday - Looking back



The Big trendnational – regional – € MWh Like Foreign eXchangetowards the €

**Regional markets is the necessary intermediate step
couplingwill turn these to a Euro MWh over time Big Opportunity**

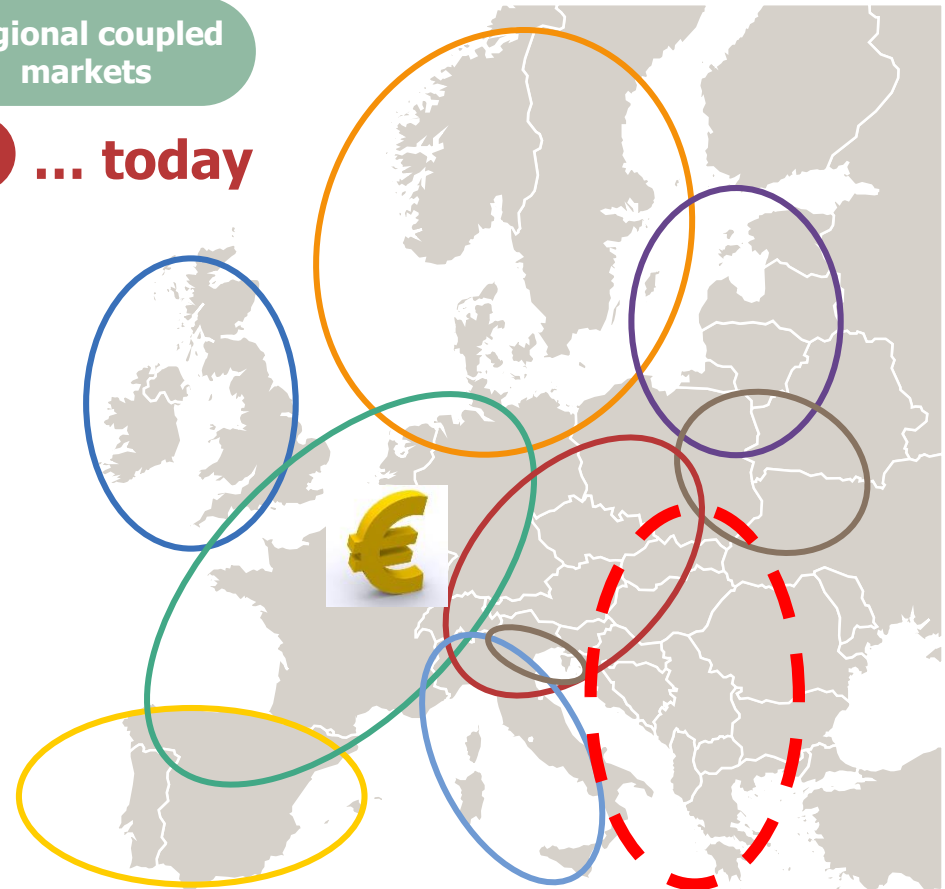
National markets

1



Regional coupled
markets

2 ... today



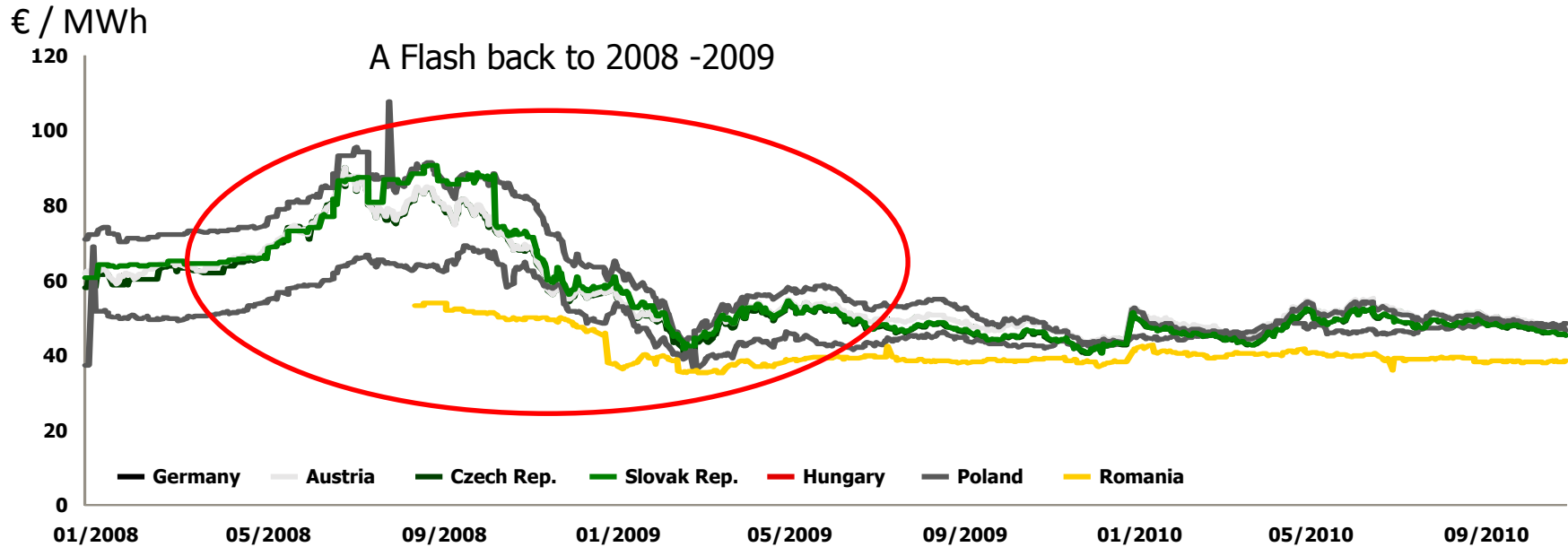
A pan-European market

3

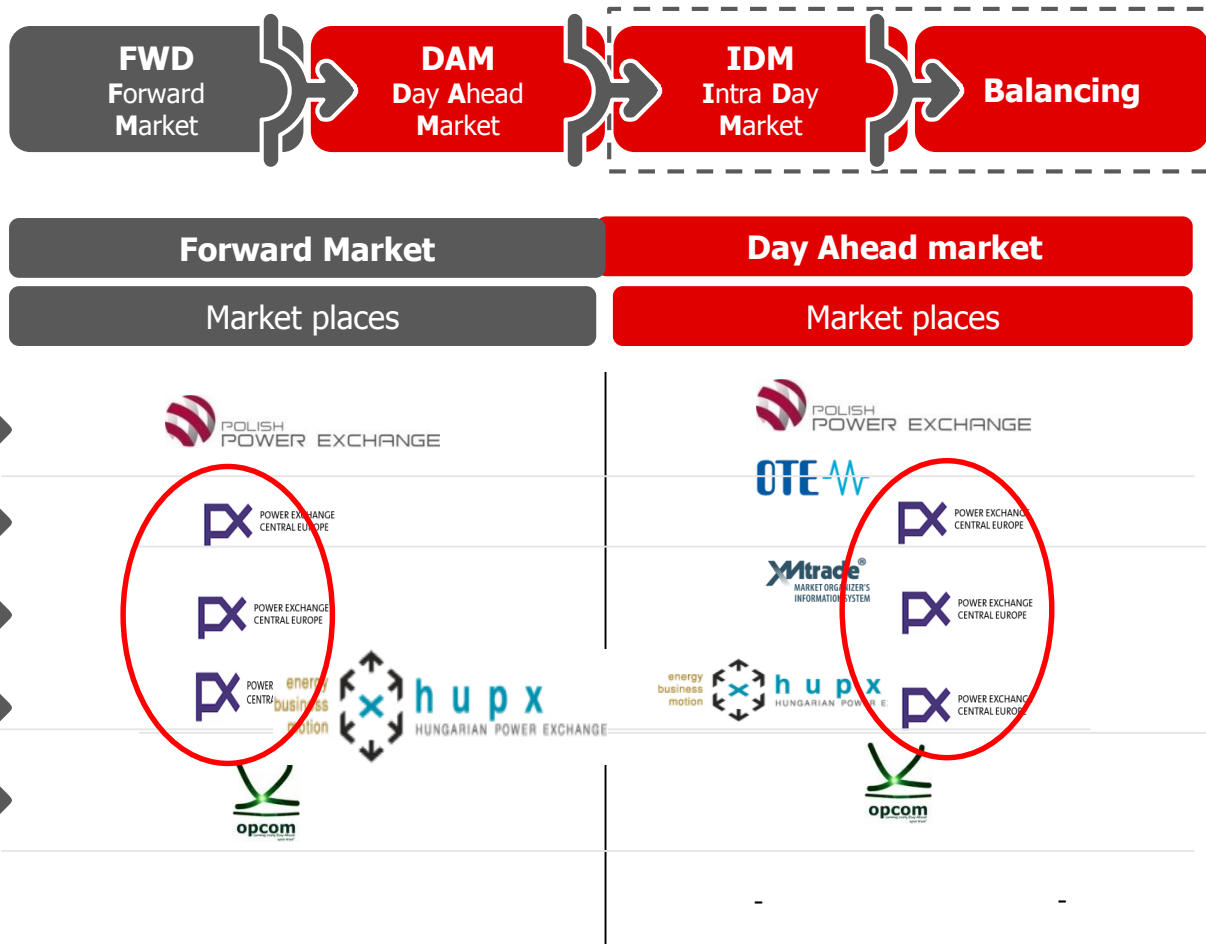


The BIG PRICE convergence took place in 2008-2009 look at spreads today in CEE region

- Even if no fundamental reasons, forward price movements are quite similar in a central block
- Again, Polish and Romanian prices seem to follow different flatter patterns

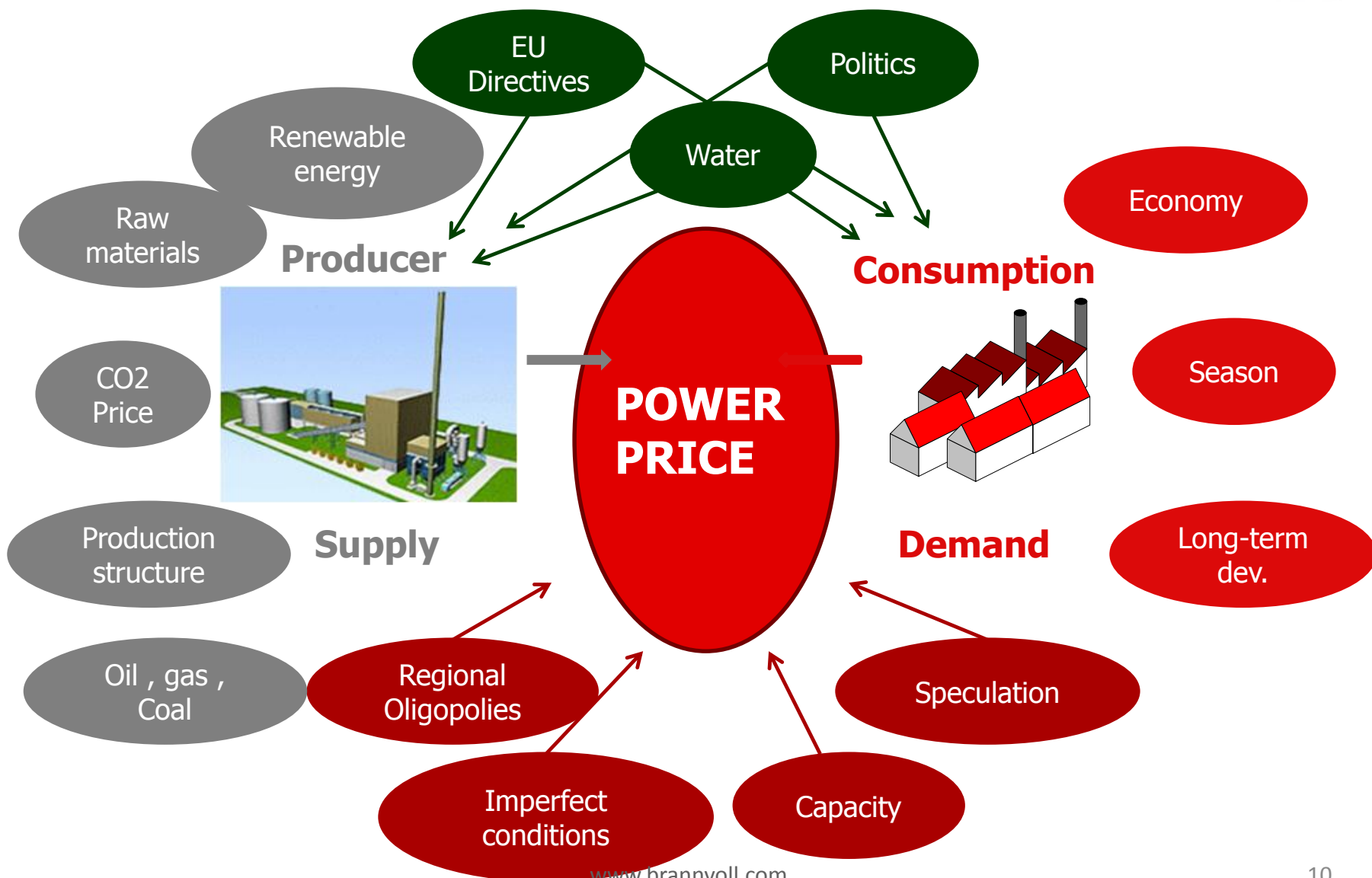


The CEE : Strict National exchanges... Only PXE took other markets on board from start

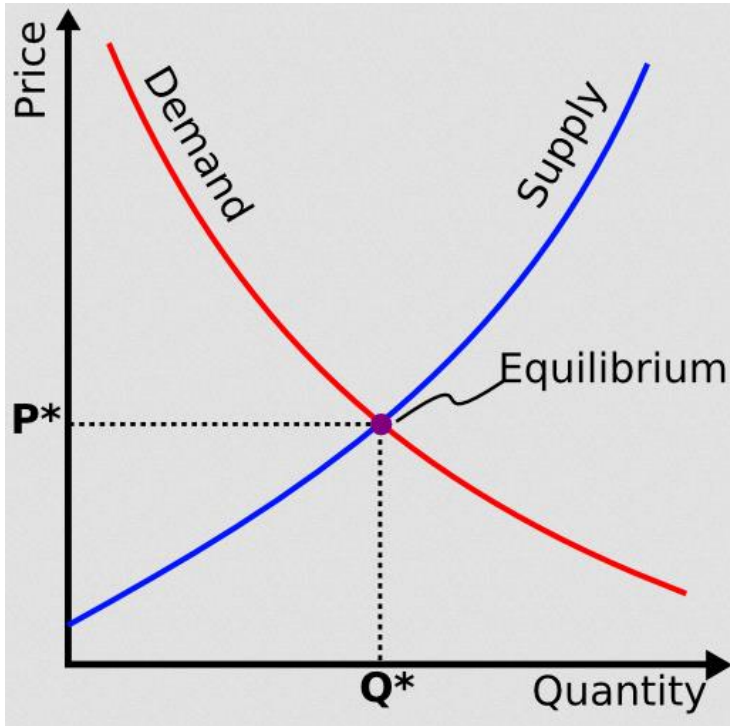


- **Local power exchanges market** have to prepare for a **more regional approach** responding to the EU call for market coupling
- EFET CEE/SEE working with this and several legal issues to secure a better market framework

Why a Power exchange ?make this very simple.....



A price for the day ahead: DAM



What it brings

Cornerstone in any traded Power market

Transparency requested from authorities

Competition is increased

OTC and Exchanges both part of THE market

Credit risk

Major obstacle for many trading companies

When you can not do the OTC counterpart



Get higher credit lines



... or alternatively

Exchange Trading = Risk on exchange
OTC Trades > cleared = Risk on exchange

- **Brokers will be see this as opportunity too increase business**
 - Same counterparts can do more trades as bilateral risk is eliminated

Exchanges CHEAPER than most traders think

Real example from 2010

- **GDF SUEZ** – Insurance premium / **Credit Default Swap** 0.25%
 - Priced into Cal 2010 Price of € 60 / MWh ...we loved that price 😊
 - Price included CDS
-
- **Medium sized company:** 10 – 30 % if no CDS market
 - Priced into Cal 2010 Price of € 60 = 10 %
 - Non rated medium counterpart 10 pct: price included cds
-
- **Sleaving** is in reality selling CDS counterparty risk below real risk
 - for non rated counterparts –sleeve price should reflect CDS: € 5.00 > € 15.00 😊
 - **Do your traders calculate the "potential" credit insurance cost ?**
-
- **Price for trading at exchange with clearing € 0.05 - € 0.10**
 - Can help brokers too.....bring in business from OTC marketsynergy



+/- € 0,15

€ 59.85 - 60.15

+/- € 6.00

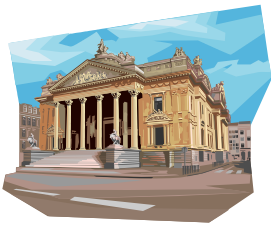
€ 54.00 - 66.00



CEE Looking back to 2008-11

National exchanges being set up

All different in set up and rules



?



National power markets only
Focus on physical deliveries

Liquidity lacking

Big Differences within :

- ❖ Trading rules,
- ❖ Systems
- ❖ Individual entry negotiations
- ❖ Administration or examinations often in local language only
- ❖ Complex clearing houses

Vision for new structure back in 2008-10

National exchanges....what we traders wanted

Harmonized... national exchanges ...

- Focus on **Physical** market
Only **1 exchange for one index** – **Liquidity concentration!**
- Provide **transparent** and **liquid** spot index
- Focus Day ahead Market & intra day
- **Later forward markets 30 or up to 90 days**
- One **Fixing** per day
- **Harmonize** entry conditions
- **Communications** ALSO in English (or **Danish**) at least... !
- **Harmonize** Trading and IT platforms



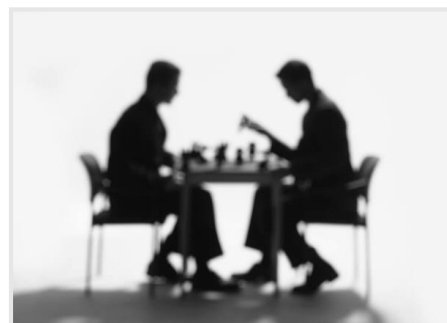
The vision looking forward in CEE

Regional CEE Exchange – supported by national exchanges

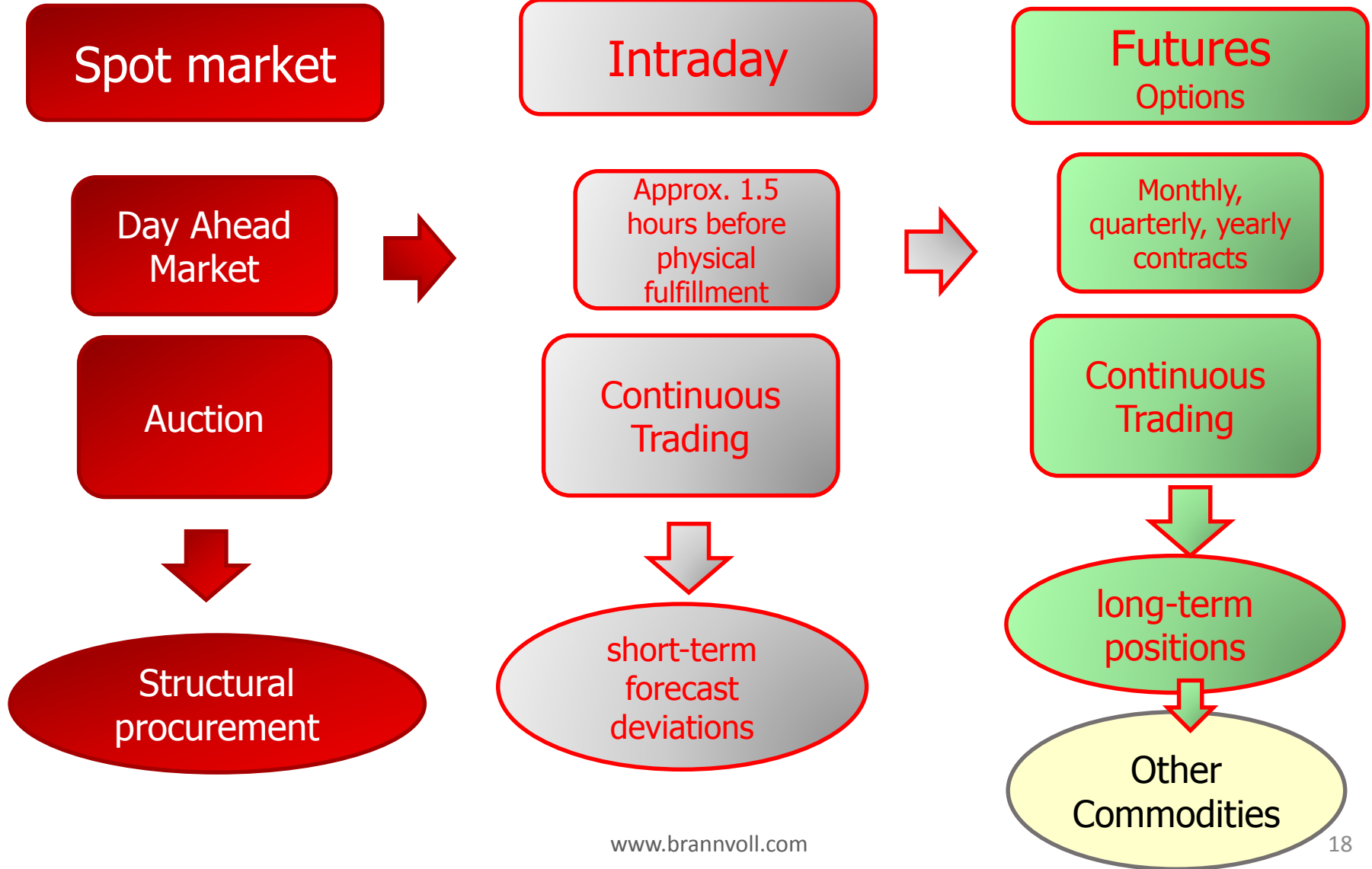


**Today only one CEE Exchange is offering multiple markets
PXE offering 5 forward markets**

Today – New exchanges in SEE



Visions for development



What is important from the beginning

Liquidity attracts liquidity and vica versa



Traders want liquidity and possibility to buy and sell – cheap

Committed Market makers is essential in the start up phase

Set up special incitaments to be Market Makers (MM)

The "natural" born national producers has to be committed

Ask for participants inputadvisory boards ?



Brokers supporting the exchange – see it as an opportunity for them to do more via clearing of trades . (TFS , GFI, ICAP , Tullet-Prebon ..etc) **synergy effects**

Bring in customers to exchanges – Win Win Win situation

Involve trading houses also the ones maybe not "needing" the location – but see it as opportunity – especially in later phases

Offer competitive entry conditions to make people "come and try " normally we stay where we have traded some times 😊

What is important from the beginning 2



Have the regional Vision from the start:
Market Coupling important to be realistic



Focus on the Essential products ..

DAM / Intra day markets

Prepare and inform participants for new products being introduced
Forwards / spreads in most traded products

Prepare and commit to medium/long term hedging possibilities

Give incitatement to join early

Clearing – legal netting of opposite positions with overlapping deliveries

Easy access and regulatory and administrative processes should be standard make it easy to forfill (see EFET presentation)

Conclusion for a SEE Regional exchange



Be Inside The European Union – give security for political framework

Geographically well situated with several SEE Borders

Have borders with CEE region bridging CEE /SEE

NEMO – designation, a quality stamp from CACM (4 year periods)

Croatia looks well placed



Good Volumen in markets securing liquidity

Market Makers / Committed participants / Brokers relations

Offering forwards in several markets ,In Cooperation with national exchanges

Harmonised rules for the markets

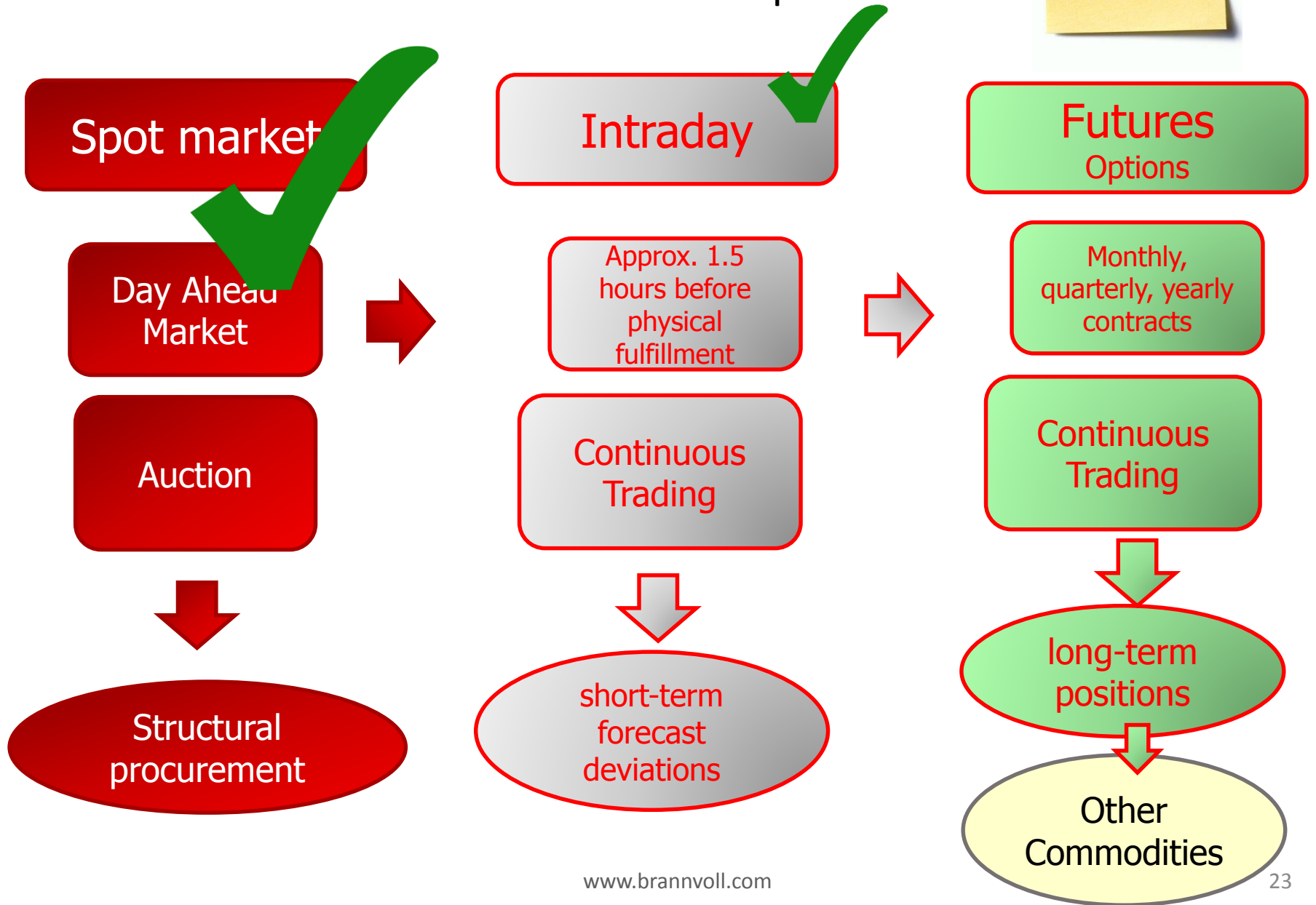
Good clearing and settlement facilities – netting possible



The Future(s) From DAM Spot Power Exchange To Regional Multi Commodity Exchange



Visions for development



Vision for a future Regional SEE Exchange



- **Covering all or several SEE markets**
- **Financial or physical settled contracts From Month - Quarters to 3-5 years**
- **Trading based index based on national exchanges' spot index**
- **One platform, One trading system**
- **NEED Markets Makers – for continuous quoting**
- **Natural place for trading institutions, hedging long term exposures,**
- **Be natural clearing of OTC trades / Embraced by Brokers**
- **This will create more liquidity BACK to national exchanges Synergy**



New products to be offered

Futures prices hedging from 3 years – later maybe even 10 years

Spread trading

Regional spreads : CRO-SER SER –ALB etc

Spreads to CEE Markets CRO – SLO CRO –HUN etc

Spreads to CWE markets CRO-GER CRO – ITA etc



Financial products

Introduce new commodities :

Gas , Coal , CO2 other environmental certificates

Participants can hedge - Clean – Spark and dark spreads

Options on regional markets

Producers are **sellors** of calls , **buyers** of puts

End users are **buyers** of calls , **sellors** of puts = **Thats a market**

Its all about offering the best way to ...





CROP ⇒ X
CROATIAN POWER EXCHANGE

SRETNO
May the "Power" be with us
Hvala