Commodity Markets at a Glance

June 2009

Market Letter by Vattenfall Trading Services

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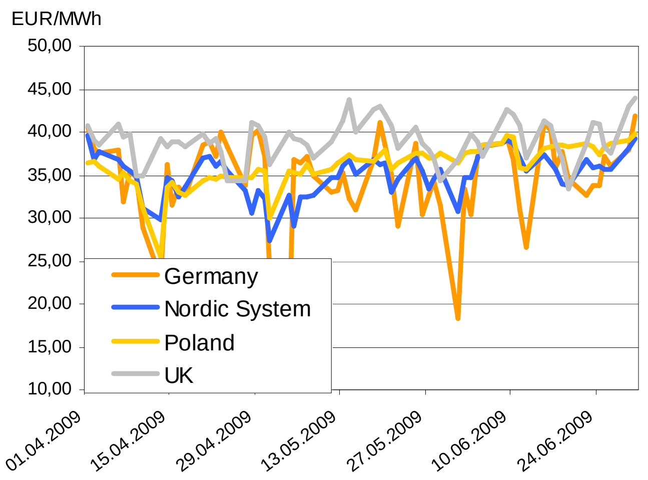
1. EUROPEAN POWER

Spot markets: Slightly up

Lower nuclear availability in France and fewer public holidays supported spot prices in Continental Europe. German spot prices went up 2.30 EUR/MWh compared to the average price of May, the Nordic system spot increased by 2.40 EUR/MWh and the Polish spot by 2.10 EUR/MWh while the UK average spot price for base load slightly decreased.

Figure 1: European power spot markets in EUR/MWh



Source: Vattenfall Trading Services, EEX, NordPool, PPX

Germany

Day-ahead Base opened at 18.33 EUR/MWh on banking holiday 1 June and fluctuated for the most part of the month within the 30-40 euro range. Spot prices saw a low of 26.66 EUR/MWh on 12 June and a high of 41.88 EUR/MWh on 30 June. Moderate temperatures, a healthy run-of river production and wind production above the seasonal average kept prices on a relatively low level. Wind generation averaged 3,800 MW, with strong winds especially in the first three weeks of the months. Higher June prices compared with May were mainly attributed to lower nuclear availability in France. Strikes in France delayed maintenances of nuclear power plants. This boosted cross-border flows from Germany to France up to 1,600 MW on average. In comparison, 800 MW flew from France to Germany on average during the same period last year. Warmer temperatures, decreasing wind speeds and less hydro production due to heavy rain falls gave way to firmer spot prices towards the end of the month.

On monthly average, Day-ahead Base was delivered at 33.21 EUR/MWh. This was slightly below the price at which June went into delivery. The daily traded average volume stayed virtually the same at 359,631 MWh.

Nordic

During June the system price moved slightly up while the hydrological balance continued to weaken. Inflows were below normal in Sweden and Norway with 70% respectively 74% of the normal. The precipitation outcome in Norway and Sweden amounted to 7.4 TWh during June, which is 58% of normal. Norwegian ground and soil water levels are below the average. Temperatures were 0.5 degrees above the normal on average, especially hot temperatures end of June accounted for this. Since previous months had been very warm, the snow melting in the Nordic region peaked earlier this year. Swedish reservoirs stood at 56.2% of maximum by the end of week 26 which is 16% lower than normal. At the same time, Norwegian reservoirs stood at 59.4% of maximum, which is 8% lower than normal.

	2009 June	2009 May	2008 June
Avg system spot (EUR)	35.7	33.3	41.1

Source: NordPool

Poland

June 2009 resulted in mild and cloudy days across Poland. Average temperatures accounted for 15.6^{0}C, which was visibly lower compared with last year and historical normal outcome (16.9^{0}C). System monthly demand declined in June by 5.4% year-on-year because of mild weather and economic slowdown. A low demand supported the grid's stability and influenced flows (mainly Polish-Czech border) on daily capacities. For July monthly auction 700 MW of export capacities were available. Morning peak hours were mainly exported from Poland. Import took place in off-peak, as usual.

Average spot prices increased compared to the previous month. Base Load rose to 37.12 Euro/MWh, Peak Load to 41.16 Euro/MWh, and Off-peak Load to 33.98 Euro/MWh.

UK

The Day-ahead market in UK opened at 36.76 EUR/MWh and fluctuated on a continuously low level in the 33-44 euro range during the rest of the month. Temperatures were above the average in the first two weeks of June while the last week was below the normal. Rising oil prices triggered the spot in the beginning of the month while retreating oil quotations relieved pressure in the second half of June. Restricted interconnector capacities at mid-month as well as exports of up to 1,400 MW to France due to strikes at nuclear power plants there, supported the spot. Supply margin was healthy. LCPD plants produced at 8,000 MW in the first half of the month and reduced output in the second half. Wind generation was set at 30-45% of installed capacity except for a few days when output reached 80-85%.

On monthly average, UK Day-ahead Base was delivered at 38.57 EUR/MWh, 0.26 EUR/MWh below the average of May.

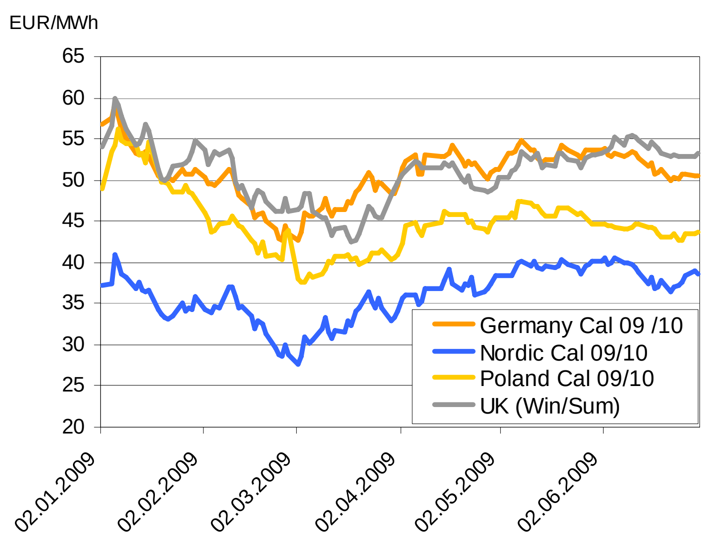
Term markets: The time of hope-based trading seems to be over

Long-term markets in Western Europe softened in June on the back of weaker oil and equities.

Germany

The Cal 10 started into the month at 53.78 EUR/MWh trading sideways in the 53-54 euro range during the first ten days of June. Beginning from there, the Cal 10 declined from 53.55 EUR/MWh on 10 June to 49.94 EUR/MWh on 22 June. Main reasons were the break of the up trend in oil, coal and the correction in equities. Interestingly, a better IFO business climate index for the third time in a row could not push the markets up. On 30 June, Cal 10 closed at 50.50 EUR/MWh, down 3.35 euro compared with last day of

Figure 2: European long-term markets in EUR/MWh



Source: Vattenfall Trading Services, EEX, NordPool, PPX

May. The correlation between equities and the long-term market has decreased but is still strong.

Nordic

The Nordic Cal 10 closed at 38.6 EUR/MWh on 30 June (down 1.5 euro compared to the last of May) despite a weaker hydrological balance which was offset by lower commodity prices. The Cal 10 contract is still more closely correlated to coal, oil, CO2 and global economy than to the hydrological balance.

Poland

Cal 10 opened at 44.68 EUR/MWh and lost 1.09 euro in the course of June. During the whole month the long-term market was rather illiquid. PGE Group, the biggest energy producer in Poland announced a tender for Cal 10 to be finalized on 7 July. Expectations about the results of a tender were the most interesting topic on the market throughout June. Cal 10 slightly declined below 43 EUR/MWh after PGE announced its tender and closed 43.59 Euro/MWh on 30 June. Term products, i.e. Month Ahead, Q3 and Q4 remained in a horizontal trend movement below the 39 euro level. Cal 10 peak was traded for the first time this year by the end of June.

UK

The Winter 09 contract opened at 53.35 EUR/MWh and rose to 55.49 EUR/MWh closely following oil. Price deterioration started in line with weaker oil and coal markets. Grid operator's prognosis of a reduced peak load by 3,000 MW for this winter added to this downwards trend. On 30 June, Winter 09 contract reached its month's low at 50.71 EUR/MWh.

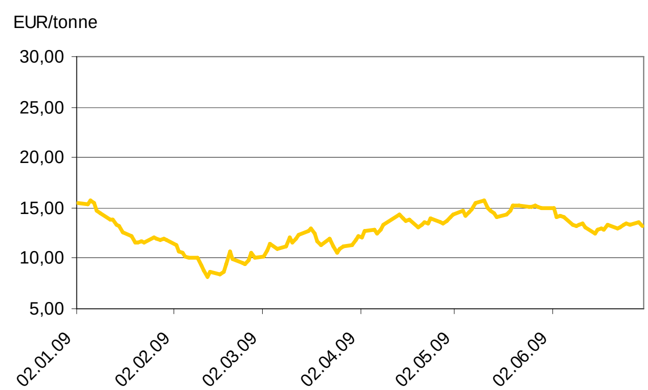
The Summer 10 contract mirrored this development though price movements were more moderate. The summer contract opened at 51.33 EUR/MWh on 1 June and stabilized at 49.15 EUR/MWh on 30 June. Liquidity of the contract was low especially on 18-19 June due to reduced hedging activities of producers.

2. CO2 TRADING: Emissions lack internal driving factor

After taking a journey south in the first half of the month, CO2 contracts slightly recovered.

Emission allowances opened at 14.93 EUR/tonne and lost to 12.43 EUR/tonne until 15 June. This was also attributable to utilities selling off their allowances. In the second half of the month, short-term correlation of CO2 with oil increased however price movements of CO2 were more moderate than of oil. CO2 Allowances slightly regained closing at 13.21 EUR/MWh on 30 June. This was still 1.72 EUR/tonne below the last quotation in May. Trading activities in June declined also on the back of the upcoming summer holidays.

Figure 3: European Union Allowances in EUR/tonne on forward market



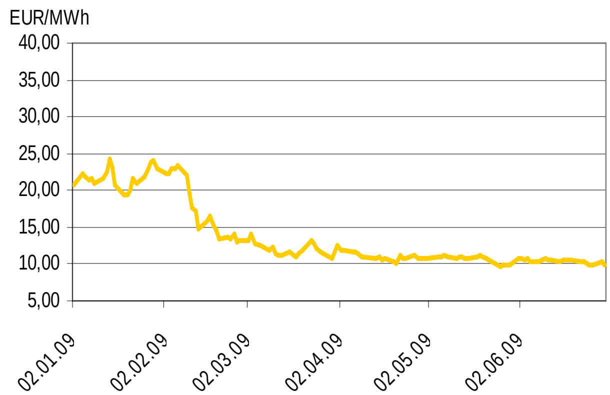
Source: Vattenfall Trading Services

3. GAS TRADING: NBP trades flat

News on Ukraine's unability to pay for gas deliveries, maintenances and a falling demand determined the gas market's direction.

NBP front month rose by almost 1 Euro on 1 July opening at 10.69 EUR/MWh. For the rest of the month, gas traded relatively flat in the range 9.80-10.80 EUR/MWh. News on Ukraine being unable to pay for its gas deliveries determined the market throughout the whole month. Maintenances in Norway and in North Sea reduced supply while maintenance of Rough storage led to demand reduction. Less demand due to warm weather and lower industrial production put pressure on the gas market. In the second half of the month, ending of maintenances in Norway and Vesterled pipeline put downwards pressure on prices. At the end of the month, the back-end was dragged down by news on South Hook LNG terminal starting commercial operation in July. On 30 June, NBP front month levelled off at 9.81 EUR/MWh, down 1 euro compared with the end of May.

Figure 4: NBP front month in EUR/MWh



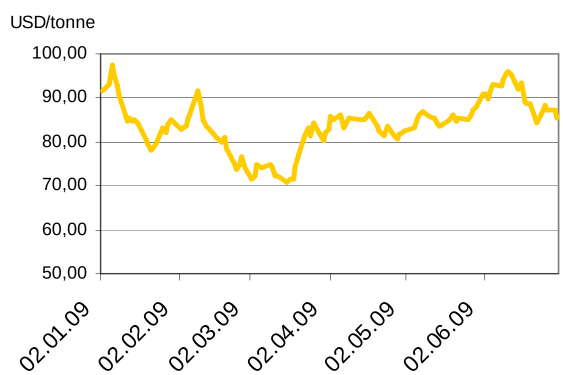
Source: Vattenfall Trading Services

4. COAL TRADING: Driven by oil

While the frond-end is oversupplied, the back-end is balanced.

API 2 Cal 10 continued its upwards journey at the beginning of the month increasing from 90.83 USD/tonne on 1 June to 96 USD/tonne on 11 June on the back of an unbroken oil uptrend. Subsequently, coal fell back to 84.23 USD/tonne on 22 June due to softening oil, equities and a weaker US dollar. Coal stocks are above average and demand is weak due to lower industrial production and favourable temperatures. While the front-end of the curve is still oversupplied, the back-end is balanced due to Chinese net imports, expected recovery of economy, and higher coal demand especially in the Pacific region given new coal plants coming online. The freight market firmed on the back of a lack of vessels in the Atlantic driven by Chinese iron ore restocking and substantial congestion. On the last few trading days, API2 developed sideways closing at 85.31 USD/tonne on 30 June, 2.73 US dollar below the last quotation of May.

Figure 5: API 2 Cal 10 in USD/tonne



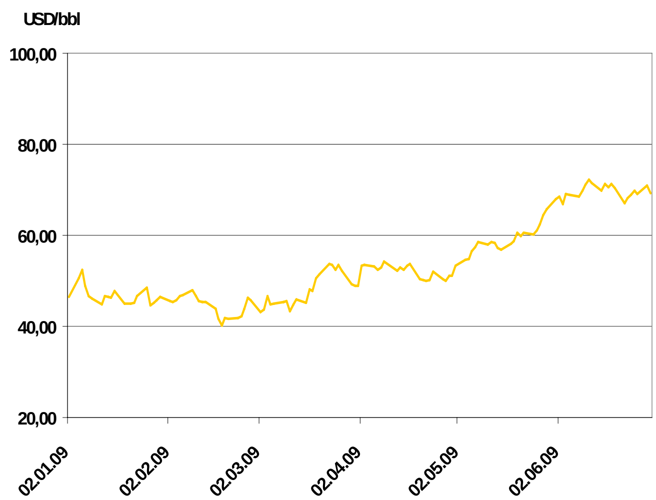
Source: Vattenfall Trading Services

5. OIL TRADING: Volatile market

Hope for economic recovery pushed the market until reality dragged crude oil down.

Beginning of the month, IPE Brent Oil continued its uptrend of May and rose to 72.27 USD/bbl on 11 June. This development was mainly based on economic data being better than expected as well as buying into US dollar based commodities as an inflation hedge. The tide turned when unemployment figures and manufacturing indicators in the US worsened. Until 22 June, oil prices lost 5 dollar trading down to 67.13 USD/bbl. At the end of the month, oil recovered also being supported by a weaker US dollar, and ongoing conflicts in Nigeria and Iran. OPEC compliance decreased to 72%. Brent Oil closed at 69.30 USD/bbl on 30 June, up 3.64 USD/bbl compared with the end of May.

Figure 6: IPE Brent Oil in USD/bbl (front month)



Source: Vattenfall Trading Services

ABBREVIATIONS USED

API2	All Publications Index at the Amsterdam-Rotterdam-Antwerp Range
API4	All Publications Index for South African free on board (FOB) coal
ARA	Amsterdam-Rotterdam-Antwerp, major coal importing ports in northwest Europe
C4	Voyage freight rate between Richards Bay and ARA
CHP	Combined Heat and Power Plant
CER	Certified Emission Reduction, resultant of an emission-reducing project in developing countries that has been certified
ECX	European Climate Exchange
EEX	European Energy Exchange, Leipzig
EUA	European Union Allowance
LCPD	Large combustion plants directive, places limits on emissions from the combustion of coal, oil and natural gas in the UK
LNG	Liquefied natural gas
NAP	National Allocation Plan, determine the total amount of CO2 that installations covered by the EU ETS can emit in a given Member State
NBP	National Balancing Point, gas hub in Great Britain
OPEC	Organization of the Petroleum Exporting Countries
OTC	Over-the-counter trading
PPX	Polish Power Exchange Towarowa Gielda Energii SA
TSO	Transmission System Operator
TTF	Title transfer Facility, virtual gas trading hub in the Netherlands
WTI	West Texas Intermediate, crude oil used as benchmark in oil pricing

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