

Commodity Markets at a Glance

October 2009

Market Letter by Vattenfall Energy Trading

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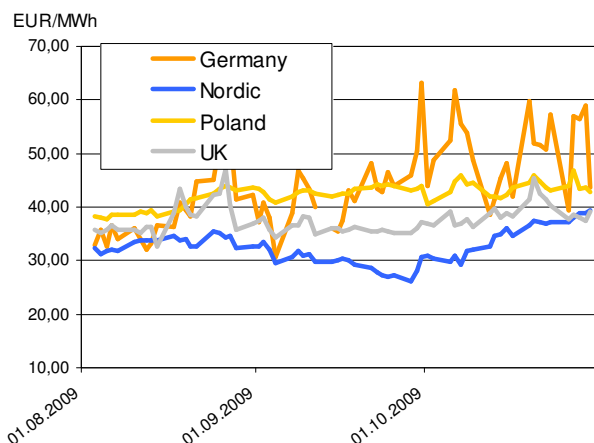
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1. EUROPEAN POWER

Spot markets: Overall increase

Different runs of the curve resulted in an increase on all European spot markets in October. The Nordic spot went up by 5.20 EUR/MWh on average compared to September. The German spot showed a similar increase while being very volatile throughout the month. In Great Britain, the strong uptrend was broken at the end of the month, which led the average spot price to move up by only 2.90 EUR/MWh. The Polish spot rose by 0.60 EUR/MWh compared to the average of the previous month.

Figure 1: European power spot markets in EUR/MWh



Source: EPEX, Nord Pool, Vattenfall Energy Trading

Germany

Day-ahead Base took a very volatile course throughout October, ranging between 38 EUR/MWh and 62 EUR/MWh. The cold weather in Germany and unsteady wind production combined with low nuclear availability influenced the price jumps. Industrial demand was 2-3% lower than in 2008. Wind production averaged at 4,700 MW in October. On 4 October, wind production of 18,000 MW contributed to push prices down to -500 EUR/MWh during early morning hours. Approximately one third of nuclear power plants in France was not available, which resulted in 4,000 MW less capacity available than in 2008. Throughout the month, the average French peak price was 120 EUR/MWh being twice as high as the German peak. On 19 October, the French peak even reached a high of 1,147 EUR/MWh. Day-ahead Base in France was 25 euros higher on average than the German base product..

German Day-ahead Base traded at 44.54 EUR/MWh on monthly average, which was 5 euro above the average price for September. The daily traded average volume increased by almost 12,000 to 375,548 MWh.

Nordic

The Nordic spot opened at 30.90 EUR/MWh rising up to 39.44 EUR/MWh on 30 October on a weaker hydrological balance as well as colder and drier weather than normal. Overall, October was almost

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1.9° colder than normal. Temperatures reached a low in the middle of the month, when it was almost 5° below normal. For the first time since last winter, the load was higher compared to the same period in the previous year, but the temperature adjusted consumption was down by more than 7% since last year. In the beginning of the month inflows were well above normal levels in both Sweden and Norway, but throughout the month inflows decreased to levels well below normal. The precipitation outcomes in Norway and Sweden amounted to a 12.7 TWh during October, which was 64% of normal. Swedish reservoirs stood at 71.3% of the maximum by the end of week 44, which is 10.3% lower than normal. At the same time, Norwegian reservoirs stood at 82.6% of maximum, which is 5.6% lower than normal.

	2009 Oct	2009 Sep	2008 Oct
Average system spot price (€)	34.9	28.1	56.9

Sources: NordPool

Poland

Polish spot prices showed a slight uptrend from 40.62 EUR/MWh on 1 October to 42.95 EUR/MWh on 30 October. Weather was mixed in October with the first half predominantly sunny and warm and the second half being chilly and cloudy. The Polish system price reached a high of 46 EUR/MWh on 20 October.

Demand (after subtracting CHP generation) proved to be higher than expected almost reaching last year's level. Overall, Poland was a net power exporter in October, with exports of 231.5 GWh to Germany and Czech Republic. The resulting narrow minimum supply margin, especially in the peak hours, produced high spot prices.

On average, the spot price amounted to 42.25 EUR/MWh, which was 0.6 EUR/MWh higher than in September. Average volume traded increased by 398 MWh to 7,926 MWh compared to the previous month.

UK

On 1 October, Day-ahead Base opened at 36.99 EUR/MWh. The system was tight due to nuclear outages., UK spot reached a high of 45.40 EUR/MWh on 20 October on the back of increasing gas prices. In the last week of October, prices decreased from the previous high. Temperatures in that week reached with 19° nearly record levels for this time of the year. The spot closed at 39.05 EUR/MWh on 30 October.

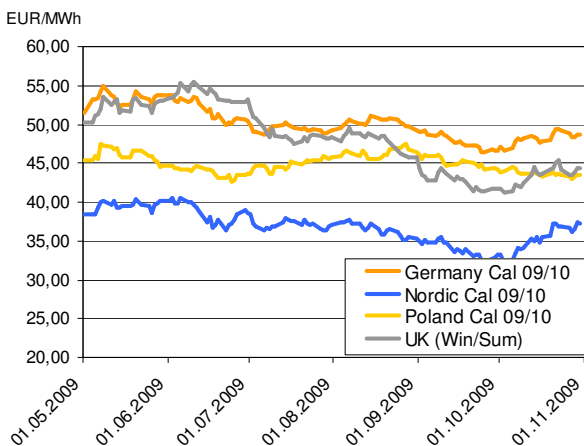
With an average price level of 38.56 EUR/MWh, UK Day-ahead Base was 2.90 EUR/MWh higher than the average of September.

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Term markets: Markets went up

Term products in all European markets went up except in Poland where prices went sideways.

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



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

Germany

On 1 October, German Cal 10 opened at 47.05 EUR/MWh and followed a slight upwards trend from thereon. The increase was mainly based on rising coal and CO₂ prices, being supported by oil in the first 2 weeks of the month. Volatile front month products also kept the term market up. In the last week of October, the Cal 10 moved only marginally. Cautiousness of market participants led to a lower trading volume and rather technical trading. The front year closed at 48.62 EUR/MWh on 30 October, 1.97 EUR/MWh higher than on the last of September.

Nordic

The opening price of Nordic Cal 10 was 33.15 EUR/MWh on 1 October. The term market broke out of its downwards trend, which already started in June. Prices rose continuously throughout the month. The increase was mainly driven by the higher system price and the weaker hydrological balance. On 30 October, Cal 10 closed at 37.30 EUR/MWh, which was 4.15 EUR/MWh higher than on the last of September.

Poland

The Polish Cal 10 opened at 43.91 EUR/MWh on 1 October and traded sideways after that while the front end of the forward curve gained on the back of spot. Despite cold temperatures, Cal 10 closed almost at the same level as it had opened. With 43.43 EUR/MWh on 30 October, the closing price was only 0.48 EUR/MWh lower than on the last of September.

UK

The Summer 10 contract was set at 41.72 EUR/MWh on 1 October and developed in line with fuels. Coal and gas supported Summer 10 prices while oil lost importance. Prices went beyond 45 EUR/MWh on 21 October and declined slightly thereafter. The Summer contract closed at 44.28 EUR/MWh on 30 October. Despite recently published bearish GDP figures, hope for economic recovery led to increasing prices. The spread between Winter 10/11 and Summer 10 prices amounted to 10 euros, Winter 10/11 being the pricier product. It opened at 51.19 EUR/MWh, followed a similar pattern as the Summer 10 contract and closed at 54.94 EUR/MWh on 30 October.

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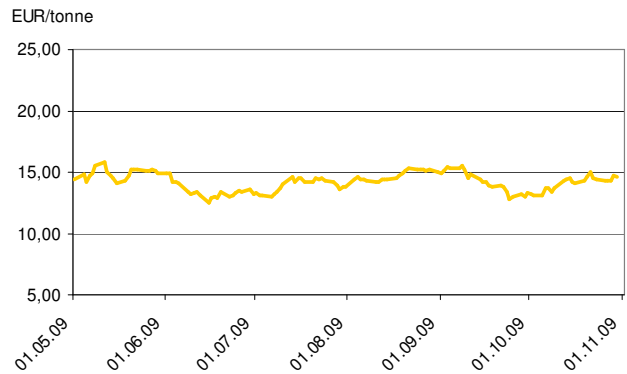
2. CO2 TRADING: Uptrend

After a downwards move in September, CO2 contracts went up again.

European Union Allowances opened at 13.22 EUR/tonne on 1 October following a continuous up move thereafter. An EU court decision regarding allocation of certificates drove prices down at the end of September. Emission prices recovered after the market had digested the news in October. In week 42, when certificates exceeded the 14-euro-mark, prices were driven by oil. In the second half of the month, CO2 certificates stabilised slightly below 15 EUR/tonne. At the end of the month, market calmed down in expectation of the climate conference in Copenhagen. CO2 certificates closed at 14.57 EUR/tonne on 30 October.

On average, the price spread between Certified Emission Reduction and European Union Allowances amounted to 0.80 EUR/tonne in October. CERs are

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



Source: Vattenfall Energy Trading

more expensive in the front-end than in the back-end reflecting the markets expectation of a shortage of project credits in the short run.

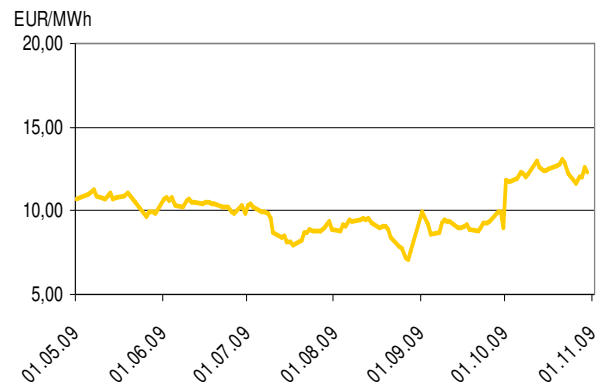
3. GAS TRADING: Sideways on higher level

After a strong upwards move in the beginning of the month, gas was trading sideways for the rest of the month.

The NBP front month opened at 11.86 EUR/MWh on 1 October, which was already 2.85 EUR/MWh higher than the previous month's closing price on 30 September. This price jump was triggered by the start of the new month, the new gas year as well as the beginning of the delivery of the winter contract.

Colder temperatures than season's normal caused an increasing demand. Outages at Alwyn field in St. Fergus as well as at the interconnector between Netherlands and UK had a bullish impact on prices. The UK gas price was strongly correlated with the Henry Hub in the United States throughout October. The second half of the month was driven by US Nat Gas and the oil price. After rising above 12

Figure 5: NBP front month in EUR/MWh



Source: Vattenfall Energy Trading

EUR/MWh on 6 October, the gas price was trading sideways until it closed at 12.28 EUR/MWh on 30 October, 3.28 EUR/MWh higher than on the last of September.

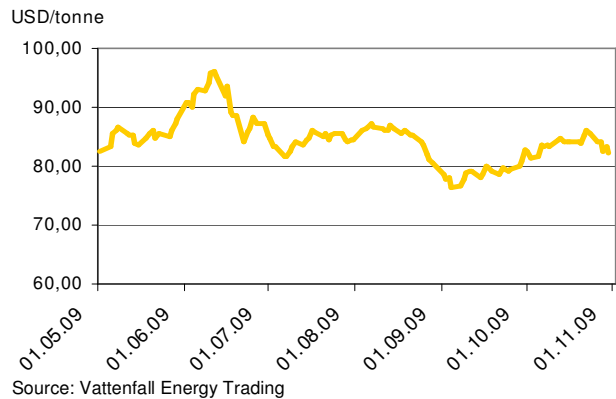
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4. COAL TRADING: Slightly up

Coal prices climbed throughout the month before dropping down in the last week of October.

API 2 Cal 10 opened at 82.41 USD/tonne and overall rose 0.4 USD/tonne during October with a high of 86.21 USD/tonne on 22 October. While the API 2 Cal 10 versus Cal 11 spread widened, the overall curve was stable. Higher oil, a weaker US dollar as well as coal generation becoming more profitable in Germany were positive drivers. In the UK, it has become more profitable to generate power with gas as a fuel stock than coal in the UK for December 09. But for the first quarter of 2010, coal was able to extend its advantage over gas respectively. The Newcastle premium to API 4 rose due to large net coal imports of China versus an oversupplied Atlantic market at the front-end of the market. Chinese coal prices continued to rise and Indonesian imports were cheaper for Chinese plants in comparison to purchasing from domestic mines.

Figure 6: API 2 Cal 10 in USD/tonne



Source: Vattenfall Energy Trading

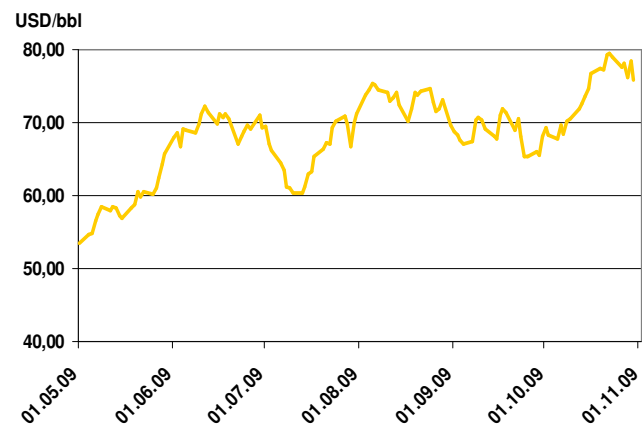
The C4 versus Implied Freight spread widened due to firmer freight rates driven by large Chinese dry bulk imports.

5. OIL TRADING: Reaching a year-high

The upsurge of oil was reflected in all other markets.

The IPE Brent Oil price opened at 69.29 USD/bbl on 1 October and moved upwards thereafter. A weak US dollar, strong equity markets and positive economic data supported the bullish sentiment of the oil market. Particularly in the second half of the month, high stock levels in Europe went down further fueling the oil price, which reached a year-high of 79.51 USD/bbl on 22 October. In the last week of October, the prices traded slight downwards again. The oil price closed at 75.90 USD/bbl on 30 October – still 7.81 USD higher than on the last of September.

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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