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Towarowa Giełda Energii (TGE) motivates market participants to increase activity

Press Release

TGE intends to continue the Liquidity Improvement Programme launched at the beginning of the year, and to introduce additional incentives for market makers. After the summer holidays, TGE will begin the process of consultations with the current market maker and other Members interested in cooperation with the exchange in order to strengthen market liquidity.

One of the priorities of TGE is not only to ensure the security of trading but also to support market liquidity, i.e. to create conditions for increasing the availability of commodities at a market price. Sufficiently high liquidity of instruments offered by the exchange contributes to reliable valuation of contracts, creates the possibility to open and close positions at any time during the session, narrows the spread between the best bid and ask prices, which in effect reduces the transaction cost and enables the adjustment of the required level of collateral at the Clearing House (IRGiT). The above aspects reduce the risk of trading on TGE and build trust in the exchange.

Due to high regulatory uncertainty in 2017-2018 and a significant increase in electricity prices, in 2018 TGE commenced consultations with market participants with a view improving liquidity and price stabilisation. First, in October last year, the Exchange introduced static and dynamic spreads, i.e. a mechanism curbing price fluctuations in orders and transaction price fluctuations for instruments traded on the Commodity Forward Instruments Market both for electricity and gas. This mechanism was established in cooperation with the Polish Financial Supervision Authority.

From the TGE's perspective, the key step was to offer a comprehensive liquidity improvement programme to the market at the beginning of 2019, which assumed, among other things, the introduction of a new market-making model, reduction of market risks for market makers (the "Fast Market" mechanism) and increasing order concentration and market depth (the "Maker-Taker" programme).

The "Maker-Taker" Programme was implemented on a pilot basis from January till June, and the Management Board's decision as to its continuation or termination was to be announced by 16 July 2019. The main underlying objective was to narrow down the differences between the best bid and ask prices for a given exchange instrument. The competition model applied to orders was intended to increase their concentration and market depth for individual instruments traded on the Commodity Forward Instruments Market for electricity.

Bearing in mind the transparency of its activities, TGE committed to review the effectiveness of the "Maker-Taker" Programme and published its assessment on 16 July this year. TGE also made the first evaluation of the activity of the market maker which has been operating since 1 April on the basis of the new model. The analysis has shown moderate effectiveness of the "Maker-Taker" Programme, especially for relatively high-liquidity instruments, where the activity of the market maker i.e. PGE GiEK S.A. and historical conditions of the most popular forward contracts have had greater impact. However, the results of the analysis indicate positive changes on the electricity forward instruments market resting in narrower average spreads on instruments covered by the market-making.

Finally, the Management Board of TGE decided to continue the pilot "Maker-Taker" Programme for the period from 1 August to 31 December according to a changed formula i.e. as a mechanism supporting the market making for the least liquid instruments. Additionally, in order to stimulate market participants' interest in boosting liquidity for the instruments covered by the programme, transaction fees will be further reduced from 50% to 75% for entities initiating transactions on their own account. The initiators may count on the same level of discounts from the fees for registration of the positions in the Clearing House (IRGiT).

The assessment of the first six months of the operation of the "Maker-Taker" Programme and the market maker's activity provides guidance as to the direction of further activities of the exchange with a view to achieving the expected level of liquidity. Apart from the continuation of the "Maker-Taker" Programme, TGE intends to its offering for market makers and introduce additional incentives to make it more attractive.

'We are confident that the steps taken by the exchange will be appreciated by the market. We are very interested in multiple market makers operating at TGE because to a large extent they are the ones to build the liquidity. Therefore, we intend to introduce additional incentives to our offer for market makers – to reward their activity, so we hope that soon there will be new entities that will take on this role. We are open to suggestions from the market and want to meet its expectations, but the exchange itself will not create liquidity, we must cooperate to this end' – said Piotr Listwoń, Vice President of the Management Board of TGE.

TGE plans to start consultations with the current market maker and other Members interested in market making immediately after the summer holidays in order to develop the most effective solutions.