



Power *Europe*

Italian market divided over physical and financial trading

Italian authorities have given the go-ahead for power market operator GME to offer trading in physical forward contracts. But they have been slower in their response to market participants seeking further development in financial trading.

GME plans to launch its forward market, the MTE, on 1 November. The MTE will offer monthly base-load and peak-load contracts for physical delivery in the three months ahead, quarterly base-load and peak-load contracts for physical delivery in the four quarters ahead, and annual base-load and peak-load contracts for physical delivery in the year ahead.

Traders welcome the move, but many continue to express a desire for greater liquidity in financially settled contracts. The majority of trades in the over-the-counter (OTC) market are physical, and the MTE would probably be used more for clearing than for actual trading, a trader says (see *graph*). GME has not said if it will offer clearing.

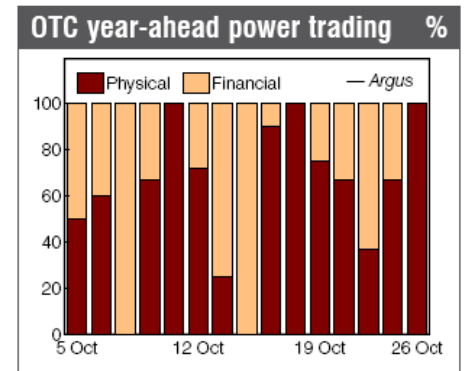
Financial swaps settled against the Pun spot market, which is operated by

GME, have started trading more regularly in the OTC market. But as in the OTC market, trading volumes for financial futures at Borsa Italiana's Idex exchange are low. This could change if day-ahead swaps, the launch of which is being negotiated, attract more interest in Borsa Italiana's Idex power contracts.

International firms, including banks, want to see greater liquidity in the financial market. The authorities are aware that a rise in overall liquidity would help badly needed investments in Italian power infrastructure by providing a wholesale market outlet for independent generators.

Trading in financial power contracts is crucial to the development of overall liquidity, energy regulator AEEG general secretary Carlo Crea says. "We believe the physical and financial markets can work alongside each other in Italy," he tells *Argus*. But other officials are concerned that more financial trading could move away liquidity from the physical market.

Traders say the markets can complement each other. "All the big players have



physical assets to optimise and hedge, while there are also a number of banks moving into the market without assets. You have the example of Germany, where both markets run alongside each other without taking liquidity away from each other," a trader tells *Argus*.

One way to increase liquidity in the financial market would be to allow traders to swap financial contracts on Idex for equivalent physical contracts on the MTE. Borsa Italiana's director of energy derivatives markets Ennio Arlandi expects clearance for this proposal from Italian regulators by the end of this year.