newsletter

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Eurex Newsletter N° 11/June 1999 Zurich – Frankfurt/Main

GEX: Energy at the Exchange

At present, the German power industry is calling for the creation of an Energy Exchange. Deutsche Börse AG together with Eurex has taken the initiative in the realization of an Energy Exchange.

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Deutsche Börse AG is making its contribution by forming **GEX**, the **German Energy Exchange Initiative**, which is the basis for an **Energy Exchange** with a European reach that will fulfill the requirements of the **power industry**. In the first step, a transparent, liquid and low-cost **Energy Derivatives Exchange** will be implemented.

Establishing GEX – with the full support of the Power Industry

The **power industry** actively supports Deutsche Börse AG's efforts in establishing an **Energy Exchange**. Based on this, the exchange was able to form a working committee comprising the relevant corporations. This committee reflects the various levels in the energy value added chain (production, transmission, trading, distribution and sales). Additionally, key market participants, such as industrial clients and banks are included in this committee. The working committee is developing the necessary products for a successful **Energy Derivatives Exchange**.

Energy market expertise has been brought on board through the cooperation with the New York Mercantile Exchange, NYMEX, (see below) and through commitments from the **power industry** experts. Deutsche Börse AG's main interest is in operating the trading and settlement platform for **GEX**. The **GEX** trading system is expected to be very similar to the Eurex system.

A European Energy Exchange

Significant components of **Power** and **Energy trading** now have a pan-European footing. Deregulation is allowing the markets for **electricity** and **energy products** to merge and this trend will only intensify. Market participants would therefore, and rightly so, like a **European Energy Exchange** that offers transparent, cost-effective access to all interesting products.

In the **Energy market** the possibility has been opened to create larger European Exchange units and joint ventures from the very start, instead of creating an unnecessary multiplicity of national exchanges. The possibility exists that, the **GEX** initiative will emerge directly into a **European Energy Exchange**.

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The Start – A Derivatives Market for Electricity
Initially, **GEX** will enable trading in **Electricity Futures**. The pan-European liberalization of the power markets will lead to appreciably lower prices for **electricity**, a form of **energy** which cannot for all practical purposes be stored. Prices can potentially fluctuate strongly within short intervals. Derivatives trading will enable market participants to hedge against such volatility. The price of a future will serve the participants as a benchmark price for operative **power sales**.

Market participants manage their risk most effectively and at lowest cost by combining exchange-based and OTC trading. **GEX** will offer market participants a series of advantages in this regard:

- high liquidity
- transparency
- low costs
- guaranteed contract fulfillment

The futures exchange is the logical way to supplement the ongoing deregulation of the **physical market for electricity** and will accelerate this development. Even though the foundation for an exchange-based Spot market has not yet been developed, a Futures Exchange will achieve most of the expected advantages associated with an **Energy Exchange**. As soon as the **power industry** has defined the requirements for an exchange-based Spot market, the Deutsche Börse AG will take the necessary steps in organizing this market.

Cooperation between Deutsche Börse AG and the New York Mercantile Exchange

Deutsche Börse AG and NYMEX, the world's leading Energy Exchange, are cooperating to create a German Energy Exchange.
On April 21, 1999 both exchanges signed a binding letter of intent to this effect. The Energy Exchange will be built on Deutsche Börse AG systems infrastructure. NYMEX will provide expertise primarily in the field of product development. This is already taking place through NYMEX's activities for the working committee. Deutsche Börse AG and NYMEX agree that the decision on key issues relating to the Energy Exchange and its location shall be made by the power industry itself. The cooperation with NYMEX creates further opportunities for establishing a successful, internationally significant Energy Exchange.

news

+++ International Derivatives Week in London +++ Risk Based Margining Brochure +++ Correction: Working Committee Clearing (Xpand N° 9) +++ Events in June and July +++

International Derivatives Week in London

During the week of June 28, 1999, the International Derivatives Week will take place in London.

Starting on June 29, the 6th FIA/FOA Conference will be held at the Meridien Picadilly. Panel discussions with topics ranging from "The New Derivatives Marketplace and The New Business Model" to "Exchange Strategies around the Globe" are on the programme from Tuesday to Wednesday.

The conference is followed by the 9th FOW derivatives Exhibition at the Barbican Exhibition Centre on Thursday, July 1. Be sure to come and visit us at Booth 15/16. Eurex will be presenting the new Graphical user Interface (GUI) and Release 3.0.

For more information please contact our London Office on:
T +44 (0)171-778-93 10

Risk Based Margining Brochure

As of end of June, the new Risk Based Margining brochure may be ordered. The brochure is available in German and English.

To order your copy, please contact our Publications Hotline on:
T +49 (0)69-21 01-15 10

Correction: Working Comittee Clearing (Xpand N° 9)

Please note that the following members are also part of the newly formed Working Committee Clearing:

- Mr. Brinkmann
  Westdeutsche Landesbank, Dusseldorf
- Mr. Kirchmann
  Salomon Brothers AG, Frankfurt

Events in June and July

10. June
Presentation Eurex Release 3.0
Hotel Okura, Amsterdam

29.–30. June
6th FIA/FOA Conference
Meridien Picadilly/London

1.–2. July
FOW, 9th Exhibition in Conference
Barbican Centre, London

12.–14. July
MFA Conference
Plaza Hotel, New York

Member Training

Date: June 8, 1999

Training and Education Derivatives Market

	Course	June	Places available	July	Places available
Traders Examination	Colloquium for	28.06.99 **L**	20	06.07.99 **C**	4
	Eurex Traders Examination	29.06.99 **L**	20	07.07.99 **C**	5
				26.07.99 **C**	6
				27.07.99 **C**	6
				29.07.99 **L**	20
				30.07.99 **L**	20
	Eurex Traders Examination	21.06.99 **H**	8	05.07.99 **P**	6
				20.07.99 **H**	6
System Training	System Training for Eurex Trading	30.06.99 **C***	2		
	Eurex Functional Menber Training			08.07.99 **C**	6
				27.07.99 **P**	6
	System Training for Eurex Clearing			28.07.99 **P**	6
				29.07.99 **C**	6
				09.07.99 **C**	5
	System Training for Eurex Security	25.06.99 **L**	4		

C Chicago **F** Frankfurt **H** Helsinki **L** London **N** New York **P** Paris **Z** Zurich

* Character User Interface Eurex Release 2.0

Eurex considers
to continue Cooperation with CBOT

Eurex and CBOT (Chicago Board of Trade), are considering to renew their cooperation, which was interrupted at the end of January. Reports were confirmed on May 18, 1999 that more concrete talks had taken place, following informal contacts in recent months.

The Board of Directors of **CBOT** came out in favor of continuing the cooperation and on this basis a call for a vote by its members will be called by the end of June.
A favorable vote by the members of **CBOT** could result in the continuation of the cooperation between **CBOT** and **Eurex**.
Jörg Franke, CEO of **Eurex**, commented:
"We still think that a cooperation with **CBOT** would be advantageous for the exchanges and their membership. But this is something that the board of directors and the members of **CBOT** will have to decide."

In Chicago, **CBOT** Chairman David Brennan said: "The time is now right for a business alliance with **Eurex** and it has my complete support. I am confident that we have reformatted an alliance with **Eurex** that will result in increased efficiency, stronger technology and shared costs that will serve **CBOT** members well."

Furthermore, **CBOT** President and CEO Thomas R. Donovan commented:
"This **Eurex** alliance will allow us to meet and beat all competition, while continuing to grow our business and provide global trading opportunities to our members."

The cooperation had been taken up in the summer of 1998 with the aim of giving the members of both exchanges direct access to each other's products. With a slim majority the **CBOT** members voted against continuing the co-operation at the end of January 1999.



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