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Europe Power Trading Slumped by Record in 2022 on Margin Squeeze
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By Lars Paulsson

(Bloomberg) -- European power trading plunged by almost a third last year as record prices caused by the energy crisis made it too expensive for some firms to hold large positions. Total buying and selling in the region's seven biggest markets dropped 31% to 5,696 terawatt-hours, and activity this year also appears lackluster, industry consultant Prospex Research Ltd. said in a report. The value of the market soared by more than half to €1.3 trillion (\$1.4 trillion), a record high.

Russia's invasion of Ukraine last year sent European energy markets into a tailspin, with power and gas futures spiking to unprecedented levels and some firms seeking a government rescue. Many utilities and traders curbed activity as the price surge forced them to put up billions of euros in additional collateral to cover their contracts. Extreme volatility also led some risk managers to restrict the size of trades. "These numbers and other indicators show that uncertainty and low confidence are still plaguing the market," Prospex Director Ben Tait said by email. "It's the vicious circle, where low liquidity discourages some traders."

Churn Factor

The trading volume last year was 52% below the market's peak in 2016, according to Prospex. Germany remained the biggest market, and it was also the most liquid with a so-called churn factor of 5.1. The gauge measures total trading as a multiple of physical consumption. The Nordic market was the next most active, with a factor of 2.3.

Other major markets included in the report are France, the UK, Italy, Spain and the Netherlands. The total churn factor for all markets was 2.5, down from 3.8 in 2021.

To give trading a much needed boost, Nasdaq Inc.'s commodities unit later this month will accept bank guarantees as collateral for non-financial members of its Nordic market. As much as 50% of the total initial margin requirement could be covered by the guarantees for its non-financial members, the exchange said.

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