

# *Understanding the New OTC Trading Market*

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### Working with OTC trading quotes

- Understanding the new market
- OTC platforms and systems in Germany
- OTC trading is the only liquid „future“ market
- OTC quotes development
- Problems with closing quotes
- Working with OTC quotes within the analysis

# *Understanding the new market*

## *Understanding the new market*

- Bilateral non transparent market
- Structured and individual products
- Physical delivery is main focus
- Mostly continuously trading
- Companies credit rating is the key for market entrance
- OTC market always in competition with PX future market

# *OTC platforms and systems in Germany*

## *OTC platforms and systems in Germany*

- Telephone and internet based trading platforms
- Main OTC Brokers
  - GFINet, EnergyPlus, Prebon, PowerITS
  - Bloomberg, DynergyDirekt
- GFI Net seems to have most liquidity
- Problems:
  - Integration of telephone deals into internet platform
  - Missing information of product liquidity

*OTC trading is the only liquid „future“ market*

## *OTC trading is the only liquid „future“ market*

- Liquidity at EEX future trading very low
- Market sees more advantages in OTC forward products, even with
  - Credit risk
  - Limitation of counter parties
  - Missing transparency
- PX future market has to figure out their advantages
- Quotes are needed to build up Forward Curves for internal contract valuation, RM, etc.

# *OTC quotes development*

## *OTC quotes development*

- Working with OTC quotes in the analysis causes many problems
  - Which platform represents the market ?
  - How can be worked with continuous quotes ?
  - Do closing quotes represent the market development ?
- The chosen time horizon gives most of the answers
- Financial and IT resources are needed

## *Problems with closing quotes*

## *Problems with closing quotes*

- Closing quotes do not cover intraday price development
- Closing quotes must be treated as an index
- A trustable index should be
  - Easy to understand
  - Resistant to manipulation
  - Covering the market price development
  - Calculated by third parties
- No OTC Index covers all four assumptions

## *Example stock market indices*

### **NASDAQ Composite Index**

- NASD (National Association of Securities Dealers)
- Volume weighted average of 4900 single stocks
- Calculated in continuous trading
- Average of heterogeneous stocks
- Average Bid of market makers and traders

### **DAX**

- Deutsche Börse AG
- Volume weighted average of 30 / 100 single stocks
- Calculated in continuous trading
- Average of heterogeneous stocks
- Average of Bid and Ask plus last deal

# *What is wrong with these indices*

## Conclusions

- **DAX**
  - **Never use the last trade as reference for a index**
- **NASDAQ**
  - **Do not use only one side of a spread**

Situation is worse, if the market has less liquidity

## *Electricity indices*

### **GPI**

- Dow Jones
- Participants      ATEL, Electrabel, ELSAM, GEW, MVV, E.on, RWE Energie, Enercity, TRAEDON, TXU, EOS, NUON,...
- Volume weighted average of all transactions which have been submitted to Dow Jones
- Average calculation at 17:00
- Problem: Seems easy to manipulate, the voluntary character of the index can be used for manipulation (not „good“ deals will not be submitted, good „deals“ will be submitted)

## *Broker closing quotes*

### **PowerITS index**

- Calculated by PowerITS
- Spreads (BID and ASK of participants)
- Identification of the last five spread with the smallest difference
- Elimination of the lowest and the highest spread
- Average of the last eight values
- Calculation after the highest market activity ( 11 – 13)

## *Conclusions of OTC closing quotes*

- Closing quotes and closing quotes are two different pair of shoes
- They do only reflect part of the market development
- Easy to get
- Stripping the quotes of a continuous trading would be analysts heaven
- But: many technical and financial resources needed
- *AND: The good will of your broker*

***ENDE***