

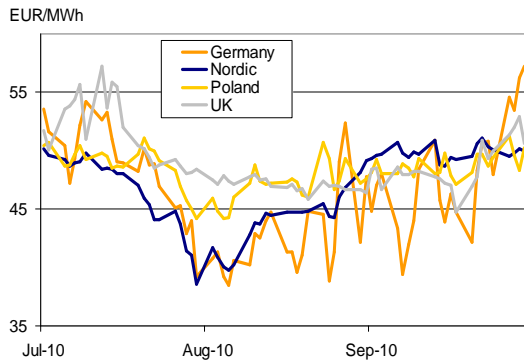
Commodity Markets at a Glance

September 2010

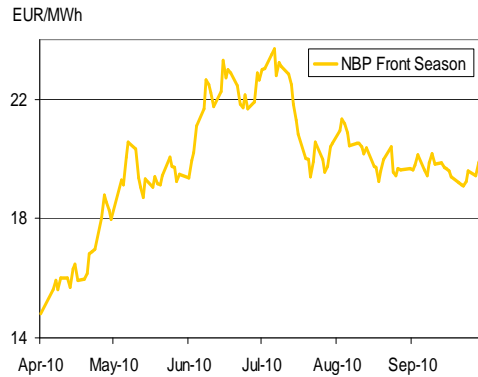
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Market Letter by Vattenfall Energy Trading

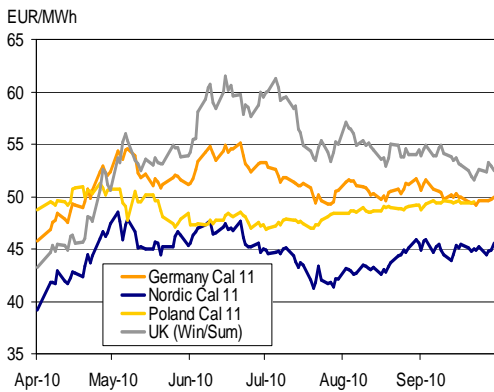
European Power Spot markets: Cold September



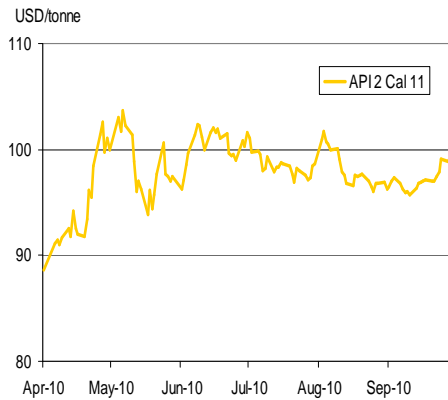
Gas Trading: Ongoing maintenance



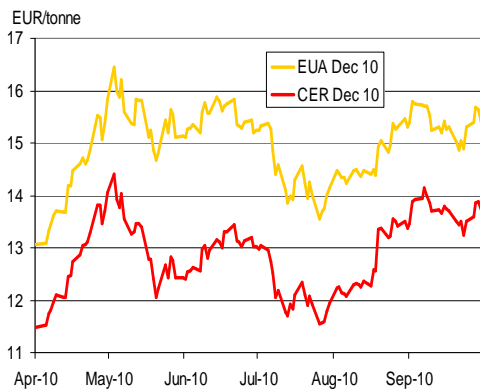
Power term markets: Directionless



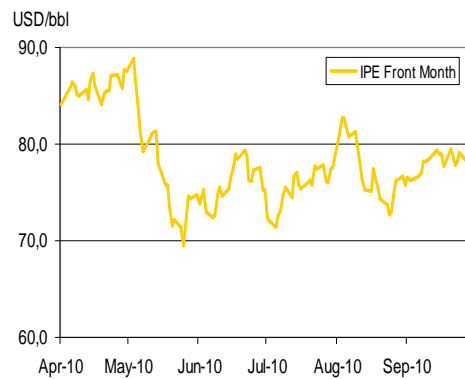
Coal Trading: Indian buying interest



CO2 Trading: Good supply



Oil Trading: Demand increase



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

Commodity Markets at a Glance

1. EUROPEAN POWER

Spot markets: Cold September

European spot prices continued the upwards trend that already started in August. The Nordic system price went up by 6.48 EUR/MWh compared to average August levels followed by the German spot, which gained 6.06 EUR/MWh. Meanwhile, the Polish spot increased by 1.29 euro and the UK spot by 0.25 euro.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	45,86	49,37	48,16	47,82
Last month av	39,80	42,89	46,87	47,57
Difference	6,06	6,48	1,29	0,25

Continental Europe

German Day-ahead base opened at 44.82 EUR/MWh. Spot prices were very volatile throughout the month with a low of 39.39 EUR/MWh on 7 September and a high of 57.25 EUR/MWh at the end of the month. Precipitation decreased back to normal at the end of the month, while the average temperatures were 3°C below normal. Power plant availability was also below normal, particularly at the end of the month, when spot prices came up. High renewable production (wind production: 4,000 MW on average) cared for a volatile power supply and rather low spark spreads. The daily traded average volume at EPEX spot increased by 60 GW to 577 GW.

In France, temperatures were 2°C below normal. The power plant availability was above average, while the nuclear production underperformed at the end of the month. On average, France imported 300 MW from Germany.

In the Benelux market, Day-ahead Base started to trade down in the beginning of the month. In the second half of the month, the sentiment changed. Exports to France and bullish weather patterns caused increasing prices. The Dutch market delivered baseload at 46.70 EUR/MWh and peakload at 55.40 EUR/MWh. Belgium cleared at 45.70 EUR/MWh.

Nordic

The Nordic system price was rather stable during September. Production in Southern Norway helped to keep it close to the 50 euro level. In the end of the month, rather high price area differences occurred, more than 22 euro for a couple of hours between low prices in Norway (NO1, 2, 4 and 5) and the other areas. The weather was slightly warmer than normal, with a couple of cold spells in the beginning and the end of the month. In Sweden the problems to restart the nuclear reactors after yearly maintenance continued. On 30 September, almost 50% of the Swedish nuclear capacity was offline due to maintenance. Inflows were above normal in the beginning and end of the month due to rather high precipitation. The precipitation outcomes in Norway and Sweden were approximately 17 TWh during August, which is 91% of normal. Swedish reservoirs stood at 74% of maximum by the end of week 39, which is 11% lower than normal at this time of the year. Norwegian reservoirs stood at 68% of maximum, which is 20% lower than normal. The natural storage, the snow- and soil water storage, still showed a deficit in Norway, but it was much lower than in previous months.

Poland

Polish spot prices started at 48.16 EUR/MWh and went up throughout the month. Peak prices traded averagely at 51.19 EUR/MWh (4 euro increase month-on-month). Despite expected difficulties, power plant availability was on a comfortable level. More intensive electricity production in CHPs in the second half of the month resulted in some price decrease during night hours. On the other hand, power consumption in last days of the month rose up to 22 GW and resulted in breaking the 50 EUR/MWh level for the first time after five weeks.

UK

UK Day-ahead Base opened at 48.42 EUR/MWh. Prices went slightly up in the second half of the month. The average baseload business days traded at 48.09 EUR/MWh. Bad nuclear availability helped to push up the spark spreads a small amount. With a large number of Traders still out for the holiday period, liquidity remained low.

Commodity Markets at a Glance

Term markets: Directionless

Most European term markets traded sideways in September. Only the UK market showed some movements. Rather small volumes showed that activities on the market remained low.

Germany

The German Cal 11 remained in a narrow sideways channel between 49.50 and 51 euro throughout September. The market failed to get direction from commodity markets. There is still uncertainty among the market players regarding the future development of power demand. The daily traded volume has decreased since June and remained with 650 MW on a relatively low level.

The Benelux forward market also remained in a tight range, with the Dutch prices closely following that of the German market.

Nordic

Most contracts in the front of the curve decreased during the month and contracts further out stayed rather unchanged during the month. The market came down in the beginning of the month on warm and wet weather and most term contracts reached their monthly low on 13 September. After that they turned north on drier and colder forecasts. The Quarter 1/2011 contract decreased down to 48.90 EUR/MWh on 13 September, peaked on 20 September at 52.60 EUR/MWh and closed at 50.85 EUR/MWh at the end of the month. On 30 September the Nordic Cal 11 closed almost unchanged at 45.59 EUR/MWh, 0.04 EUR/MWh higher than the last of August.

Poland

The Polish forward market was very stable during September. Minimal changes of the contract value came from the exchange rate. The market was rather observant due to a large number of purchase auctions for Cal 11 (400 MW Base + 300 MW Peak) scheduled for October. The October 2010 contract finished at 47.91 EUR/MWh (+0.45 euro), while Quarter 4/10 traded at 47.26 EUR/MWh (-0.02 euro) by the end of the month. Cal 11 started at 48.78

EUR/MWh and went down to 49.03 EUR/MWh (+0.20 euro month-on-month).

UK

UK prices for the Winter 10/11 contract opened at 53.87 EUR/MWh. Prices traded down, reaching a low of 51.63 EUR/MWh on 22 September. The contracts were extremely illiquid due to a continuation of the holiday period and very volatile gas. The Summer 11 started at 52.17 EUR/MWh and largely followed the Winter contract.

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2. CO2 TRADING: Good supply

After going up in August, prices for European Union Allowances (EUA) traded sideways in September.

EUA prices remained in a channel between 14.85 and 15.80 EUR/tonne. Prices moved only slightly within this range. They went slightly down mid-month on the back of decreasing gas prices and back up after that with power prices. Ongoing climate talks in Tianjin in China did not have a visible effect on the market. The daily traded EUA future contracts volume on the European Climate Exchange decreased below levels of September 2009.

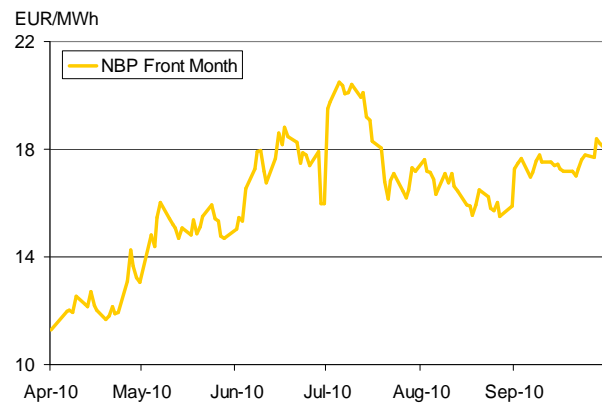
After Certified Emission Reduction (CER) supply in August was low, 6 million certificates came into the market through N2O projects. The spread between EUAs and CERs decreased down to 1.67 euro.

3. GAS TRADING: Ongoing maintenance

Short-term gas prices went up, while the long-term prices were in search of direction.

The NBP front month contract opened at a month low of 17.27 EUR/MWh. Along with the start of the new gas year and the winter coming closer, prices went up throughout the month. Plenty of planned maintenance, e.g. IUK interconnector, BBL pipeline, Rough storage facility and Kollsnes processing plant in Norway, affected the flow of gas to and from North West Europe several times. But a healthy LNG supply could offset some of the missing gas. The start of the new gas year has always been watched carefully by interested parties as this gives the first indication on flows. Long-term contracts are reset and new “take or pay” volumes come into play.

NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

The NBP front winter contract traded in a range between a high of 20.17 EUR/MWh on 9 September and a low of 19.11 EUR/MWh on 22 September. NBP front winter closed at 19.60 EUR/MWh. Summer 11, which will be the new front season, closed at 19.52 EUR/MWh.

Commodity Markets at a Glance

4. COAL TRADING: Indian buying interest

Global coal prices recovered from a low at the beginning of September and went up until the end of the month.

In the Atlantic region, coal prices firmed with the API2 Cal 11 gaining 3.60 USD/tonne to close the month at 99.95 USD/tonne. The API4 Cal 11 increased by 1.65 USD/tonne and closed at 94.65 USD/tonne. API4 prices began the month on a downward spiral due to a supply cut in Richards Bay with Indian interest on the back foot. Once Richards Bay spot prices reached a low of 80 USD/tonne, Indian buying interest was stimulated and prices began to rally for the remainder of the month, pushing up the Quarter 4/10 and the Cal 11. API2 prices followed a similar trajectory and strengthened on the back of a stronger EUR/USD rate, stronger oil and firmer gas prices which added bullishness to European coal burn. Newcastle prices also firmed with the Quarter 4/10 gaining 1.75 USD/tonne to 96.50 USD/tonne and the Cal 11 gaining 1.50 USD/tonne to 98.50 USD/tonne. This was largely on the back of supply issues from Indonesia, where production has been hampered by heavy rain. Moreover, the port of Newcastle reducing shippers' export allocations in an attempt to alleviate the heavy congestion was still present at the port. The apparent lack of demand from China put a cap on prices. This was mainly the result of the shutdown of steel mills by which China intended to conserve energy and reduce emissions.

5. OIL TRADING: Demand increase

Oil prices traded up throughout the month on the back of global economic growth.

Oil prices increased significantly in September (WTI gained 8.27USD/bbl and Brent 8 USD/bbl) driven by better economic sentiment, equity increase and US dollar weakening. Crude oil was supported by healthy Asian demand helping to more optimistic price levels for Quarter 4/10. Expectations of a substantial oil inventory decline and tightening of the supply/demand balance drove up prices. Emerging

economies were again the key drivers since they continue to boom, lifting global economy output and trade activity. Global industrial production growth averaged at 9% year-on-year in the third quarter with world trade up over 15% having a positive impact on diesel demand.

6. FX TRADING: Weakening US dollar

The decreasing dollar is expected to support the economic regeneration of the United States.

The Federal Open Market Committee, which is responsible for the monetary policy in the United States, announced that it is prepared to provide additional accommodation to support economic recovery. The US dollar continued to weaken on the back of this discussion even though no concrete measures were taken with regard to a "quantitative easing" of the US dollar to finance the deficit of the United States. Mid-September, the intervention of the Bank of Japan in the FX market, aiming to weaken Japanese Yen (JPY), caused a commotion and further impaired the US dollar. At the end of the month, the Anglo Irish bank was downgraded by a rating agency, which hit the euro and increased the price Ireland must pay to borrow on the money markets. The EUR/USD exchange rate went up from 1.28 to 1.36 EUR/USD at the end of September.

Exchange Rate EUR/USD



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
CCGT	Combined Cycle Gas Turbine
CDM	Clean Development Mechanism
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
IUK	Interconnector UK – gas pipeline connecting UK and Europe
LNG	Liquefied natural gas
MCM/D	million cubic metres per day
NBP	National Balancing Point, gas hub in Great Britain
N ₂ O project	CDM Project to Reduce Nitrous Oxide (N ₂ O)
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
UNFCCC	United Nations Framework Convention on Climate Change

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