Commodity Markets at a Glance

Market Letter by Vattenfall Energy Trading

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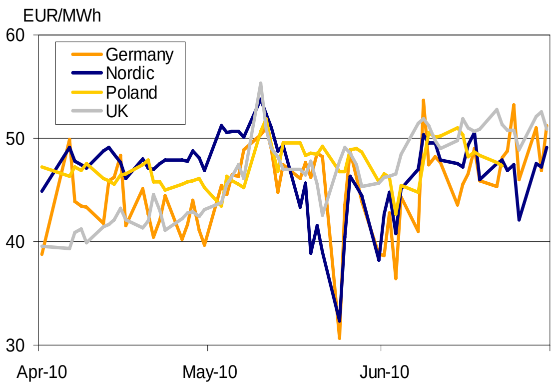
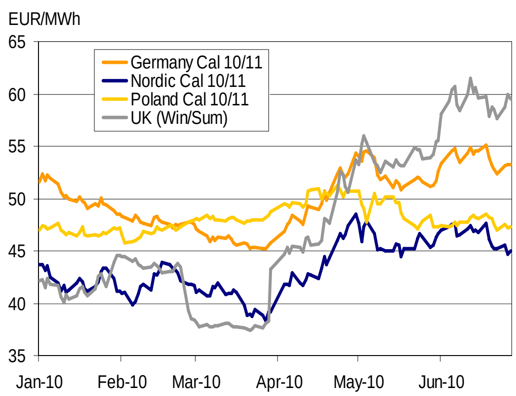
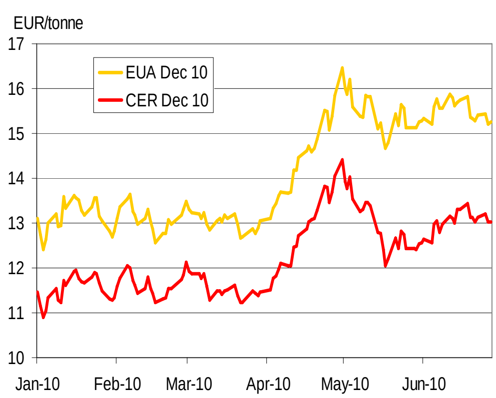
European Power
Spot markets: Volatile up move



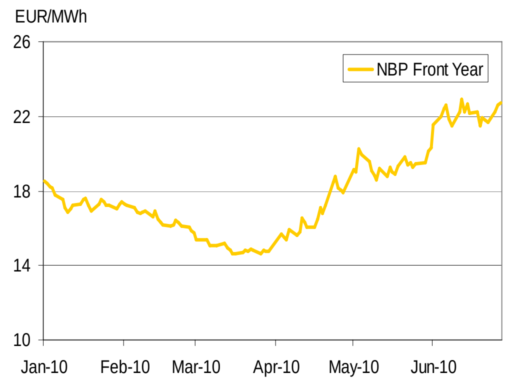
Power term markets: Lack of activity



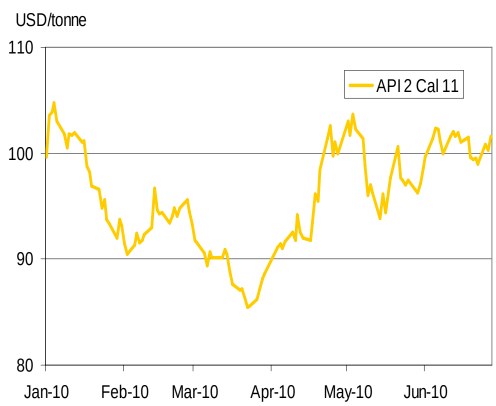
CO2 Trading: Recovery



Gas Trading: Tight supply

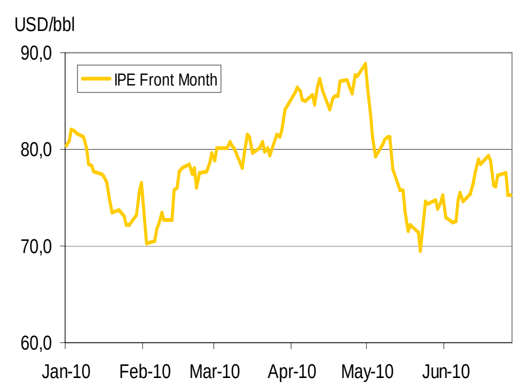


Coal Trading: Up on low supply



Oil

Trading: Economic pessimism



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

Commodity Markets at a Glance

1. EUROPEAN POWER

Spot markets: Volatile up move

The European spot markets were volatile and mostly traded on a higher level than in May. UK showed the biggest up move of 4.25 euro. On average, the German spot gained 2.17 euro, and the Nordic spot 1.78 euro. The Polish market remained almost on the same level as in the previous month and decreased by 0.01 euro on average.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	43,34	44,76	47,01	50.43
Last month av	41,17	42,98	47,02	46,18
Difference	2,17	1,78	-0,01	4,25

Continental Europe

German Day-ahead Base started at 38.62 EUR/MWh and rose up to 51.17 EUR/MWh until the end of the month. Spot prices in Germany were rather volatile throughout the month. The first half of the month was characterised by high wind production which averaged at 2,500 MWh for the whole month. The increasing return of industrial demand in combination with limited nuclear availability supported the spot. Precipitation was normal, reaching a mid-month high, which has a decreasing effect on the temperatures and an increasing effect on run of river production. The German daily traded average volume on EPEX Spot increased by 9 GW to 549 GW in June.

Temperatures in France were with 21°C on a normal level. After a deficit in the beginning of the month, nuclear availability increased above average in the second half of the month. On average, France exported 830 MWh to Germany.

The Benelux market in June was driven by a combination of a very supportive gas market with good power plant availability, resulting in very low spark clearings. In the end the market cleared with a bearish bias, delivering at 43.90 EUR/MWh in Holland. This is 1.70 euro below where the June contract expired and also 0.50 euro above the EEX delivery. For the first time this year Belgium delivered below Holland, mostly coming from strong imports from a healthy French market at the end of the month.

Nordic

	2010 June	2010 May	2009 June
Average system spot price (€)	44.9	43	35.7

Source: NordPool

The hydrological balance strengthened by approximately 5 TWh. Inflows were well below normal throughout the month. In Sweden inflows were below normal but they increased to almost normal values in the end of the month after a rather wet week. In Norway inflows stayed well below normal values due to the large deficit in the snow reservoirs. The precipitation outcomes in Norway and Sweden were approximately 15 TWh during June, which is 110 % of normal. In Sweden the outcome was above normal but in Norway precipitation was below normal. Swedish reservoirs stood at 63% of maximum by the end of week 25, which is 5% higher than normal at this time of the year. Norwegian reservoirs stood at 52% of maximum, which is 11% lower than normal. The natural storage, the snow- and soil water storage, continued to show a large deficit, especially in Norway.

Poland

In Poland the weather conditions were normal with temperatures at 17°C and cloudiness of 4.6 on an 8-degree scale. Monthly demand increased year on year by 5% as the post-crisis demand recovery continued. The supply situation improved throughout the month because a decreasing number of power plants scheduled to be on maintenance. This influenced the spot prices, which declined slowly in the second half of the month. Starting at 46.54 EUR/MWh, Polish Day-ahead Base went above the 50-euro-level in the middle of the month, but declined thereafter, closing at 48.80 EUR/MWh. On the borders flows were reversed comparing to the previous month and Poland became a net power exporter with 90 GWh sent out. Summing up the average spot price in June on PPX amounted to 47.49 EUR/MWh.

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UK

UK Day-ahead Base opened for June at 45.21 EUR/MWh and increased throughout the month. The average of the last week was 52.69 EUR/MWh in delivery. The main fundamentals in June were above normal temperatures, low hydro availability and some exports towards France during peak hours. The power surplus accounted for less than 6 GW during the weekdays and was well below the forecasted level. Some days it dropped as low as 3.5 GW. Gas and coal prices were also strong, giving further support to the spot.

Term markets: Lack of activity

Prices on the German and UK term markets recovered from the levels in May. The Nordic and Polish term markets decreased further month-on-month.

Germany

Prices for the German Cal 11 opened at 51.23 EUR/MWh and went up over 54 euro several times throughout the month. Overall, prices remained in a sideways channel between 51 and 55 euro during a rather uneventful June on the term market. Partially, this was influenced by the soccer world cup and the beginning holiday season at the end of the month. The average daily traded volumes decreased below 1,100 MW in June.

The Benelux market has remained slightly stronger than German prices, holding positive German-Dutch spreads down the curve.

Nordic

Most Nordic term contracts increased in the beginning of the month on higher commodity prices and rather dry forecasts. Contracts turned south in the middle of the month, when the weather forecast started to show more dynamic and the first signs of westerly flows. The strong spot during the end of the month had little impact on prices on the term market. The Nordic Cal 11 peaked on 15 June at 47.45 euro and closed at 45.05 EUR/MWh at the end of the month (-0.30 EUR/MWh compared to the last of May). The Quarter 4/2010 contract showed a similar development, peaking mid-month and closing at 49.70 EUR/MWh.

Poland

The Polish term market did not show much movement. Not even the price drops on the spot market affected the front end forward products. An unclear regulatory environment caused a lack of activity on the market. Market participants were waiting for a clear interpretation of the Energy Law. On the front end of the curve, price movements increased by the end of June as the period of delivery was approaching. July 2010 finished at 46.67 EUR/MWh (+0.44 euro), while Quarter 3/2010 expired at 46.51 EUR/MWh (+0.65 euro). Cal 11 fluctuated in a 2-euro-channel and finished at 47.28 EUR/MWh (-1.10 euro).

UK

UK prices for Winter 10/11 opened at 54.18 EUR/MWh on 1 June, while the Summer 11 started at 51.27 EUR/MWh. The contracts traded up on the back of the strong gas, coal and CO_2 prices. Also the strong spot prices that resulted from above normal temperatures and a low production surplus helped the curve to keep a bit more risk premium. Both contracts closed over 5 euro higher than in the previous month.

2. CO2 TRADING: Recovery

Prices for European Union Allowances (EUA) traded in a sideways channel between 15.10 and 15.90 EUR/Tonne.

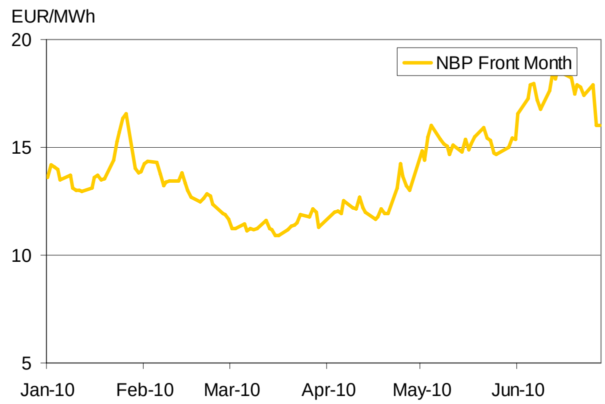
Overall, prices for EUAs recovered from the lows at the end of May, but remained in a sideways channel throughout the month. CO2 prices opened at 15.12 EUR/tonne on 1 June and closed at 15.25 EUR/tonne at the end of the month. After two record months regarding volumes, EUA futures contract trading volumes on the ECX dropped and remained below 500 million tonnes in June.
Prices for Certified Emission Reductions (CER) went slightly up in June. They started at 12.42 EUR/tonne and moved up over 13 euro throughout the month. According to the UNFCC, Hydrofluorocarbon (HFC) projects have been overvalued and have to be re-estimated. As a consequence, a lower supply of CERs until 2012 was expected in the market and supported the up move of CER-prices in the second half of the month. This led to a decreasing price difference between EUAs and CERs. It went from 2.70 euro in the beginning of June down to 2.20 euro until the end of the month.

3. GAS TRADING: Tight supply

Europe takes more UK Gas through IUK pipeline.

The NBP front month opened at 15.02 EUR/MWh on 1 June and traded to a high of 18.82 EUR/MWh on 17 June. In line with the last couple of months volatility was very high. The upward price trend continued as the market realised that summer LNG deliveries will be less than expected. In addition, the appetite for cheaper UK gas from the continent (due to the turn down of long term contracts) has been high with regards to the IUK exporting. During June, the connection into Europe, the Norpipe and Europipe, went on maintenance as well as the Cats pipeline that delivers gas into Teesside in the UK. Even with increasing prices, the rough storage continued to inject 21 mcm/d during the month and now reached 64% of its capacity.
The NBP front year started at 19.54 EUR/MWh on 1 June, reached a peak on the 15 June of 22.90 euro and finished the period at 22.72 EUR/MWh. The month was highlighted by extreme day-on-day volatility as traders were stopped out of positions.

NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

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4. COAL TRADING: Up on low supply

In June, Coal prices were much less volatile than in the previous month.

Coal prices increased again this month, largely tracking European natural gas prices, which shot up due to continued supply losses from Norway and Qatar. API2 Cal 11 prices started the month at 96.30 USD/tonne and increased up to 101.65 USD/tonne at the end of the month. Prompt API4 prices were calmer in comparison to API2 prices and fell 0.50 USD/tonne to 92.25 USD/tonne, with much of the sentiment driven by movements in oil. In the Pacific region, FOB Newcastle prices tracked a similar trajectory to API4 prices and ended the month flat at 99 USD/tonne. Prices have oscillated in and around the 100 USD/tonne mark for the past six weeks with a lull in Asian demand pulling it down, but a switching to the high grade coal markets adding strength.

5. OIL TRADING: Economic pessimism

Concerns about fiscal deficits kept oil prices low in June.

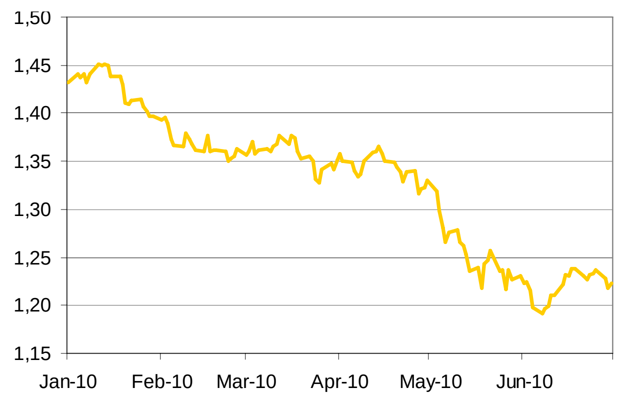
Although intraday oil prices have been quite volatile, the overall movement in June was not as strong as in the previous months. IPE Brent Oil opened at 73.90 USD/bbl and reached a high of 79.37 USD/bbl on 21 June. Recent oil demand figures were higher and inventories lower than in May. Moreover, the hurricane season in the Gulf of Mexico began in June. Tensions with Iran due to international pressure to suspend its enrichment program also supported the bullish development. At the end of the month, oil prices went down again and closed at 75.26 USD/bbl. Prices decreased on the back of concerns about the U.S. government's response to fiscal induced economic weakness and the risk of deflation. The financial market pessimism offset the positive signals from fundamentals, bringing the European financial crisis forward.

6. FX TRADING: Rate correction

The EUR/USD exchange rate slightly recovered after a durable downtrend.

In the beginning of June, the EUR/USD exchange rate opened at 1.22 EUR/USD and continued its downtrend from the previous months. After reaching a low of 1.19 EUR/USD on 7 June, the rate went up again, ending at the same level as the opening rate. Overall, disappointing economic macro data in the United States had a decreasing effect on the dollar. Discussions about the future of the euro slightly calmed down. The Chinese currency continued to weaken, while the economic growth lost speed.

Exchange Rate EUR/USD



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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 Spot	European Power Exchange, German-French Spot Exchange, Paris
ETS	European Union Emission Trading System
EUA	European Union Allowance
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
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
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation 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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