



Energy and commodities markets - volatility and conduct		
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## Key Messages

Volatility in physical commodities has flowed through to the futures markets, where the energy and agricultural sectors typically manage their risk of future price fluctuations.

ASIC's primary focus during this period of volatility is on the stability of futures market infrastructure and participants, and the integrity of futures market trading.

ASIC has identified instances of concerning behaviour and is examining potential manipulation of the electricity and wheat daily settlement prices.

ASIC is testing the supervisory practices of several market participants that appear to have failed in their gatekeeper duty. Market participants are gatekeepers to exchange markets and are required to prevent orders from entering a market that they ought reasonably to suspect as manipulative.

## Background

Disruptions to production and trade of commodities from the Russia/ Ukraine conflict, solid energy demand and pandemic-related supply constraints, have caused price shocks globally.

Holders of futures positions are required to pay initial margin and variation margin to the exchange clearing house to manage the risk of credit default. Initial margin is required to be paid at the time of entering into a futures position. Variation margin reflects the change in market value of contracts and is calculated daily.

ASX's variation margin calls have materially increased, commensurate with the heightened pricing volatility in energy markets (e.g. electricity contracts made up around \$1billion of a total \$9billion margin calls across all ASX futures contracts in Q2 2022).

s 37(1)(a), s 37(2)(b), s 47C, s 47E (d)

We understand that some energy generators and retailers have reduced their futures position to limit their exposure to margin calls in favour of over-the-counter (OTC) derivatives hedging positions. ASIC has limited visibility over OTC electricity derivatives as electricity contracts were expressly carved out from the OTC Derivatives Transaction Reporting Rules.

## Spot energy market

Significant and unprecedented spot prices across the National Electricity Market led to the Australian Energy Market Operator (AEMO) capping prices between 12 and 14 June 2022. This led to



generators withdrawing capacity from the market and, on 15 June, AEMO used its powers to suspend the National Electricity Market to ensure reliable supply of electricity.

### ASIC Action

ASIC has been closely monitoring futures market trading, examining concerning conduct and undertaking early engagement with participants to disrupt questionable trading behaviour. ASIC has also published Market Integrity Updates reinforcing ASIC's expectations of market participants as gatekeepers of their duty to detect and deter market misconduct.

ASIC engaged with Treasury, the Australian Energy Regulator, the Australian Energy Market Operator and ASX during peak volatility on the financial vulnerabilities of electricity retailers and generators.

ASIC is liaising with Treasury and the Australian Energy Regulator on future options for improving transparency of electricity OTC derivatives contracts.

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s 37(1)(a), s 37(2)(b), s 47C, s 47E (d)