

# Commodity Markets at a Glance

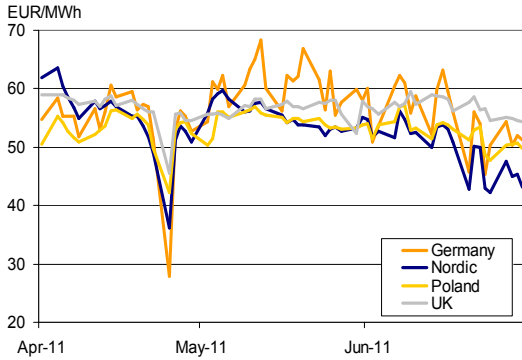
June 2011

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## Market Letter by Vattenfall Energy Trading

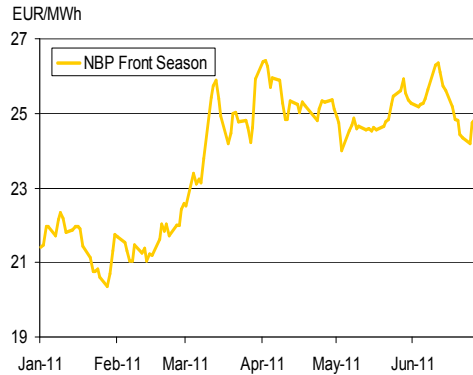
### European Power

#### Spot markets: Weakening short-term prices



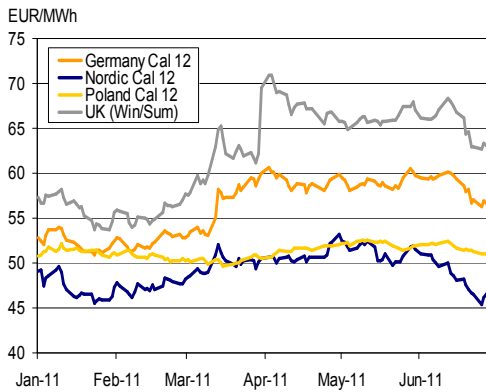
### Gas Trading:

#### Sideward movement amid volatile availability



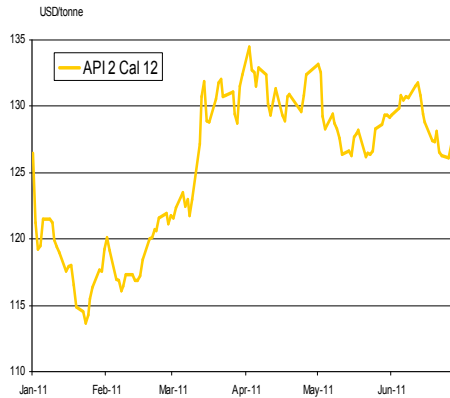
### Power derivative markets:

#### Plummeting prices throughout Europe

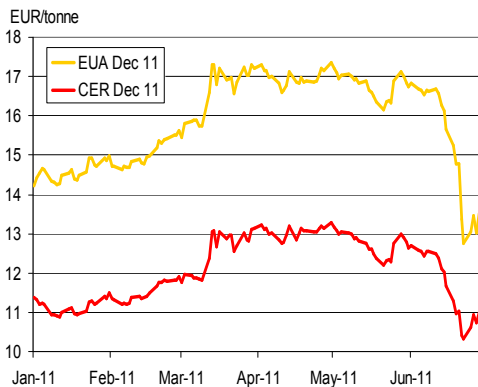


### Coal Trading:

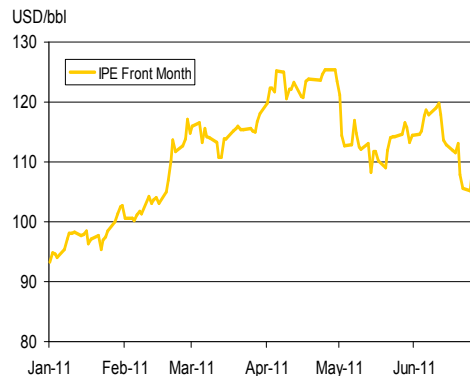
#### Weaker prices in illiquid market



### CO<sub>2</sub> Trading: Downward trend



### Oil Trading: Volatile market



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

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## 1. EUROPEAN POWER

### **Spot markets: Weakening short-term prices**

Spot prices all over Europe weakened in June amid moderate weather conditions and firm supply. In the Nordic countries, the hydrological balance improved and reached about 70%. In Germany, Scandinavia and Poland, spot prices lost between 1.76 and 6.09 EUR/MWh. Only UK prices remained more stable.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	52.30	48.40	51.69	56.28
Last month av	56.83	54.49	53.45	55.46
Difference	-4.53	-6.09	-1.76	0.28

#### **Continental Europe**

After reaching highs around 68 EUR/MWh in May, German Day-ahead Base levelled out in June, trading significantly lower. The monthly average was 52.30 EUR/MWh, down 4.53 euro from the previous month. The reasons for the softer level were good wind and solar availability, especially during peak hours, and moderate weather conditions with average temperatures and precipitation. This levelled out the decreased nuclear input following the German moratorium. The availability from wind generation was about 1,000 MW higher than normal, and solar generation was about 3,000 MW higher than in average peak hours. Imports also remained at the high level of previous months, which was triggered by the moratorium.

Germany mainly imported electricity from France as demand in France was low and the nuclear availability in France remained at a high level for this time of the year, leading to massive exports from France to surrounding countries, including Germany and Benelux.

Also prices in the Benelux markets traded at a lower level throughout June. APX base load prices delivered around 53 EUR/MWh, down more than 3 EUR/MWh from May. During the month healthy availability in Holland, with most of the coal and gas plants running, together with a few windy days kept prices on the low side throughout the month. Since temperatures were also moderate, demand was

relatively low. Overall, the Netherlands continued to import power from Belgium and Norway and also some peaks from Germany, while exporting to the UK.

#### **Nordic**

The Nordic system price declined during June with decreasing demand and increasing inflows, mainly in Norway. Especially during weekends, and when combined with strong winds, prices weakened significantly. Moreover, the strengthening hydro balance has contributed to keep the spot price down. However, two nuclear plants came back on stream with some delay and one of them is presently running at 50% due to some problems at the restart. Inflows to the hydrological balance were below normal in the beginning of the month after the early start of the spring flood but increased due to high precipitation, especially in Norway. The precipitation outcomes in Norway and Sweden were approximately 20 TWh during June, approximately 7 TWh more than normal. Swedish reservoirs stood at 72 % of maximum by the end of week 26. This is 4 % above normal at this time of the year. Norwegian reservoirs stood at 66% of maximum, which is 7% lower than normal. The inflows were close to normal at the end of June.

#### **Poland**

In Poland, average temperatures were 18°C, which is more than one degree above the normal level. Domestic demand increased by 3% year-on-year and by 1% compared to May 2011. The maintenance level was much lower in June than the prior year. As a result, supply increased by 5% compared to June 2010 and only marginally compared to the previous month.

Another important fundamental factor influencing energy prices in both May 2011 and June 2011 was the huge energy export to Germany and the Czech Republic, which was much higher than in the same period last year. Hence, prices were traded higher compared to June 2010, which was also backed by higher domestic demand and higher domestic coal prices. However, a lower export compared to May 2011 explains the month-on-month decrease.

The average spot price for base load on the Polish Power Exchange (PPX) amounted to 51.69

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EUR/MWh, representing an almost 10 % increase year-on-year and a 3 % decrease month-on-month. The Polish spot price was lower than the spot in Germany and the Czech Republic (on average by 0.60 EUR compared to Germany, 0.72 EUR compared to the Czech Republic). Spreads in June 2011 differed a lot from those in the previous year, when energy in Poland was much more expensive than in Germany and the Czech Republic.

The average balancing market outcome was lower than in May (down 3%) and significantly higher than in June last year (up 5%). Prices in week 26 were strongly influenced by tests of a new 858 MW unit in Belchatow with additional power supply unanticipated by the market.

### **UK**

The UK Day-ahead Base opened at 54.16 EUR/MWh in June, more than 3 EUR/MWh down from the previous month. Maintenance on the gas system and fields came into full swing during June with the Langeled pipeline flowing at some of the lowest levels so far this year. On top of that, the LNG flows into the UK were significantly lower than in previous months. The firm gas situation prevented prices from decreasing more as it levelled out weak demand. This was helped a little towards the end of the month with a few unplanned power station outages. The spot price closed the month at 54.57 EUR/MWh.

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## ***Derivative markets: Plummeting prices throughout Europe***

Almost all European long-term power contracts went down significantly in June, mostly on the back of lower oil, coal and CO<sub>2</sub> prices.

### **Continental Europe**

Long-term power prices decreased significantly during June and the market suffered from decreasing trading volumes and overall low volatility. Prices dropped from May's high of 60.90 EUR/MWh to trade around 56 EUR/MWh in June. The bearish trend was triggered by losses in all major interlinked commodities, such as oil. However, traders were expecting the market to pick up and gain momentum when it was decided that eight German nuclear power plants would remain offline even after the moratorium, and in a referendum in Italy 95% of Italians voted against construction of new nuclear plants. However, the German decision to phase out nuclear power production already seemed to be reflected in long-term prices.

In the Benelux countries prices also fell considerably after a sideways start of the month. They lost 4 EUR/MWh throughout the month on the back of lower fuel complex, especially bearish CO<sub>2</sub> prices which collapsed at the end of the month, and no support from the spot where prices were bearish as well. As a consequence, the Dutch Cal 12 contract fell from around 59 EUR/MWh at the start of the month, to trade at 56.50 EUR/MWh on 30 June.

Overall, the spread between the Netherlands and Germany rose over the month, as Holland stopped exporting to Germany and began to import significant base load volumes. This reflected the more relaxed German market, Holland even decoupling a few times as imports reached maximum capacity.

### **Nordic**

In the Nordic countries, all contracts decreased during the month on the back of the strengthening of the hydrological balance, in combination with weak commodities. Both Quarter 3/2011 and the Cal 12 contract were traded at a monthly high on 1 June. Afterwards, Cal 12 decreased from 51.55 EUR/MWh to trade at 46.90 EUR/MWh at the closing on 30 June

(-4.65 EUR). The Nordic Quarter 3/2011 closed at 43.65 EUR/MWh, down 11 EUR from the last trading day in May.

### **Poland**

The liquidity on the long-term market was good in June, with 843 MW traded for July 2011, 670 MW for Quarter Q3/2011, 431 MW for Quarter 4 and 1350 MW for Cal 12.

Both July 11 and Quarter 3/2011 followed a downward trend reaching lows of 50.88 EUR/MWh (down 3.9%) and 50.86 EUR/MWh (down 3.7%) respectively at the end of the month. Quarter 4/2011 increased in the first half of the month, but also decreased later to close at 51.25 EUR/MWh – the same level as at the beginning of the month. Cal 12 dropped to 50.98 EUR/MWh at the end of the month (down 2%). This was mostly due to the decrease in CO<sub>2</sub> prices.

The average exchange rate EUR/PLN increased slightly from 3.94 PLN per EUR in May 2011 to 3.97 PLN per EUR, mostly as a result of risk aversion resulting from the high risk of Greece's bankruptcy.

### **UK**

The long-term market in the UK saw a big increase in volatility with carbon posting big losses, and oil also posting some strong highs. The Winter 2011 contract opened the month at 64.35 EUR/MWh and traded up initially on the back of more supportive fuels and fundamentals. Around the middle of the month, carbon posted some of the biggest losses ever seen in one day. This led to a complete collapse in the dirty spark spread and power was pulled down. Winter 2011 base load ended the month at 62.48 EUR/MWh.

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## 2. CO<sub>2</sub> TRADING: Downward trend

**CO<sub>2</sub> prices lost almost 4 EUR/tonne to trade at last year's level.**

Before June, prices had been supported by factors such as the start of the trading period for 2013, the nuclear catastrophe at Fukushima and the German moratorium. However, a downward trend started in June, as there was little demand, oil prices declined, and the Euro crisis and general macroeconomic weakening added to the softer level.

Moreover, the proposal of an EU directive on energy efficiency led to a further decline in CO<sub>2</sub> prices. Thus, at the end of June, certificates traded at approximately the same level as at the beginning of 2010. EUAs lost almost 4 EUR/tonne to trade around 13 EUR/tonne

## 3. GAS TRADING: Sideward movement amid volatile availability

**NBP gas prices traded up in the first half of June amid shortages but recovered on the back of completed maintenance.**

Demand in June continued to be below the seasonal average and system performance has been mixed, with shortages in the first half of June. In the second half of the month, supply from the Ormen Lange field returned from maintenance, which left the system as long as 25 mcm/d at its intraday peak. Langeded flows have subsequently been affected by a power cut at the Kollsness processing plant. Subsequently – in the second half of June – the Armada field went offline for a period of 45 days and the Bruce field went offline on 28 June. Following maintenance at the Rough storage facility, a problem with one of the compressors remained and injection rates have been subdued to 14 mcm/d, however, despite this, the facility has its highest stored volume over the last six years and is at 87 % as of 30 June.

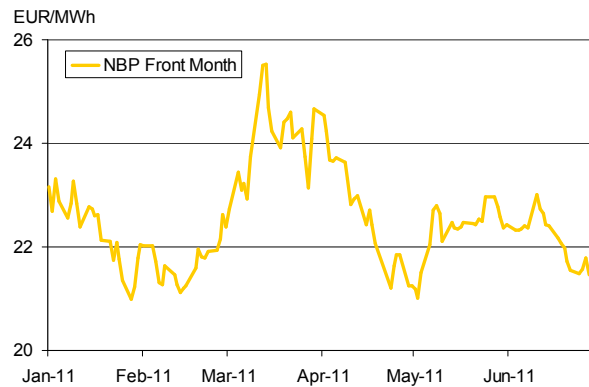
LNG volumes in June averaged 70 mcm/d, almost 15 mcm/d lower than May volumes.

Prompt prices traded up in the first half of June – in line with system performance – and the System

Average Price (SAP) reached its peak on 13 June, but subsequently eased off again.

The NBP front month opened at 22.58 EUR/MWh and peaked in mid-June at 23.02 EUR/MWh. After breaking the 22-EUR-support it traded below that line to close at 21.46 EUR/MWh on 30 June.

### **NBP Front Month in EUR/MWh**



Source: Vattenfall Energy Trading

## 4. COAL TRADING: Weaker prices in illiquid market

**Coal contracts lost around 1 USD/tonne on good availability and trading driven by sentiment.**

June was another illiquid month in the coal market as coal trading was dominated by the sentiment in the oil and the foreign exchange markets rather than by its own fundamentals. The month started off in a bullish tone with the Cal 12 API2 rallying from 128 USD/tonne to a high of 132 USD/tonne. However, prices subsequently lost 6 USD/tonne to trade at 126 USD/tonne in mid-month as Greek debt issues troubled the markets.

Prices recovered a little as the Standard & Poor's index rose 5% week-on-week, and macroeconomic sentiment rebounded. Fundamentally, generation margins were at very healthy levels given the drop in power prices and in particular the substantial drop in emission prices, and utilities were providing support. South African and Australian coal was very close to pricing into China, and given the expectation of power shortages in China in the next few months, the need for imports is there.

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Month on month, the Cal 12 API2 contract fell by 1.20 USD/tonne, the Cal 12 API4 contract by 0.65 USD/tonne and the Cal 12 Newcastle contract by 0.80 USD/tonne. The Quarter 3/2011 contracts were a bit more resilient, with the API2 down 0.05 USD/tonne, the API4 down 0.50 USD/tonne, and the Newcastle contract bucking the trend and falling 1.25 USD/tonne.

## 5. OIL TRADING: Volatile market

**Brent crude prices were volatile in June, trading lower on good supply, but closing with a bullish sentiment.**

June was a month with mixed sentiment and conflicting news resulting in a very volatile market, with a high of 121 USD/bbl and a low of 102.78 USD/bbl on Brent. The month was mainly influenced by two events: macroeconomic worries over the budgets of PIIGS countries (indebted countries Portugal, Italy, Ireland, Greece, Spain) and supply worries due to events in MENA countries (Middle East and North Africa), among which mainly Libya. On the supply side, the market is still missing 1.4 million bbl sweet oil from Libya, but the market received extra barrels through an unprecedented move by the International Energy Agency (IEA) to supply 60 MM bbl of oil and products from the strategic oil reserves, sending Brent prices to a low of 102.78 USD/bbl. By the end of the month, improved macroeconomic sentiment triggered a rather bullish trend. The Standard & Poor's index closed up 5.6% week-on-week, taking the commodity markets in its slipstream. Equities and a weak dollar were continuing to heavily influence the direction of oil. Brent trading closed slightly over the 110-USD/tonne-mark.

## 6. FX TRADING: Sideways movement

**The EUR/USD exchange rate moved sideways in June amid mixed macroeconomic impacts.**

Poor macroeconomic data left the foreign exchange market in a sideways channel in June. Chinese inflation was at a 3-year high, and the leading indicator has come off its peak.

Moreover, Greece and the political debacle concerning the pay-out of funds from the International Monetary Fund and the European Commission dominated the market. Both the vote of confidence for the ruling government and the vote on how the austerity measures should be implemented were passed.

Another factor was the development in the US. The debt ceiling needs to be raised by 2 August to avoid default on payments regarding the administration, and manufacturing data had a bad poor outlook. All those different impacts balanced out each other and led to the sideways movement of the exchange rate. The EUR/USD rate opened at 1.4408 and closed at 1.4453.

**Exchange Rate EUR/USD**



Source: Vattenfall Energy Trading

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## ABBREVIATIONS

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 north-west Europe
C4	Voyage freight rate between Richards Bay and ARA
CCGT	Combined cycle gas turbine
CDM	Clean Development Mechanism
CHP	Combined heat and power plant
CER	Certified Emission Reduction, resulting from an emission-reducing project in developing countries that has been certified
Dark spread	Spread between the fuel and power price for a generator
ECX	European Climate Exchange
EEX	European Energy Exchange, Leipzig
EPEX Spot	European Power Exchange, German-French spot exchange, Paris
ETS	European Union Emissions Trading System
EUA	European Union Allowance Unit
FOB	Free on board: a shipping term which indicates that the supplier pays the shipping costs from the point of manufacture to a specified destination
IMF	International Monetary Fund
IPE	International Petroleum Exchange, London
IUK	Interconnector UK – gas pipeline connecting the UK and Europe
LNG	Liquefied natural gas
MCM/D	Million cubic metres per day
NBP	National Balancing Point, gas hub in Great Britain
NCG	NetConnect Germany – German gas market area
N <sub>2</sub> O project	CDM project to reduce nitrous oxide (N <sub>2</sub> O)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OTC	Over-the-counter trading
PPX	Polish Power Exchange, Towarowa Gielda Energii S.A.
Spark spread	Difference between the price of electricity sold by a producer and the price of the used fuel
TSO	Transmission system operator
TTF	Title Transfer Facility: virtual gas trading hub in the Netherlands
UNFCCC	United Nations Framework Convention on Climate Change

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VATTENFALL ENERGY TRADING

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