

Commodity Markets at a Glance

September 2009

Market Letter by Vattenfall Energy Trading

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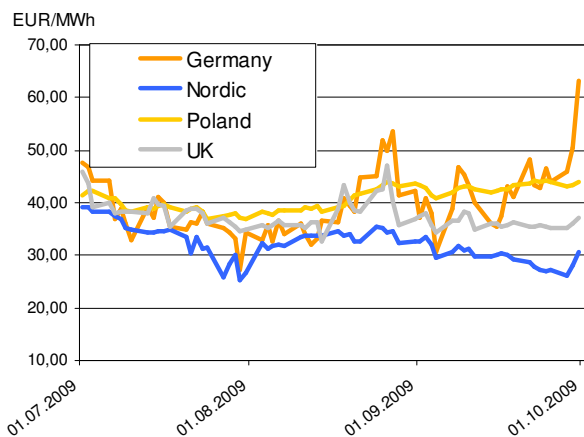
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1. EUROPEAN POWER

Spot markets: German spot against the trend

European spot markets developed differently throughout September. The Nordic spot went down by 3.80 EUR/MWh on average compared to August, while the average spot price in Germany went up by 3.51 EUR/MWh showing a volatile development. Poland traded sideways but on a higher level than in August with the average spot price being 2.43 EUR/MWh higher than in the previous month. The average spot price in Great Britain decreased by 1.16 EUR/MWh compared to August.

Figure 1: European power spot markets in EUR/MWh



Sources: EEX, Nord Pool, PolPX, Vattenfall Energy Trading

Germany

Day-ahead Base opened at 37.25 EUR/MWh on 1 September and took a volatile course ranging between 30.56 EUR/MWh and 46.71 EUR/MWh until 28 September. Low nuclear capacities in Germany and its neighbouring countries, low rain and water levels in the Alps supported the German spot throughout the month. September was also characterized by low wind production, which averaged at 3,250 MWh. Net exports to France amounted to 3,000 MWh on average. Cold weather, low wind production, low nuclear availability and a higher demand boosted spot prices at the end of the month. The spot closed at a high of 63.14 EUR/MWh on 30 September.

On monthly average, Day-ahead Base was delivered at 39.58 EUR/MWh, which is 3.51 euro above the average price for August. The daily traded average volume increased by almost 30,000 to 363,584 MWh.

Nordic

The Nordic system price moved slightly down in September while the nuclear capacity was very low. Inflows were above normal levels in Sweden and Norway, despite the fact that the hydrological balance has weakened in the course of the month. The beginning of the September was much warmer and wetter than normal. The precipitation outcomes in

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Norway and Sweden amounted to 19.2 TWh, which is 110% of normal. September was 1.8°C warmer than normal for Scandinavia. This kept the consumption on lower than normal levels. During September, there was a large difference between the price areas. High reservoir levels in Norway and prolonged nuclear maintenances in Sweden were the main reason for that. Swedish reservoirs stood at 75.6% of maximum by the end of week 39 which is 9% lower than normal. At the same time, Norwegian reservoirs stood at 88.6% of maximum, which is 1% higher than normal.

	2009 Sep	2009 Aug	2008 Sep
Average system spot price (€)	28.1	32.2	67.4

Sources: NordPool

Poland

Polish spot prices went up slightly from 43.29 EUR/MWh on 1 September to 43.89 EUR/MWh on 30 September despite warm and sunny days across Poland. Temperatures averaged at 15.4°C, which was higher compared to last year and the historical normal outcome (13.5°C). Temperatures combined with economic slowdown dragged down the system demand by 5.7% on an annual comparison. The TSO provided 400 MW for September and 200 MW for October in monthly capacity auctions. As usual, peak

hours were mainly exported from Poland while import took place in the off-peak. Overall, Poland was a net power exporter in September, while the system had been nearly balanced in August. In some evening hours, minimum supply margins were at low levels, which pulled prices up.

The average spot price in September amounted to 41.60 Euro/MWh for Base Load, 47.05 Euro/MWh for Peak Load and 36.99 Euro/MWh for Off-peak Load.

UK

Day-ahead Base opened at 37.57 EUR/MWh on 1 September. Prices traded sideways during the month with an upwards-movement to 38.36 EUR/MWh on 9 September. The UK has seen a relatively slack period throughout the month. The system experienced high levels of supply and lower levels of demand due to demand destruction as well as unusually warm weather. This development continued for most of the month despite nuclear outages in the UK. At the end of the month, the spot price slightly increased from 35.21 EUR/MWh on 25 September to 37.27 EUR/MWh on 30 September due to a rising demand.

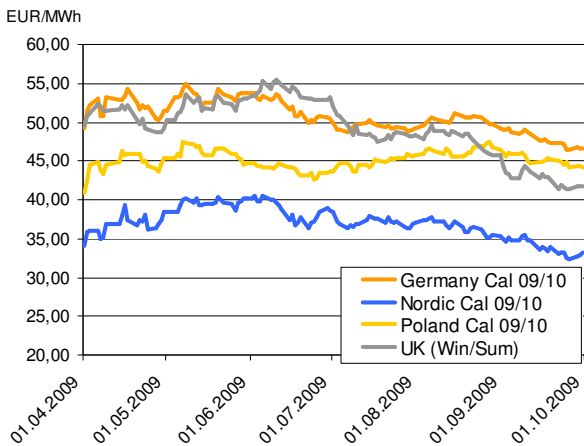
UK Day-ahead Base reached a monthly average of 35.69 EUR/MWh, which was 1.16 EUR/MWh lower than the average of August.

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Term markets: Overall decrease

Power prices moved downwards in all European long-term markets, only the Nordic market showed a upwards movement at the end of the month.

Figure 3: European long-term markets in EUR/MWh



Sources: EEX, Nord Pool, PolPX, Vattenfall Energy Trading

Germany

Cal 10 opened at 49.00 EUR/MWh on 1 September and continued its southbound journey during the month. The decrease was influenced by low CO₂ prices as well as an overall bearish market sentiment, while the spot kept the market up. Cal 10 closed at 46.65 EUR/MWh on 30 September, 3.19 EUR/MWh less compared to the last of August.

Nordic

On 1 September, the Nordic Cal 10 was set at 34.95 EUR/MWh. The term market continued its downwards trend, which already started in June, to 32.35 EUR/MWh on 25 September until it slightly recovered going up to 33.15 EUR/MWh on 30 September. The closing price was 2.15 EUR/MWh lower than at the end of August mainly due to lower spot and CO₂ prices. The Cal 10 contract was more correlated to the hydrological balance compared to the beginning of the summer.

Poland

Cal 10 opened at 46.07 EUR/MWh and continuously traded down stopping at 44.40 EUR/MWh at the end of the month. All Polish term products followed this trend. Similar trends were perceived in neighbouring countries. By the end of September, the Polish Cal 10 became even more expensive than Czech Cal 10 for the first time in six months. As the summer holiday period was over, the term market became more active in terms of volume traded and liquidity increased compared to the previous months.

UK

The Summer 10 contract opened at 44.38 EUR/MWh on 1 September and declined to 41.73 EUR/MWh until 30 September. Power was influenced more by gas than by oil. However, power prices developed better than the volatile fuel markets. An expected demand recovery led to higher Summer 10 prices than for the Winter 10/11 product.

The Win 10/11 contract showed a similar pattern with a downtrend throughout the month. After opening at 55.71 EUR/MWh, prices moved down to 50.87 EUR/MWh on 30 September.

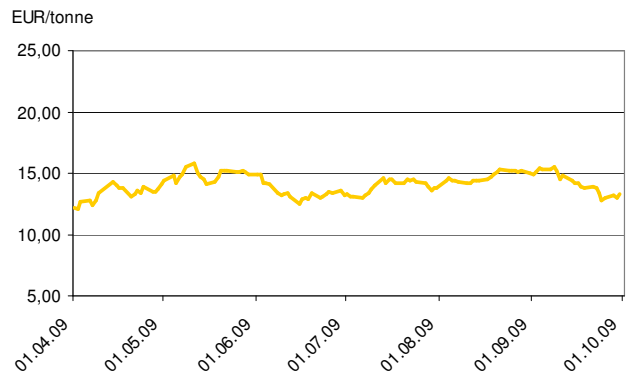
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2. CO2 TRADING: Market went down

CO2 contracts fell back in September after the uptrend of July and August.

CO2 certificates opened at 14.85 EUR/tonne on 1 September. After peaking at a month's high of 15.47 EUR/tonne on 8 September, prices went down to 13.28 EUR/tonne on 30 September. Industrial sales of certificates were relatively low at the beginning of the month in contrast to expectations. The second half of September took a rather bearish course going along by increasing trading volumes due to the end of the holiday season. On 23 September, Poland and Estonia won court challenges to European Union limits on CO2 emissions. This pulled prices down to a month's low of 12.81 EUR/tonne on 24 September. The price difference between Certified Emission Reduction and European Union Allowances

Figure 4: European Union Allowances in EUR/tonne on forward market



Source: Vattenfall Energy Trading

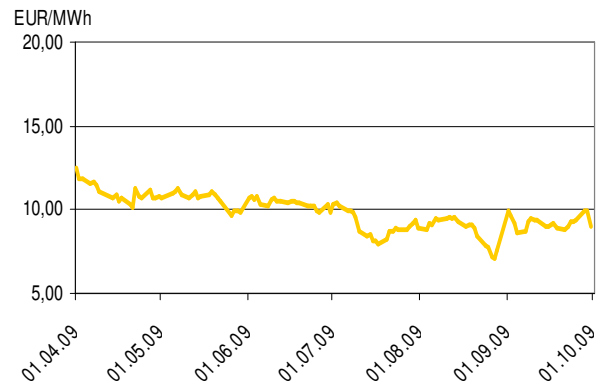
decreased below 1 euro in the second half of the month after the world's largest emission project verifier had been suspended by the UN.

3. GAS TRADING: Low demand

While the first half of September was driven by the oil market, the second half was influenced by the prompt.

The NBP front month opened at 9.91 EUR/MWh on 1 September and followed a volatile course with prices ranging between 8.65 and 9.92 EUR/MWh. During the first half of the month, the market was mainly driven by the oil market. In the second half of the month, prices were influenced by the prompt. Gas demand was below season's normal throughout the whole month. At the end of the September, demand increased due to the return of the Interconnector and the Rough storage as well as due to lower temperatures. NBP closed at 9.01 EUR/MWh on 30

Figure 5: NBP front month in EUR/MWh



Source: Vattenfall Energy Trading

September, which was 1.47 EUR/MWh higher than the closing of August.

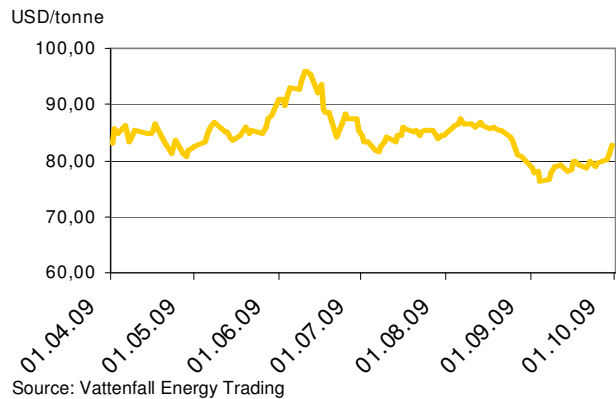
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4. COAL TRADING: Oversupply meets weak demand

The coal market started low but slightly recovered throughout September.

After a short-period of trading below 80 USD/tonne at the beginning of September, API 2 Cal 10 recovered from its month's low of 76.25 USD/tonne on 4 September and closed at its high of 82.75 USD/tonne. Volumes picked up after the summer break in July and August. Coal prices also increased on the back of firmer Newcastle prices due to firmer Chinese coal prices. Coal demand recovered faster than expected in the Pacific basin. Chinese domestic prices supported the Atlantic basin in spite of the bearish fundamentals at the front-end of the curve. The cape freight market weakened substantially on the back of lower congestion and less Chinese enquiries. The freight

Figure 6: API 2 Cal 10 in USD/tonne



Source: Vattenfall Energy Trading

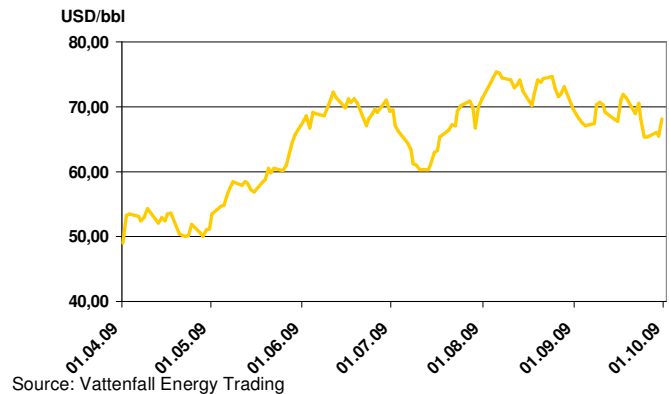
market was bearish due to a record vessel order-book combined with weaker demand in the Atlantic basin.

5. OIL TRADING: Price jumps

Volatility was very high in a news-driven market.

IPE Brent Oil opened at 68.85 USD/bbl on 1 September and resided in a volatile sideways trend for the rest of the month with day-to-day price jumps of more than 3 US dollars. Oil prices ranged from a high 71.97 USD/bbl on 17 September down to a low of 65.30 USD/bbl on 25 September. The large price jumps were influenced by better than expected news on economic data and unemployment figures, high US stock levels as well as a weak US dollar beginning of the month. On its meeting on 11 September, OPEC decided to focus on compliance rather than production cuts again. The oil price closed at 68.09 USD/bbl on 30 September, which was 1.56 USD/bbl lower than on the last of August.

Figure 7: IPE Brent Oil in USD/bbl (front month)



Source: Vattenfall Energy Trading

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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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