

THE Risk DESK

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SPECIAL REPRINT

eex acquires nodal exchange

In a late 2016 interview with Nodal Exchange, we discussed many things with CEO Paul Cusenza. New products and services he was planning to launch, growth and international expansion opportunities and so on. Clearly, we should have hit him with a few more questions.

This week it was announced that Deutsche Börse Group subsidiary EEX had acquired 100 percent of the equity in Nodal Exchange “for a low triple-digit million investment.”

Previously, we asked Cusenza what sort of strategy he might pursue in any foreign affairs for Nodal Exchange, and he noted that Jeff Sprecher’s ICE model of “implementing locally but leveraging centralized knowledge, staff capabilities and technology ... to me this makes a lot of sense ... ” We added that, “it was clear in our discussion that Cusenza’s response to the question on international expansion wasn’t off the top of his head, although he demurred on confirming that some plan was already in the works ... ”

In our defense, he tells us this week that he wouldn’t have spilled the beans about the deal in our previous interview. *Need we say that Paul is an excellent fellow?*

So 2016 was a banner year for Nodal, having broken all sorts of volume and growth records on the regulated power exchange and its new clearinghouse (Nodal Clear) operation. Last year the company also launched a Henry Hub gas contract and power basis options were on the slate for this year.

A company statement noted that the two companies “share a common strat-

egy and philosophy,” and they “intend to grow additional asset classes such as the US natural gas business and provide market participants with access to a global trading network for energy products.” EEX, in case you’re not aware, is headquartered in Leipzig, has offices across the EU and provides the cleared, central market platform for energy, such as oil, gas, power and coal and other commodities, such as environmental products, freight, metals and agricultural markets.

In an exclusive interview with Cusenza this week, we discussed the plan forward for Nodal and the EEX expansion into US markets.

We asked if this deal was more about his growth ambitions abroad for Nodal Exchange or EEX’s ambitions in the US. “A bit of both really,” he says. “EEX is very focused on global expansion right now. I think my long-term goals involved international, but short term, I knew we had to stick to our knitting and focus on building on our strengths in the US,” he says. “Now, we’re part of a global entity, so we’ve achieved global aspects of our strategy. We can now offer to our customers the benefit of being part of an international family ... the largest energy exchange in Europe.”

Digging through the EEX Group annual reports since 2015, we note a fairly clear ambition of wanting to expand its footprint toward being a much larger “global commodity entity.” The ‘E’ in EEX may soon be a misnomer. Apart from this latest US acquisition, they also purchased Singapore-based ClearTrade Exchange, a regulated marketplace for commodity fu-

tures and OTC-cleared derivatives, including energies, metals, ags and freight.

The Nodal Exchange’s specific expertise in US power markets can’t necessarily be replicated in Europe because of the way these various markets are set up and regulated, though Cusenza says elements of its basis market and risk models can be leveraged elsewhere in the EEX family and quite likely, “they will offer a lot of their expertise and knowledge to us.” But to focus on the tech or expertise transfer, while all fine and nice, may be missing the bigger point in this deal, which is clearly more focused on the global expansion of the EEX family of companies.

“Look at it this way; we’re now 28 percent of US open interest for electricity. Year on year, we’ve doubled. This year alone we’re grown by nearly 80 percent,” Cusenza says. “We have a lot to offer. It’s a very good combination.”

Indeed.

EEX has been showing decent growth across its European markets as well, he says, “Great growth in Italy and Spain, clearing is growing significantly as well.” He noted that Nodal will be launching options in Q2 for power and later for natural gas. “EEX trades both power and gas and also provides cross margining for the two. I think this is an area that EEX brings experience that will be very useful for our markets and our customers.”

To us this matchup must somehow touch the LNG space, an area we’ve discussed with Cusenza for a couple years. He’s always had an eye on that market,

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though we've always accused him of being a bit coy on the subject. And now, we see Nodal joined at the hip with cleared futures and options exchanges in Europe and Singapore that list contracts in gas, power and freight. Hmm. We *had* to ask.

"I may have to be coy again," he says. After a slight hesitation, he said, "we think it's something that is obvious ... " He added that indeed, LNG is significant, "and will be even more so in the next five years, on a global basis," he says, "but from a cleared futures perspective, it's still in nascent stages," he says. He says that whether Nodal was solo or part of this (EEX) group, "I would want to address this opportunity. But as part of this group, we are so much better able to address it, given our presence in North America, Europe and Asia." The operative term here for EEX and LNG seems to be, *future opportunity*, five or so years out.

Otherwise, Cusenza says his role within the EEX group will stay the same, his team will remain in place and they will continue to focus on growing their market share in the US.

For more information, go to www.eex-group.com.