

## New Balkan exchanges to add volatility on Hungarian HUPX

The launch of three new Balkan power exchanges is set to boost volatility on the Hungarian exchange HUPX in 2016, traders say.

This could have an impact on the over-the-counter (OTC) market as HUPX results are often seen as price signals.

The beginning of 2016 should see the start of three long overdue day-ahead exchanges in Croatia, Serbia and Bulgaria. They are expected to change the trading landscape in the region as market participants will have more options to hedge between countries.

The exchanges should also offer much needed reference prices for the three highly illiquid markets which could boost over-the-counter (OTC) trading on those markets in the future.

Hungary as a net importer is strongly connected to the Balkans because at times of abundant hydropower supply Hungary imports electricity, while at times of tight supply, flows reverse back towards the Balkan area.

Volatility on Hungarian exchange HUPX is already considered high by traders.

The exchange attracts producers and traders from the Balkans as it is the most liquid one in the region. However, sometimes the absence or presence of one big player can cause significant day-on-day price differences.

"They [the new exchanges] will induce volatility and unpredictability. Because borders are wider than the market's depth, with a small volume you can flip them from €30.00/MWh to €50.00/MWh," one trader active in the Romanian market said.

Traders have previously said that three

separate exchanges would be a surplus to the region's requirements and a single central exchange would be more effective in bringing liquidity to the region (see *EDEM 18 June 2015*).

### Higher volatility

With the launch of the three new trading platforms volatility on HUPX is expected to rise further since it would become even more difficult to predict which exchange buyers and sellers will go to on any given day and how would they hedge their positions between different exchanges.

"Every new exchange that you add makes it difficult to predict the outturn of HUPX," one regional trader said.

For example, Serbian state-owned utility EPS, one of the biggest producers in the region, currently uses HUPX to hedge positions. With the launch of Serbian SEEPEX it will be hard to guess which exchange EPS would choose on a given day, said Aleksandar Katancevic, commercial director at Stratega East and head portfolio manager at AB Energo.

He also expected that price spreads between regional markets could change from negative to positive on an hourly basis within the same delivery day as a result.

### Price drivers

Regional prices in 2016 will depend on hydropower availability which has been quite poor since the autumn.

"[The delivery of Calendar Year 2016] will be all about water," the regional trader said.

The launch of the new 300MW Stanari

“Every new exchange that you add makes it difficult to predict the outturn of HUPX”

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coal-fired plant in Bosnia in the second quarter of 2016 will also add some new conventional capacity for a first time in years. However, the price impact is expected to be limited (see *EDEM 1 December 2015*).

Turkey will also play a big role in shaping regional prices, the Romanian trader said.

He noted that in 2015 Turkish prices had dropped significantly, shrinking spreads to the Balkans (see *EDEM 8 October 2015*).

Although Turkey will remain an attractive export destination for Balkan power, flows could reverse.

"After some point the flows can switch [from Turkey to the Balkans], the total swing can mean 800MW," the trader said.

However, he noted that there was still a risk connected with Russia cutting gas deliveries to Turkey. In such case Turkish prices would be boosted significantly, diminishing the opportunities for reverse flows.

In any case, 2016 is shaping up to be a defining year for trading in southeast Europe.

"2016 will be an important year for SEE markets' integration into the EU. It will confirm local power market maturity and it will bring new quality in the trading environment as new players would enter these markets," Katancevic said. [Irina.peltegova@icis.com](mailto:Irina.peltegova@icis.com)

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