

# European energy markets in ~~times of~~ after COVID-19

New Games, New Markets or  
the Re-energised Benny Hill Show or  
Germany in self-destruction mode



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ETCSEE Prague

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# The most outrageous statement(s) ever



- Regarding the 90% share of emitters and banks, it would have been useful to highlight the share of banks separately. Also, where is the last missing 10%? This might be the marginal volume moving prices up/down.
- Finally, the report is a classic example of 'how-not-to-do-much' by pretending that you have done enough already.

## No ETS speculation behind high prices: EU

EU emissions trading system (ETS) speculation and rising carbon prices are not behind higher power prices, the European Commission said today in a policy document listing measures to tackle hikes.

But officials will investigate "possible" anti-competitive behaviour on the energy market and task EU financial regulator Esma with further "enhancing" of the monitoring of carbon markets.

The commission finds "no evidence in recent market information that speculation is a major driver of the price in the carbon market". Officials cite mid-September reports by financial regulator Esma showing that the "majority" of positions – more than 90pc – are held by entities with compliance obligations under the ETS and banks that play an "important role in servicing the hedging needs of compliance companies". The commission further noted that financial entities' market participation increases liquidity and reduces pressure on prices.

But the commission will task Esma with providing a first preliminary assessment by 15 November and final analysis by early-2022 to examine more closely patterns of trading behaviours and the "potential need for targeted actions". It

A BNP Paribas Asset Management fund with more than 3 billion euros (\$3.6 billion) under management closed some of its bets on rising carbon prices after a gain of more than 100%, according to its co-manager Edward Lees. Investors slashed their bullish positions on pollution permits by 38% from an all-time high in April, exchange data showed.

# Just a small difference from 2020

- **We were right in 2020:** the 2020 Covid-19 pandemic is NOT a flying episode in life; it is a game changer.
- **We wrote in 2020:** 99+% of electricity „spec traders” (from Germany to Turkey) are suddenly experts in
  - Oil exploration, rig counts
  - Piped & LNG
  - Electrification
  - Meteorology
  - Climatology
  - Virology/epidemiology
  - **Economics**
  - Tourism
  - Sociology/socio-psychology
- **NOW:** suddenly, everybody seems to be an (ex post) expert on everything, especially
  - **Electricity and gas**



# Risk Management - missing in action (again)?

- Yes, classical short-selling (be it pure prop trader or retailer)

- Texaco
- Orange County
- Nichimen
- Transworld Oil
- Metallgesellschaft
- Showa Shell
- Daiwa
- Sumitomo
- Kidder-Jett

- Barings
- LTCM
- **Enron (Dec-01)**
- Amaranth
- Socgen
- Detroit City
- Bear Stearns
- Ospraie Mgmt
- Northern Rock
- **Lehman Brothers**

- Morava Chem (CZ)
- **Vértesi Power Plant (HU) - 2008**
- **Arelco/EDS/KDF/Transenergo (RO) - 2016**

.....

And the latest casualties, all from 2021:

- Einar AAS, NordStrom
- UK utilities (too many to be named)
- Bohemia Energy
- And many more joining the list soon from  
*Romania, Bulgaria, Serbia, Hungary*

# 30-70€ was ,our good-old range'

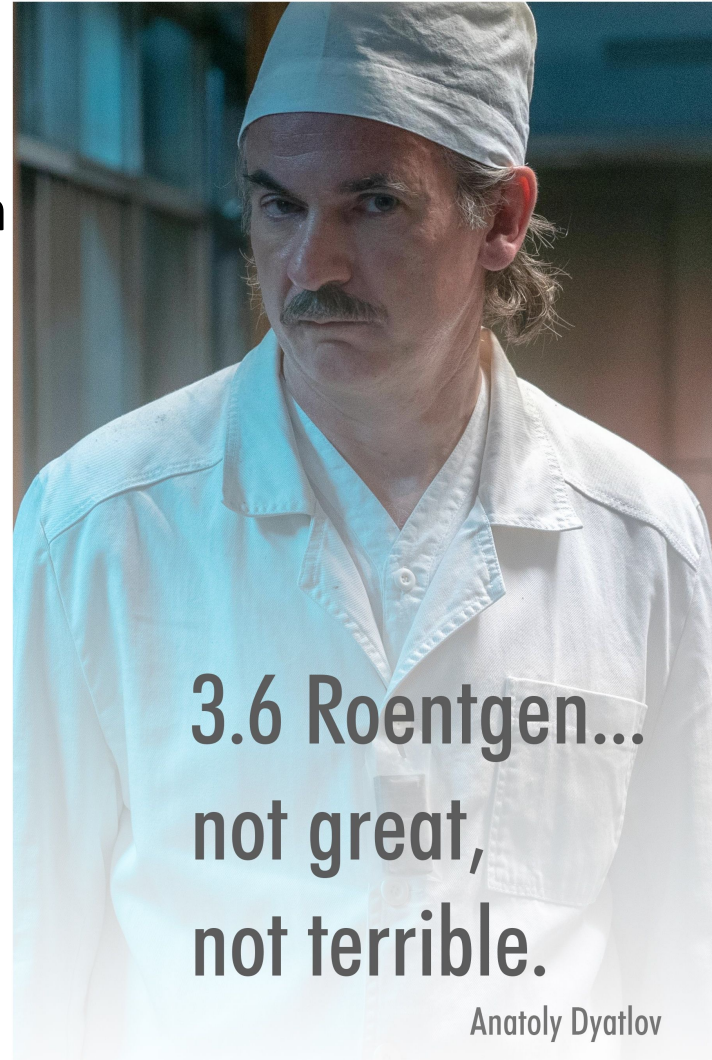
- We are given a New (?!) range from the ~~God~~ European Union & Angela & Vladimir...
- The Old range worked well till last December @ 54.65 Cal21...



# Agenda

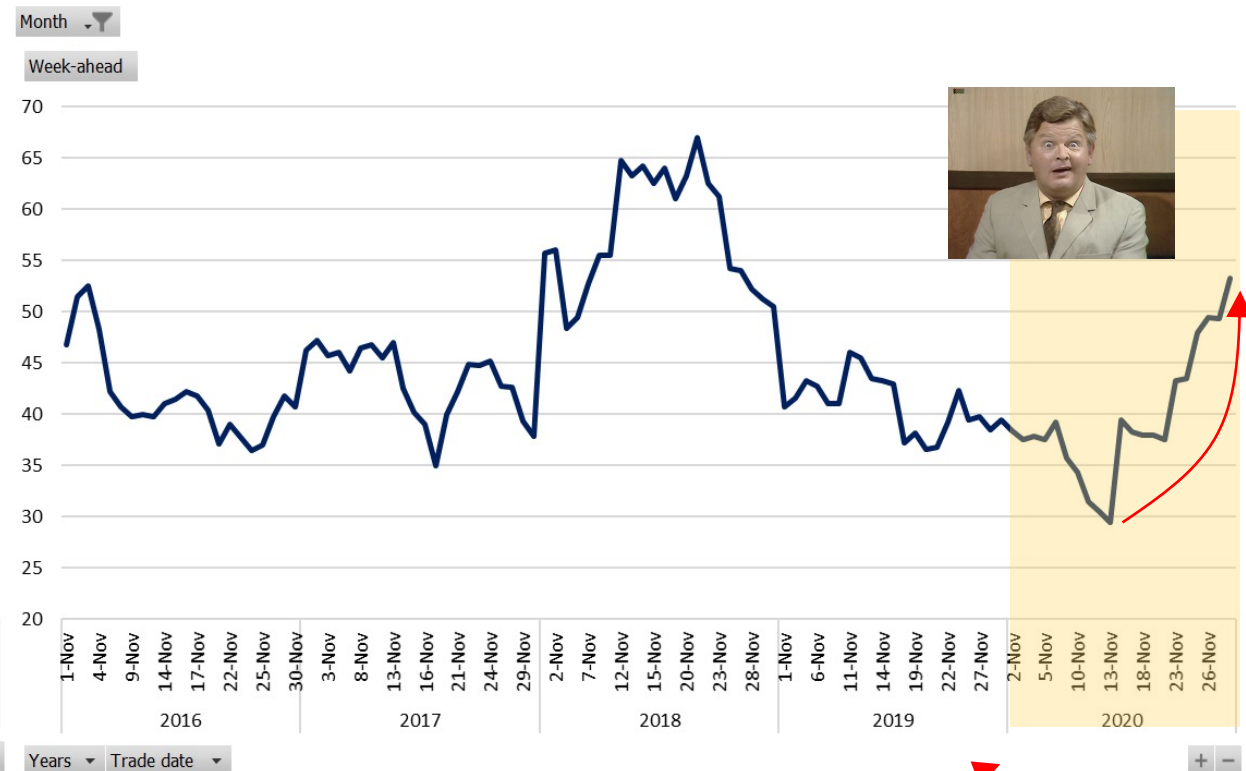
Null-point: everything has started with German nuclear-phobia

- Starting Point: November 2020
- The Biggest Ever Underestimation
- The Unprecedented
- Own Goals
- Coupling
- Short/Long-term
- Liquidity
- Fair-value Barometer
- Correlation



# What has happened in November ?

- One of the very first missed signal before the crisis
- Basically, our entire industry underestimated the importance of this early price rise
- Until mid of November, we were BEARISH...then...

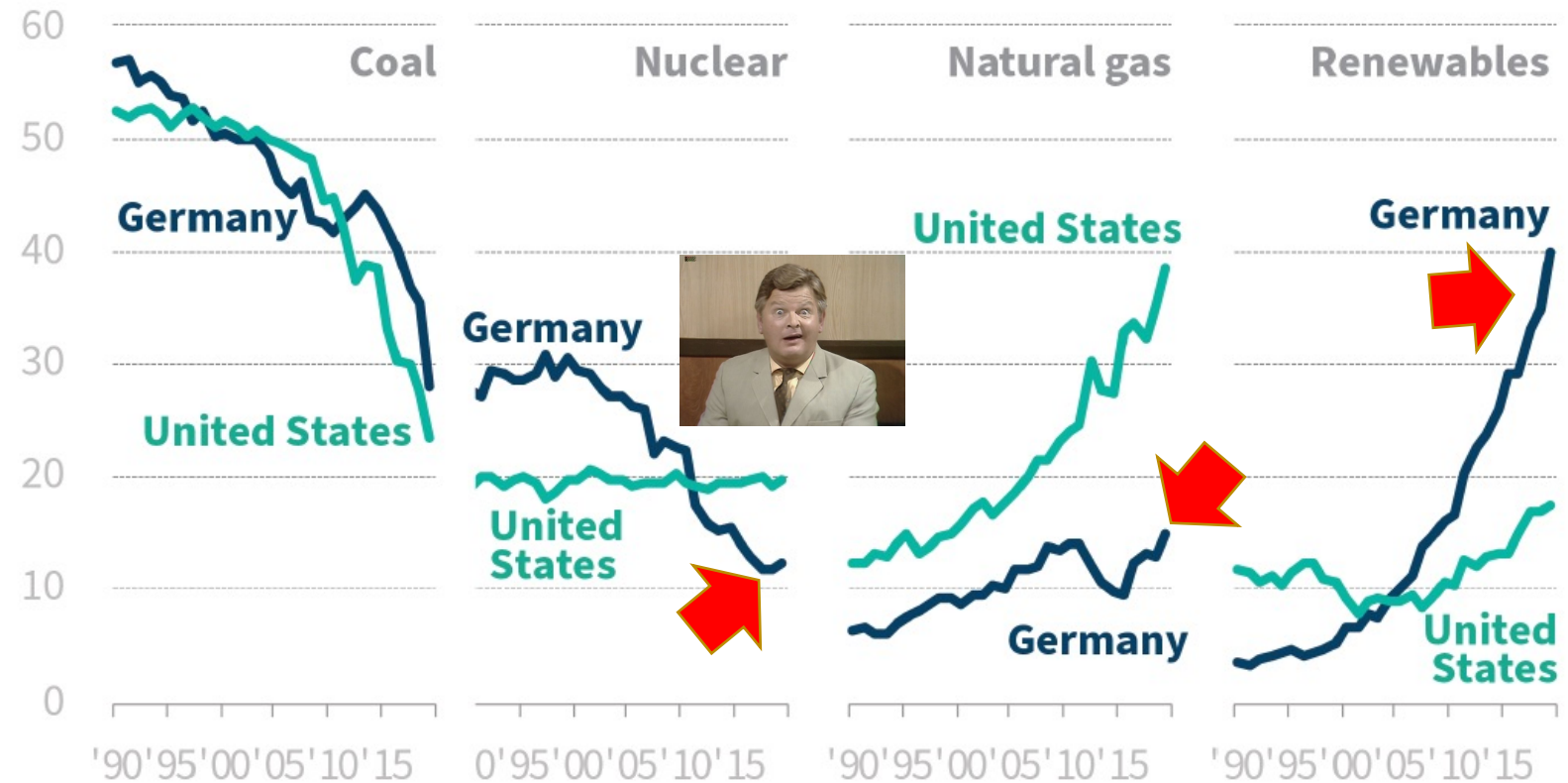


# The Underestimation

- *Source from August 2020*
- Our industry missed the very fact (see chart)
- Do not worry: Frans Timmermans & co. are STILL missing this chart . . .
- The proof of Rotten Tomatoes Energiewende
- What did we think ?
- 30-35 Euros will be eternal ?
- Of course, ultimately, everybody is smart (incl. you when reading this...)

## Electricity Generation in Germany and the United States

percent of total generation (gross generation for Germany, net generation for the United States)



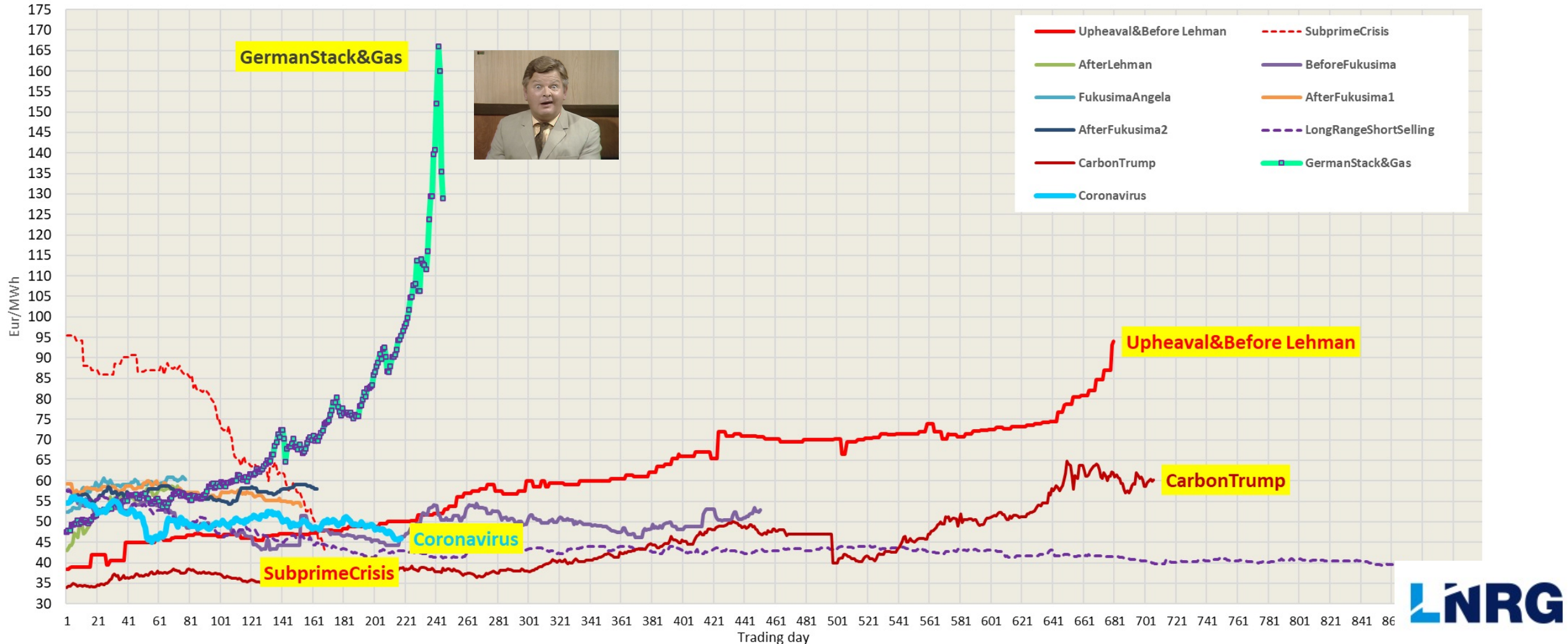
Source: Data for Germany from AG Energiebilanzen (February 2020). Data for the United States from Energy Information Administration, Monthly Energy Review, Electricity net generation: 7.2a Total (all sectors), (updated May 26, 2020). Other fuels not shown.



# The Unprecedented lifecycle

- 2008 Financial Upheaval and 2017-2018 CarbonTrump were just ,kindergarten' lifecycles, compared to 2021

The Big Lifecycles of Hungarian Cal contract (2008-2021)



# Own goals, how many more ?



- German Energiewende
- SDAC
- (Lack of) OHL infrastructure
- (Lack of) Negotiation power in gas
- (Lack of )Supervising and penalising financial market participants abusing physical markets
- German electricity sector has a new sub-title: *Gone with the Wind . . .*



# Coupling

- SDAC is not a yoga online course
- It is an aggravating game of EU against the (then) well-functioning electricity markets
- Market coupling is spreading the German energy mess all over Europe
- SDAC is currently amplifying the energy crisis across the EU

EU

It's me (honest normal fair market player who became the ultimate loser)

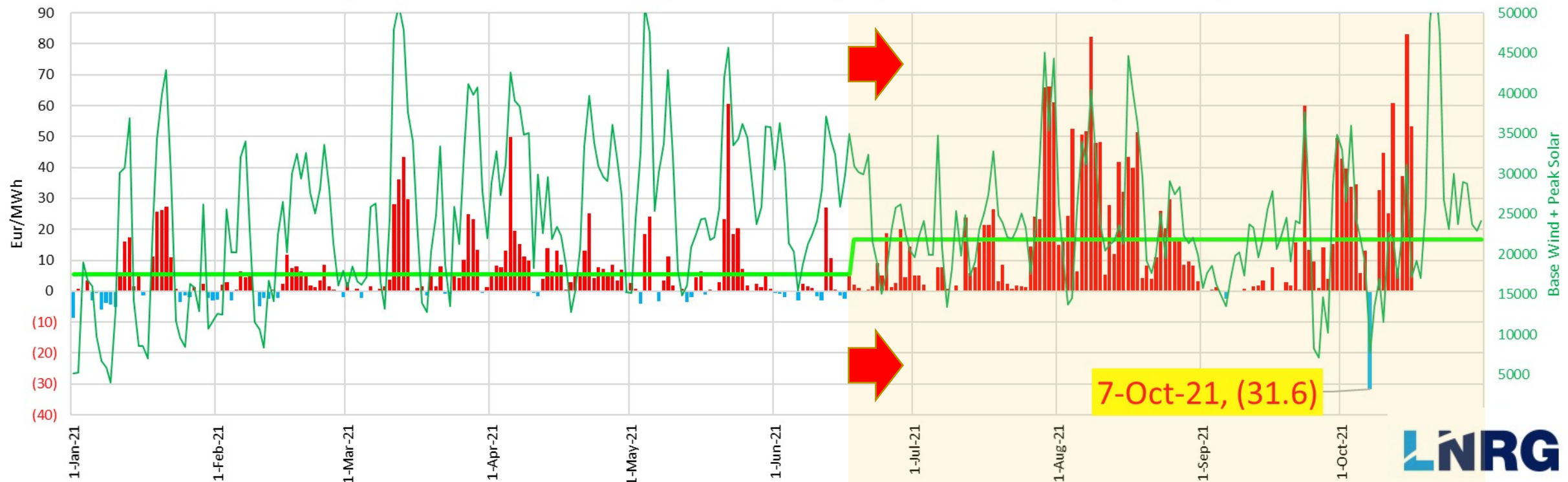


Market  
Coupling

# Annex: what is the truth about MC ?

- HUPX-EPEX spread actually **up** after the June 18 start of Interim Coupling (16.6€ vs 5-6€)
- High German RES = High spread / Low or Zero RES = Max. zero spread, but never negative
- Compare with October 7 = highest assessed negative spread & EPEX & HUPX in history

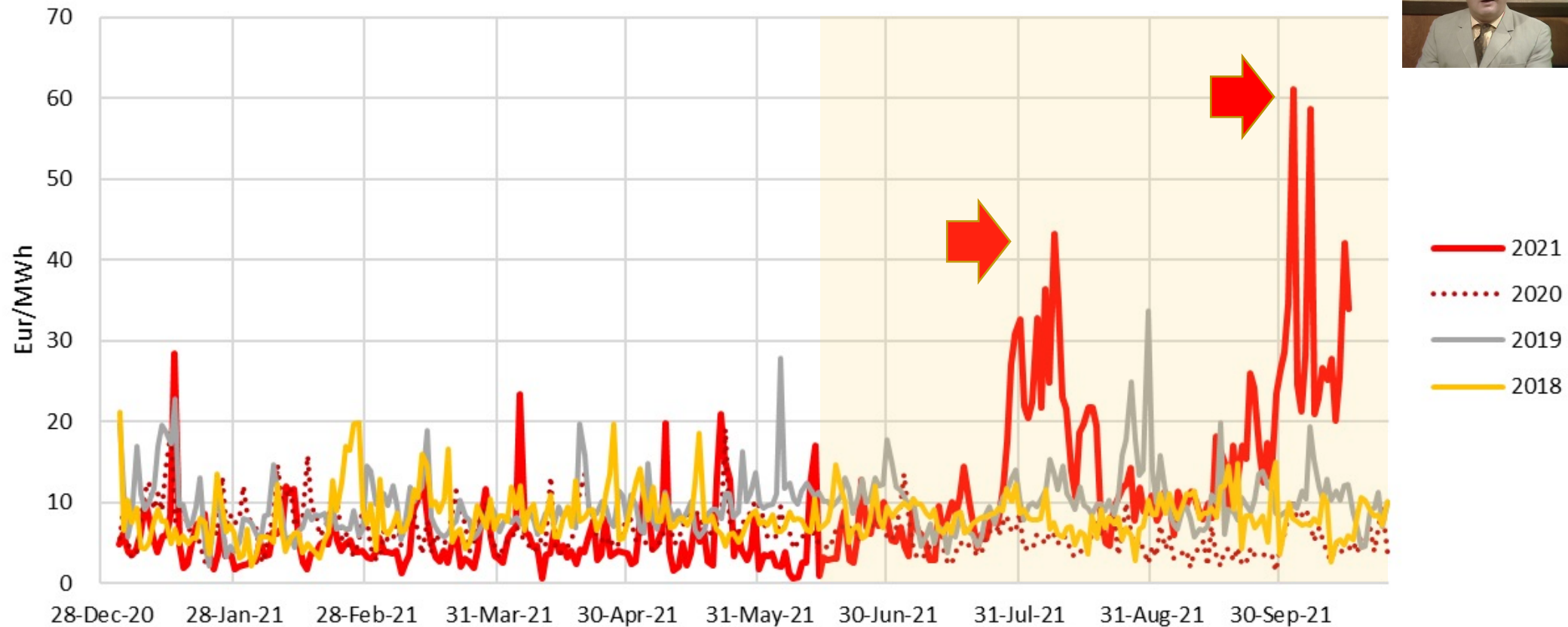
Before and After SDAC - HUPX premium to EPEX (DE) and German PV/Wind generation



# Annex: what is the truth about MC ?

- Price fluctuation in 2021 reflects hysteria, rather than the supposed benefits of MC

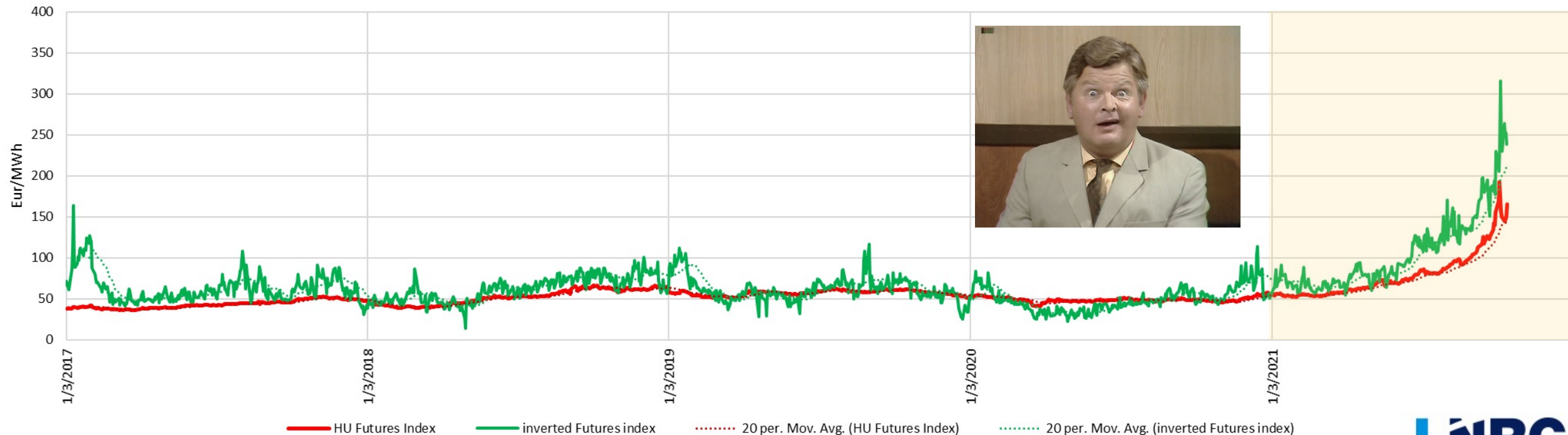
Standard deviation of spot prices (EU exchanges)



# Short- and long term

- More volatile short-term index oscillates around more stable long-term index, so far...
- When ST and LT indices go hand in hand (now: UP), something is not quite right

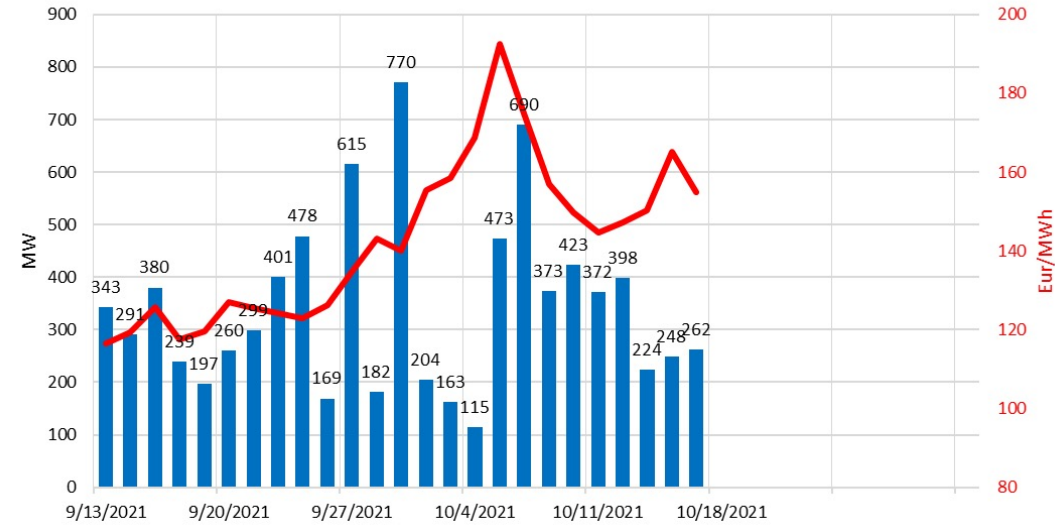
HU Futures Index and its inverted Index



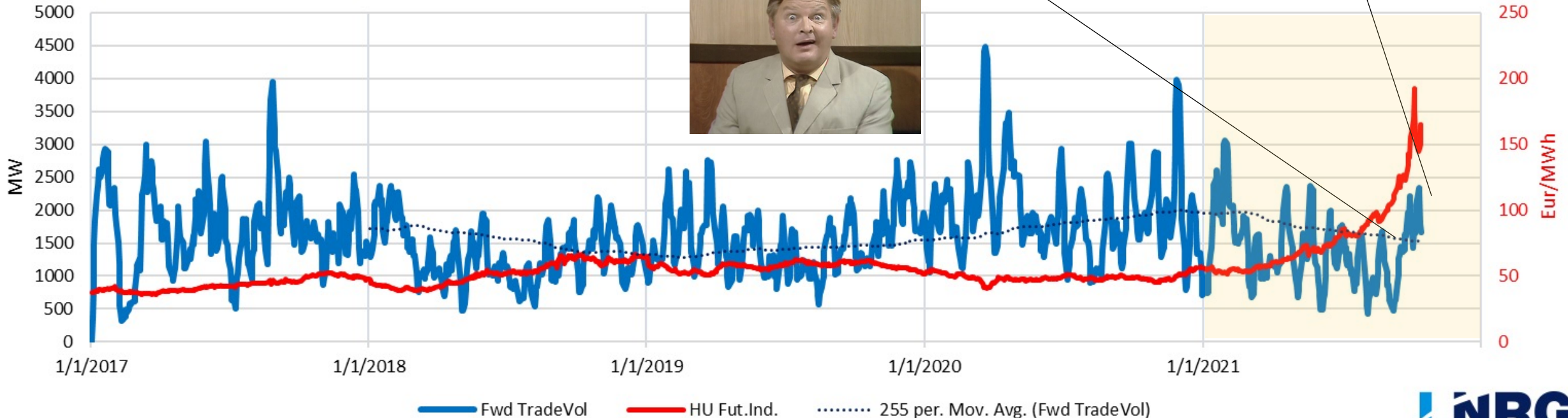
# Liquidity - volume

- Extra-high prices – *for some reasons* – produced higher traded volumes
- **Stock markets = the higher price, the higher volume (inverse demand curve)**
- But in 2021, liquidity is definitely DOWN

Forward trade volume and HU Futures Index



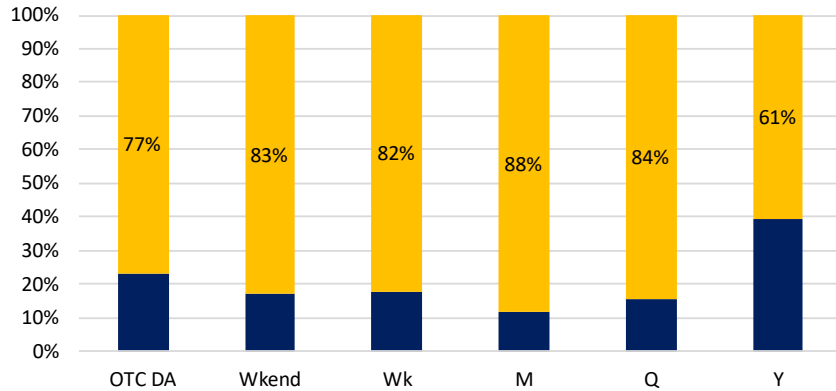
Forward trade volume and HU Futures Index



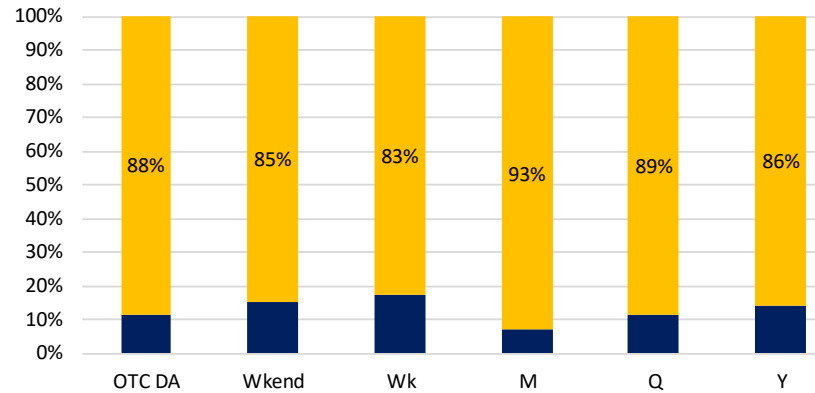
# Liquidity – settlement

- Financial contracts dominate, with their usual tendency to increase price rallies
- Liquidity is ever-green and going up - only the wrong kind of liquidity (financial speculation) is increasing, while plain-vanilla physical liquidity is down (see previous slide)

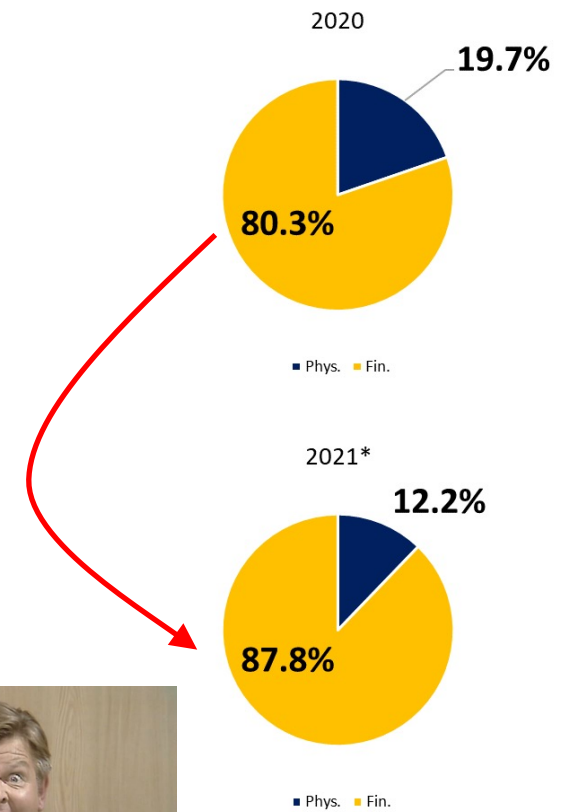
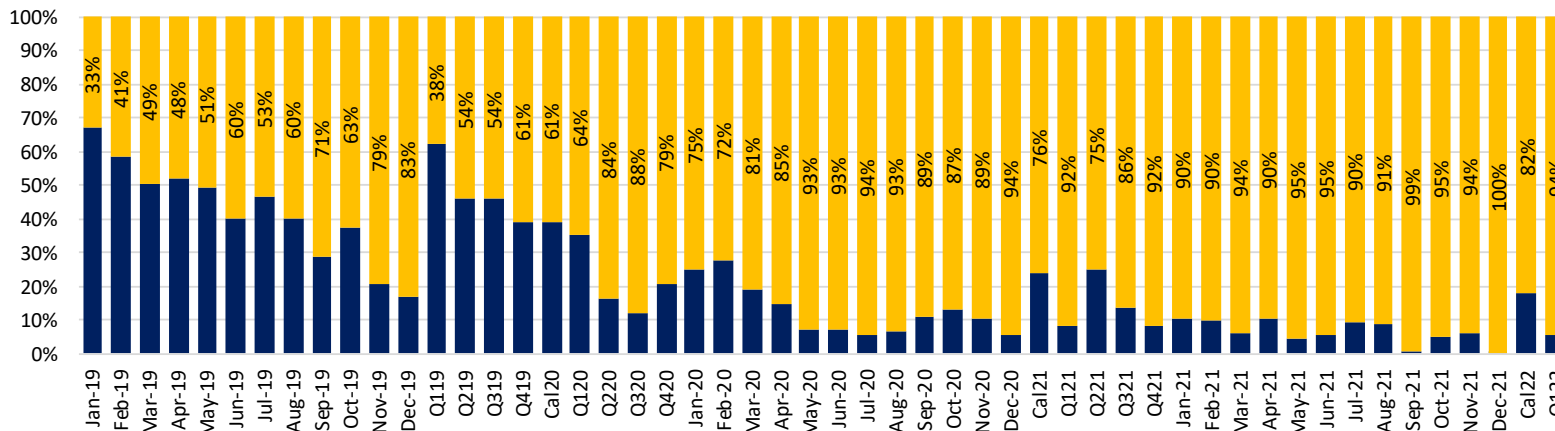
Share of **Financial** Transactions - per delivery, transacted during 2020



Share of **Financial** Transactions - per delivery, transacted during 2021



Share of **Financial** Transactions - per delivery contract

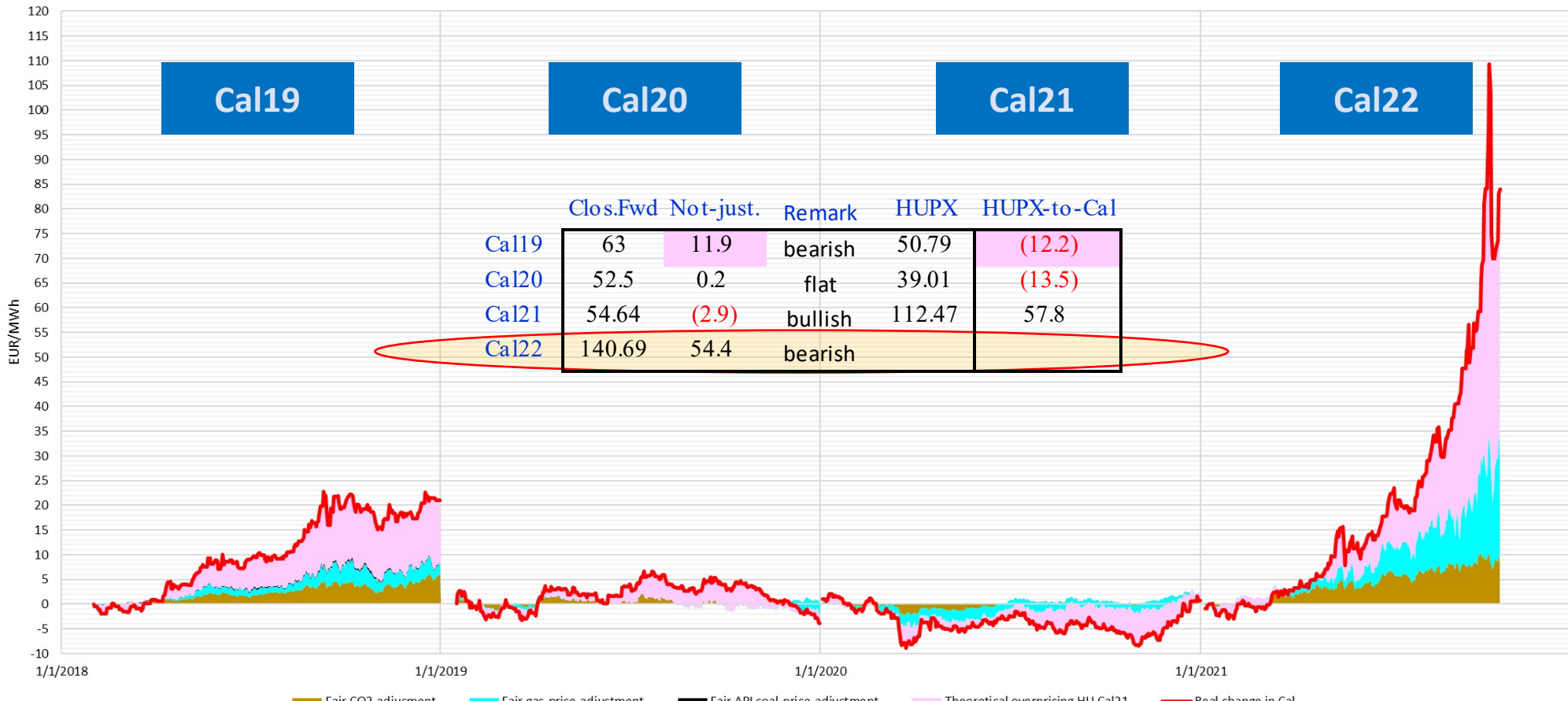




# Fair-value barometer

- October 15: the theoretical overpricing (or non-explainable part) of HU Cal22 contract (within-year change) ca. **54.4 Eur/MWh** ???
- Model said Cal19 overpriced, HUPX settled discounted; Cal20-21 not representative; Cal22 ???

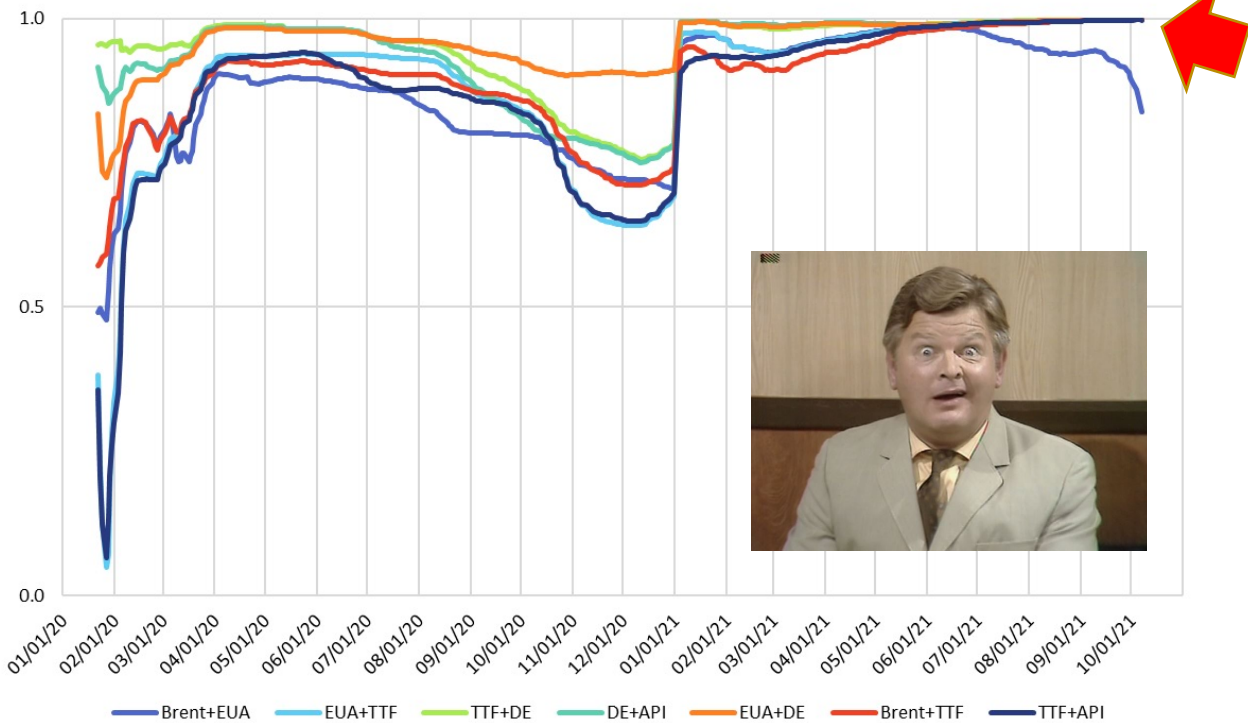
Gas/coal/CO2-adjusted fair value change and real change of Calendar Forward Contract - Hungary



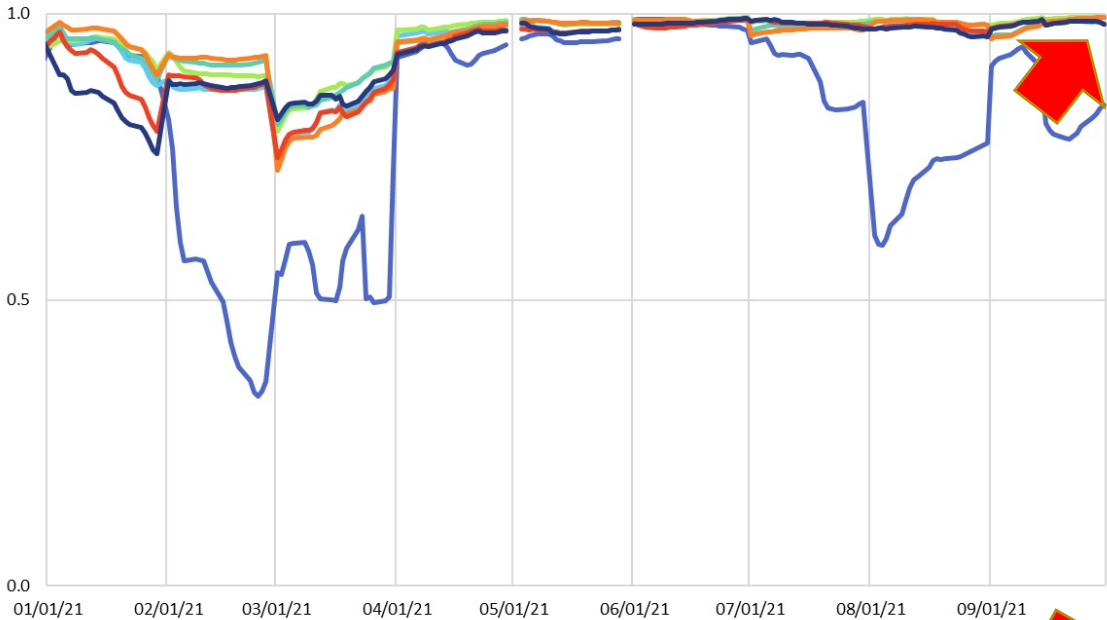
# Correlation

- Power is almost 100% dependent on certain Commodity Pairs
- That was NOT the case in the past
- This new correlation means that all will collapse together in the future ???

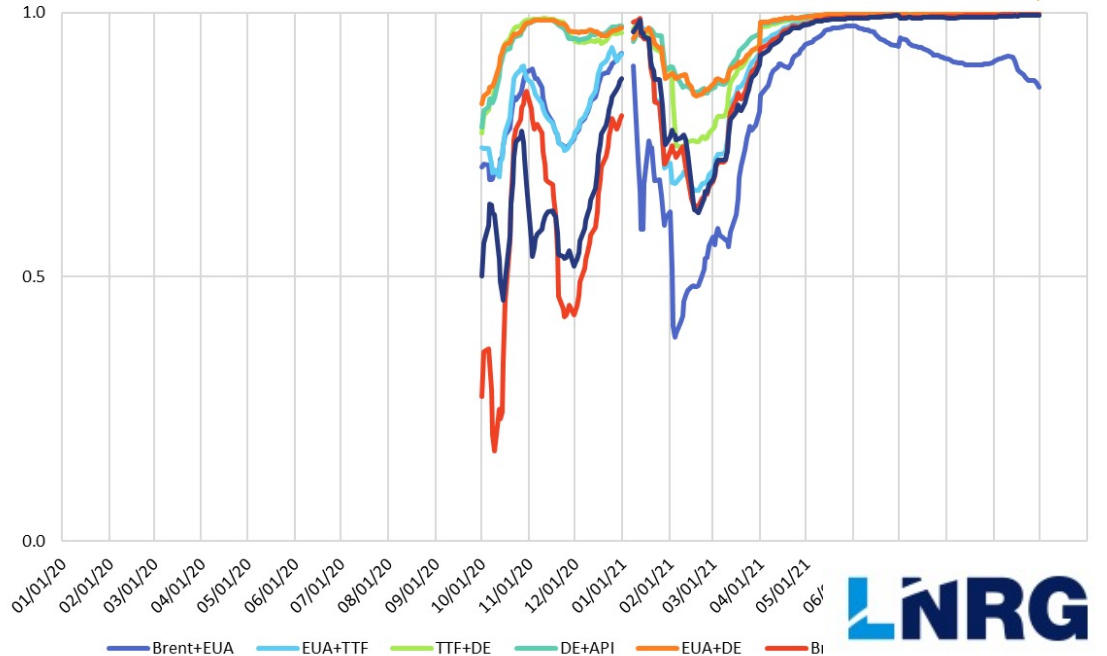
Front-Year



Front-Month



Front-Quarter



# Conclusions

- We all are traumatized now about new price levels, correlations, mispricing, speculative forces, market behavior, etc. But first and foremost we should be shocked about ourselves: how 'sketchy' we handled important fundamental facts (like German gen mix and gas market)
- Where were those now super-wise analysts 6 or 12 months ago?
- For what did Trading Floors pay the monthly bills of energy market information agencies ?
- In the future, focus should be on EARLY PREVENTION and RECOGNITION of HIDDEN TRENDS
- A certain group of not-much-loved people (DE, ECB, EU, Pizza Guys) reached their goal: physical power, gas and carbon behave like stock market - random, suspicious, hysterical, panicky, unpredictable, with high volatility;
- Liquidity is gone and important products are missing, like
  - Options market
  - Flexy products for entire European (incl. Balkan) market