Commodity Markets at a Glance

January 2010

Market Letter by Vattenfall Energy Trading

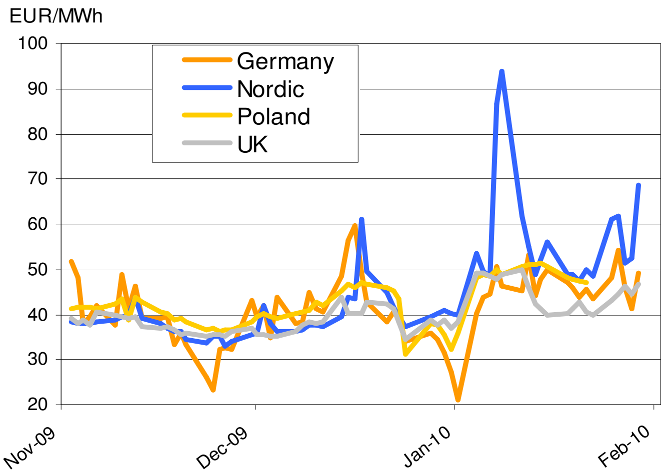
INDEX

1. EUROPEAN POWER

Spot markets: Spikes in the Nordic market

European spot markets went up in the beginning of the year 2010. The Nordic spot price showed a volatile development with the highest price rise of 13.80 EUR/MWh compared to the previous month. Poland followed with an overall increase of 7.80 EUR/MWh. The UK and the German spot market showed a more moderate up move of 5.50 EUR/MWH, respectively 6.50 EUR/MWh. The French and the Benelux market developed in line with the German market.

Figure 1: European power spot markets in EUR/MWh



Sources: EPEX Spot, Nord Pool, PolPX, Vattenfall Energy Trading

Continental Europe

On New Year's Day, the German spot price opened at a low of 21.05 EUR/MWh. Thereafter, Day-ahead Base traded between 40 and 55 EUR/MWh throughout the month. Even though temperatures were 5°C lower than the 5-year-average, base load prices were on a comparably lower level, due to a slack supply-demand situation. Average wind production was 3,800 MW throughout the month. The German spot closed at 49.18 EUR/MWh on 29 January.

On monthly average, Day-ahead Base was delivered at 42.21 EUR/MWh, which was 6.50 euro higher than the average price for December. The daily traded average volume increased by over 135,000 to 525,787 MW. This growth can be attributed to a new decree of the Renewable Energy Law that came into effect in Germany on 1 January 2010. Since then, transmission system operators (TSOs) have to market all renewable energy at the exchange.

Temperatures in France were also 4°C lower than the 5-year-average. Despite the cold weather, base load prices were 1 euro lower than in previous years. Nevertheless, the corresponding higher demand could not be met by nuclear availability and France imported 2,500 MW from Germany on average in January.

The Netherlands were more reliant on German imports in January than during previous months. The persisting cold weather led to higher gas and energy consumption with corresponding higher prices. An unexpected nuclear outage in Belgium in combination with high French power prices resulted in exports of power from Holland to Belgium and France. This created various situations where Day-ahead power prices were somewhat stronger in Holland than in Germany. On average, Dutch Day-ahead Base traded at 43.50 EUR/MWh in January.

Nordic

In the beginning of 2010 the Nordic system price as well as the temperature has been rather volatile. The Nordic spot traded between 39 and 94 euro throughout the month, with the biggest price spike up to 94 EUR/MWh on 8 January. Load accrued after the particularly icy holidays in the beginning of the month. The beginning and the end of the month have been up to 12°C colder than normal. On monthly average, January was 4°C colder than normal, with the southern part of the NordPool area being cooler than the north. In addition, further delays of nuclear revisions continued to keep down the nuclear availability compared to normal. The low temperatures, which gave very high load in combination with low nuclear availability, pushed the system price up. The market areas NO2 and DK1 were the only price areas which did not see price spikes. Inflows have been way below normal during the month, the hydrological balance continued to weaken due to low amount of precipitation and colder than normal weather. The precipitation outcomes in Norway and Sweden were approximately 5.4 TWh during January, which is 37 % of normal. Swedish reservoirs stood at 39.2 % of maximum by the end of week 4 which is 18.8 % lower than normal. At the same time, Norwegian reservoirs stood at 50.8 % of maximum, which is 11.8 % lower than normal.

	2010 Jan	2009 Dec	2009 Jan
Average system spot price (€)	53.4	39.6	41.4

Sources: NordPool

Poland

January in Poland was characterised by iciness and snow precipitation. The average monthly temperature accounted for -6.9°C, which was 6.2°C lower than the normal historical outcome. This had an increasing impact on load, as the monthly demand for the spot surpassed January 2009 by 3.5%. Additionally, unplanned power plants' outages supported the spot increase in January. In cross-border trading, Poland remained a net exporter with 164 GWh sent out. The average spot price in January amounted to 47.49 Euro/MWh for Day-ahead Base, which was 7.80 EUR/MWh higher than in December.

UK

UK Day-ahead Base opened at 38.32 EUR/MWh on New Year's Day and traded up to almost 50 EUR/MWh throughout the month. The UK market has seen unprecedented volatility on the back of changing weather patterns. The year 2010 started off with a cold spell that showed a tendency to persist. The expectation of high demand and doubts about sufficient gas storages supported higher spot prices. However, consistent changes in the weather forecast led to price drops throughout the month. On 29 January Day-ahead Base closed at 46.74 EUR/MWh on. The average spot price in January was 43.72 EUR/MWh, which was 5.50 euro higher than the average of December.

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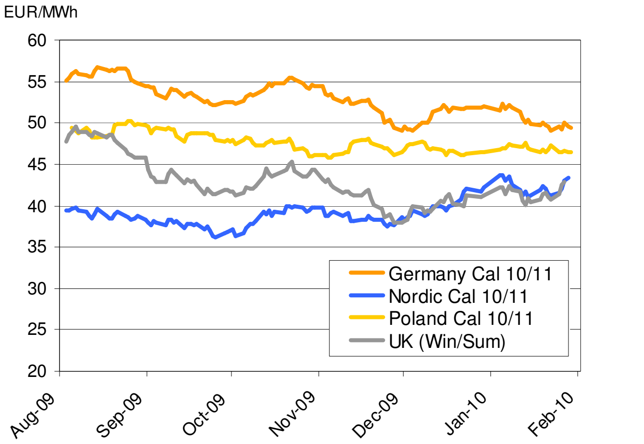
Term markets: Nordic prices reach new high

Prices on most European term markets decreased in January 2010. The French and the Benelux market mostly followed the German development at a stable spread.

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



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

Germany

The German Cal 11 opened at 51.54 EUR/MWh on 4 January and moved downwards thereafter on the back of falling coal and oil prices. The downtrend was also influenced by the development on the spot markets, where prices traded on a level below normal. Cal 11 closed at 49.42 EUR/MWh on 29 January, 2.51 EUR/MWh lower than on the last of December.

Nordic

On 4 January, the Nordic Cal 11 opened at 43.70 EUR/MWh. Prices increased despite falling commodity prices influenced by weaker hydrological balance and continued nuclear delays. On 29 January, the Nordic Cal 11 closed at 43.4 EUR/MWh, which was 1.25 euro higher than on the last of December.

Poland

Polish Cal 11 opened at 42.15 EUR/MWh on 4 January. The activity of the market participants on term markets constantly during the month. Especially on the front-end of the curve a lot of trade could be seen, while the back-end was rather uneventful. The front-end of the curve increased throughout January due to spot pressure. February 2010 gained 1.29 euro during the month and finished at 45.35 EUR/MWh while the second Quarter 2010 declined by 0.73 euro. Cal 11 fell by 0.38 euro and closed at 46.59 EUR/MWh.

UK

The Summer 10 contract opened at 42.15 EUR/MWh on 4 January. Throughout the month it showed a volatile development. Prices decreased due to new Combined Cycle Gas Turbines coming to the market. However, this effect was not as strong as expected as cold weather forecasts pushed the prices up. Summer 10 prices went down to 41.57 EUR/MWh on 29 January.

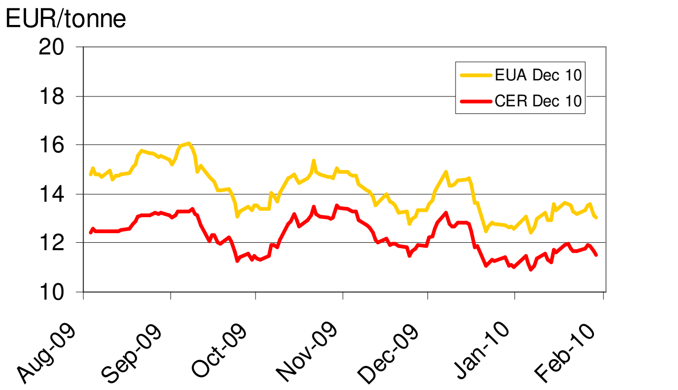
Winter 10/11 went down even stronger opening at 51.50 EUR/MWh on 4 January and decreasing to 49.25 EUR/MWh until the end of the month.

2. CO2 TRADING: Stabilisation after Copenhagen disappointment

In the beginning of 2010, the CO2-market is still in search of direction.

After the downturn following the climate conference in Copenhagen at the end of last year, CO2 prices recovered in January. European Union Allowances (EUA) with delivery in December 2010 opened at 13.09 EUR/tonne on 4 January. The emission rights mainly traded above the 13-euro-range throughout the month, reaching a high of 13.62 EUR/tonne on 18 January. EUA prices stabilised despite generally weak commodity prices and the (still unrealised) fear of excess industrial EUAs coming to the market. The cold spell in Continental Europe supported the slight recovery throughout the month.

Figure 4: European Union Allowances and Certified Emission Reductions in EUR/tonne on forward market



Source: Vattenfall Energy Trading

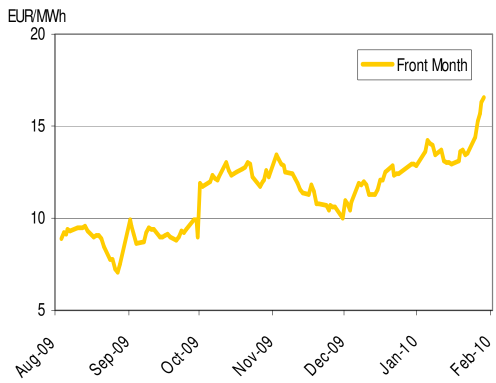
Volumes traded at ECX in January were with 416 million tonnes 45% higher on a year-on-year basis. The price difference between Certified Emission Reductions and European Union Allowances remained relatively stable at 1.60 euro.

3. GAS TRADING: Cold spell triggers demand

After a slight increase in December 2009, gas prices continued to go up.

The NBP front month opened at 13.61 EUR/MWh on 4 January. Low temperatures and a temporary outage at the Elgin Franklin Field in the UK North Sea supported a slight upmove on 5 January to 14.19 EUR/MWh. After a low at 12.99 EUR/MWh in mid-January, prices increased to 16.54 EUR/MWh at month's end. The increase was triggered by continuous cold weather, high demand and news about reduced storage levels.
The NBP front year started at a high of 18.51 EUR/MWh on 4 January due to the year role and an optimistic sentiment in the market. However, prices decreased slightly throughout the month.

Figure 5: NBP front month in EUR/MWh



Source: Vattenfall Energy Trading

The closing price on 29 January was with 17.22 EUR/MWh 3.23 euro higher than the closing of December.

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4. COAL TRADING: Atlantic vs. Pacific – the battle continues

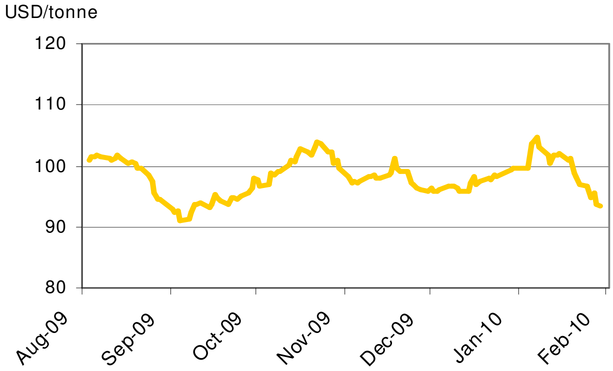
The beginning of the year saw a push of adrenaline through the markets with the Chinese demand spiking and prices pushing as well.

API2 Cal 11 opened at 99.64 USD/tonne on 4 January and moved up immediately over 100 USD/tonne after that. In the second half of the month, coal prices decreased strongly, closing at 93.32 USD/tonne at the end of the month. China was hit by heavy snowfalls at the beginning of the year, causing serious delays for the coal shipments disrupting the discharge of coal within the ports. Also, the railway transport faced severe issues and disruptions causing a serious decrease within the power plants stocks to less then 5 days of consumption. Hence, the Chinese buyers were trying to secure early prompt tonnage for spot delivery. This resulted in the delivery of Columbian coal to China for the first time.

The Indians were showing firm bids for the Richards Bay market pushing prices to above index levels on the back of healthy demand for coal from the power industry.

In the Atlantic, the persistent lack of demand resulted again in all time high stock levels.

Figure 6: API 2 Cal 11 in USD/tonne



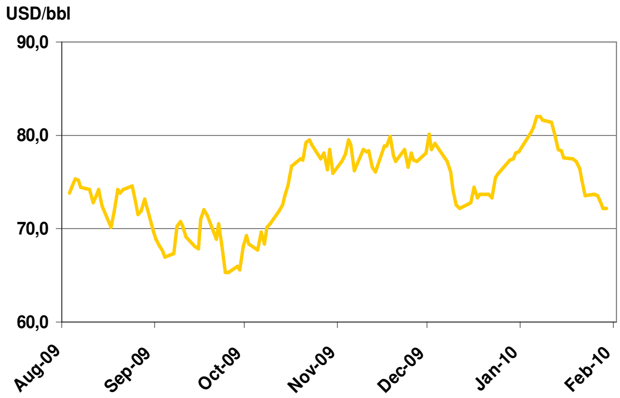
Source: Vattenfall Energy Trading

5. OIL TRADING: Downwards channel

After an increase at the end of 2009, oil prices started trading downwards early in January.

IPE Brent Oil opened at 80.39 USD/bbl on 4 January and continued the upwards movement in the first week of 2010. After a high at 81.98 on 7 January, oil prices dropped down to 72.13 USD/bbl on 29 January. The decrease was triggered by a stronger dollar and doubts about economic recovery. In addition a low OPEC compliance of 55% led to an oversupply situation. Stock indices, such as Dow Jones and DAX, broke out of the upwards channel from the previous months, supporting the downtrend. The oil price closed 6 euro lower than on the last of December.

Figure 7: IPE Brent Oil in USD/bbl



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
CCGT	Combined Cycle Gas Turbine
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
EPEX	European Power Exchange, German-French Spot Exchange, Paris
EUA	European Union Allowance
IPE	International Petroleum Exchange, London
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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