

Commodity Markets at a Glance

November 2009

Market Letter by Vattenfall Energy Trading

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1. EUROPEAN POWER

Spot markets: Slight downtrend

Prices in European spot markets decreased throughout November. The spot price in Germany showed a volatile development with the biggest downtrend. The average spot price in November was 8.60 EUR/MWh lower than the average in October. The Polish spot lost 3.40 EUR/MWh compared to the average of October, while the UK average spot was only 1.40 EUR/MWh lower than in the previous month. The Nordic spot showed an up move in the beginning of November and a downtrend thereafter, while it traded on a higher level than in the previous month. Hence, despite the downside movement the average spot price was 2.60 EUR/MWh higher than in October.

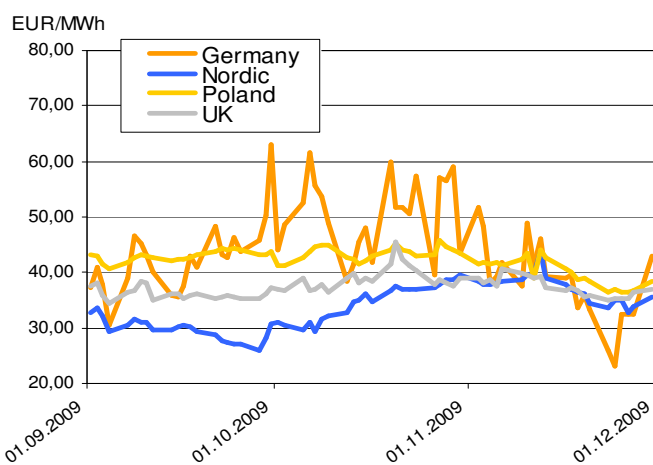
Germany

The last month has been the cheapest November in Germany since the introduction of CO2 certificates in 2005. Day-ahead Base opened at 51.69 EUR/MWh on 1 November and took a volatile course throughout the month. The average temperature was 9°C, which was almost 3°C above normal. In addition strong wind production, with almost 7,000 MW on average, supported the downtrend of the spot. Low demand as well as particularly high wind and hydro production led to a low on 23 and 24 November with negative prices

during early morning hours. The spot recovered until the end of the month and closed at 42.92 EUR/MWh. In France the spot market was very relaxed due to warm temperatures and good nuclear availability. Hence net exports to France decreased to 2,157 MWh on average.

On monthly average, Day-ahead Base was delivered at 35.94 EUR/MWh, which was 8.6 euro lower than the average price for October. The daily traded average volume increased by almost 43,000 to 375,548 MWh.

Figure 1: European power spot markets in EUR/MWh



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

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Nordic

During November, the system price moved up on increasing load until 43.72 EUR/MWh on 12 November even though the temperature was approximately 3 degrees above normal, but decreased afterwards. Further delays of revisions kept down nuclear availability. After a dry October the inflows started on a level below normal, increased in the middle of the month after intensive raining and decreased towards normal in the end of the month. The Nordic spot closed at 35.55 EUR/MWh on 30 November. The precipitation outcomes in Norway and Sweden were approximately 21.5 TWh during November, which is 113% of normal. Throughout the month, the price differences between the areas decreased compared to October. Only the Danish areas showed a significant spread towards the others. Swedish reservoirs stood at 67.6% of maximum by the end of week 48 which is 7.9% lower than normal. At the same time, Norwegian reservoirs stood at 78.6% of maximum, which is 1.9% lower than normal.

	2009 Nov	2009 Oct	2008 Nov
Average system spot price (€)	36.4	33.8	51.3

Source: NordPool

Poland

November was characterised by warm weather in Poland with an average temperature of 5.8°C, which is 2.3°C above normal historical outcome. The

monthly system demand declined by 0.63% on a year-on-year basis. After a tight system situation in October, November brought a relief particularly in the second part of the month. The healthy supply situation dragged down the spot prices.

Poland remained a net exporter of electricity with 228 GWh sent out of Poland. The average spot price in September amounted to 38.87 EUR/MWh for Base Load, 43.45 EUR/MWh for Peak Load and 35.60 EUR/MWh for Off-peak Load. Prices were visibly lower compared to October.

UK

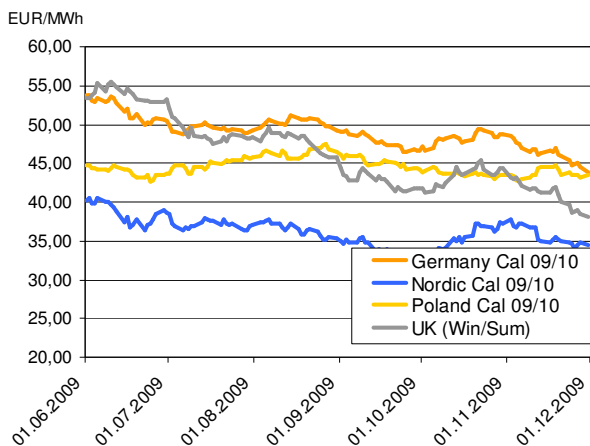
Day-ahead Base opened at 39.02 EUR/MWh on 1 November. 10 GW spare capacities kept prices down throughout the month. In UK some more combined cycle gas turbines (CCGT) were coming online, which brought an additional 1.5 GW of gas. On the back of low gas prices, UK spot prices in November went below this year's summer spot prices on some days. Moreover, the temperature was higher than normal, reaching almost record levels for November with a daytime temperature of 19°C. At the end of the month, prices recovered slightly despite unchanged fundamentals, closing at 36.85 EUR/MWh on 30 November. The average spot price in November was 37.14 EUR/MWh, which was 1.4 EUR/MWh lower than the average of October.

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Term markets: Bearish mood

Power prices moved downwards in most European long-term markets. Only the Polish market went slightly up.

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



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

Germany

Cal 10 opened at 48.51 EUR/MWh on 1 November and continued its southbound journey during the month on the back of decreasing front products. The downtrend was influenced by mild temperatures, good nuclear availability, weaker CO2 prices as well as decreasing gas prices. Cal 10 closed at 43.81 EUR/MWh on 30 November, 4.81 EUR/MWh lower than the last of October.

Nordic

On 1 November the Nordic Cal 10 opened at 37.75 EUR/MWh. After a slight uptrend in October, prices

went down again in November together with the German term market. Lower CO2 prices as well as a stronger hydrological balance were the main reasons for the bearish development in the Nord Pool area. On 30 November Cal 10 closed at 34.35 EUR/MWh, which was 2.95 euro lower than the last of October.

Poland

The decline of the Polish spot prices in November put pressure on the front-end of the forward curve. December 09 lost 2 euro during the month while Q1 10 decreased even more. Cal 10 lost 1.07 euro and ended at 43.12 EUR/MWh. During the whole month, market participants were affected by the Energy Regulatory Office Chairman's announcements. The price for electricity for households in 2010 has not been revealed yet. Nevertheless, rumors on the price being set below the current market quotations had a bearish influence on Cal 10.

UK

The Summer 10 contract opened at 43.20 EUR/MWh on 1 November and declined to 38.17 EUR/MWh until 30 November. 14 GW of spare capacities with additional 5 GW, due to more CCGTs coming online, were expected in Summer 10. Decreasing gas prices weakened the UK term market throughout November. While the 2009 forward products (Summer 09 and Winter 09/10) have been around the same level, the "normal" relationship came back in November 2009. The expected demand recovery led to higher Winter 10/11 prices than for the Summer 10 product. The spread between those two products was 9 euro, with Winter 10/11 closing at 46.53 EUR/MWh on 30 November.

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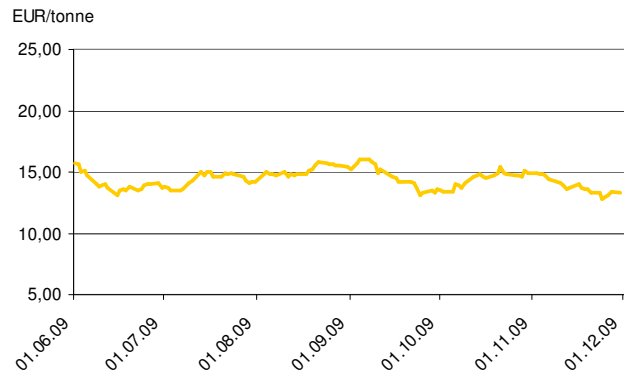
2. CO2 TRADING: Market went down

After the uptrend in October, CO2 contracts fell back in November.

On 1 November, CO2 certificates opened at 14.54 EUR/tonne. After some strong gains in October, EUA prices fell sharply in November on relatively stable volumes. In the first half of the month, warm weather, weakening gas prices and weak demand for power pushed demand lower. They fell to their lowest levels since June 2009. On 24 November, CO2 prices reached a low at 12.63 EUR/tonne, before recovering slightly on reports about the EU appealing September's ruling on Estonia's and Poland's National Allocation Plans.

The price difference between Certified Emission Reduction and European Union Allowances remained relatively unchanged at slightly below 1 euro.

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



Source: Vattenfall Energy Trading

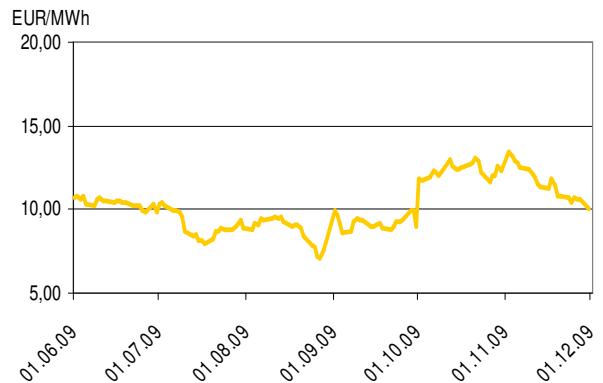
3. GAS TRADING: Oversupply

With full gas storages and a working grid, the low gas demand was met without any difficulties.

The NBP front month opened at 13.45 EUR/MWh on 1 November and decreased down to 10.01 EUR/MWh until the end of the month. The downwards trend was driven by weak fundamentals in the UK market. Gas demand was below season's normal due to mild temperatures. The oversupply situation with full gas storages as well as a fully functional grid led to a price decrease. Overall, gas was mainly driven by the prompt. The correlation to oil faded increasingly, particularly on the back-end of the curve.

The closing price on 30 November was 2.27 EUR/MWh lower than the closing of October.

Figure 5: NBP front month in EUR/MWh



Source: Vattenfall Energy Trading

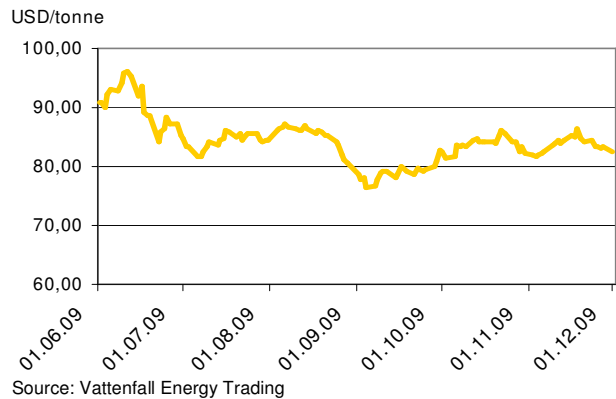
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4. COAL TRADING: Decreasing oversupply

Triggered by increasing demand, the coal market reached a high in the middle of the month.

API2 Cal 10 opened at 82.05 USD/tonne in November, traded as high as 86.38 USD/tonne, and closed at 82.53 USD/tonne. The initial push up was mainly due to firm Chinese and Newcastle coal prices, which were driven by Chinese imports and a recovery of overall demand in the Pacific basin. Supply interruptions in China and Russia East supported the market. The correction in the second half of the month was a consequence of weaker gas and oil. Clean spark spread advantage over clean dark spread in the UK for the next 3 quarters have increased and gas has become base load, which is unusual for the winter period driven by LNG imports and weak industrial demand.

Figure 6: API 2 Cal 10 in USD/tonne



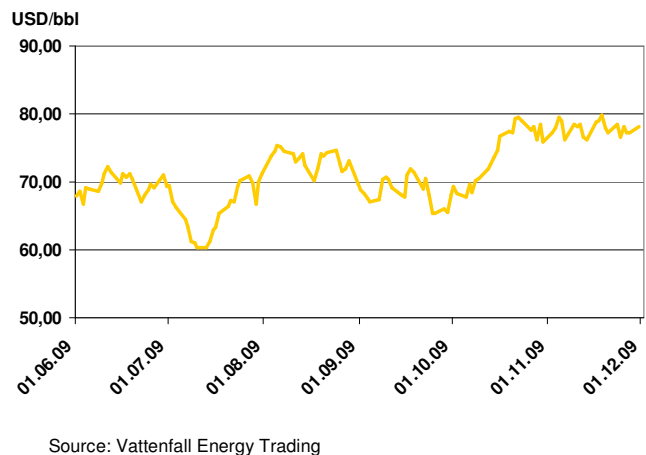
European bearish fundamentals are not getting more bearish given ARA stocks coming off from their record levels and tight Pacific market supporting API4.

5. OIL TRADING: Range-bound trading

Oil showed volatile development on high level.

IPE Brent Oil opened at 77.22 USD/bbl on 1 November and resided in a volatile sideways trend for the rest of the month with day-to-day price jumps of up to 2.73 US dollars. Oil prices were mainly driven by the stock market and the US dollar even though this correlation decreased in the end of the month. Low oil demand and high supply had a bearish effect on the oil price while hope for economic recovery gave upwards support to the market. Prices ranged between a low of 76.13 USD/bbl on 13 November and a year's high of 79.90 USD/bbl on 18 November. The oil price closed at 78.16 USD/bbl on 30 November, which was 2.26 USD/bbl higher than on the last of October.

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



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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
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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