

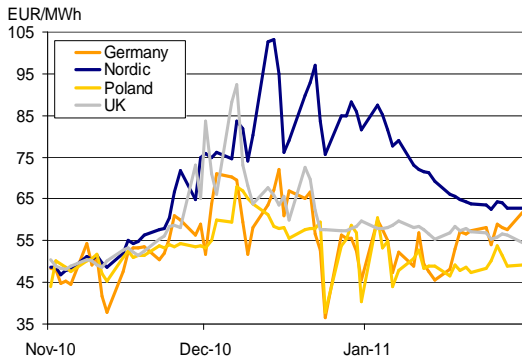
# Commodity Markets at a Glance

## January 2011

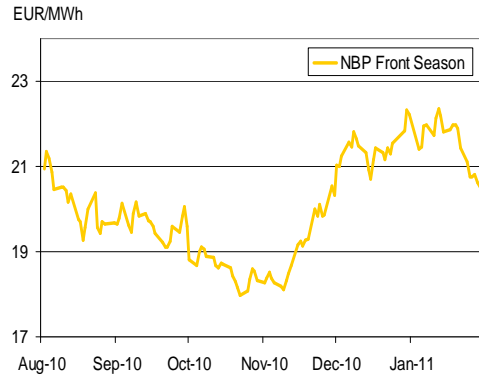
Click on the topic of your interest!

### Market Letter by Vattenfall Energy Trading

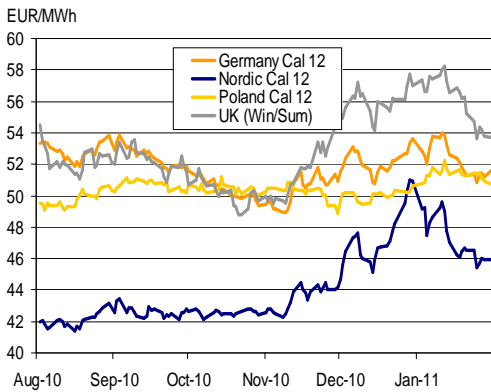
#### European Power Spot markets: Warm January



#### Gas Trading: Healthy LNG supply

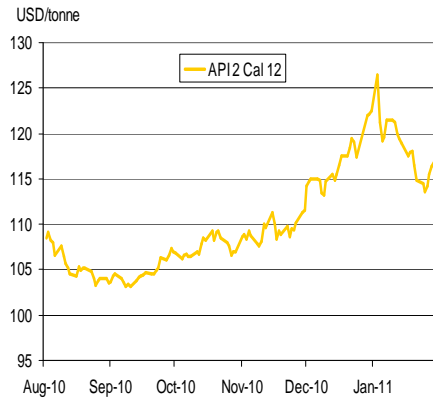


#### Power term markets: Weak start

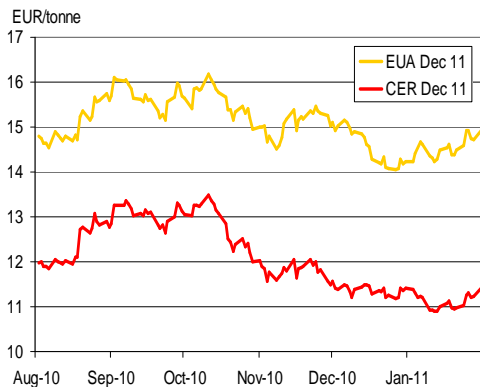


#### CO2

#### Coal Trading: Supply disruptions

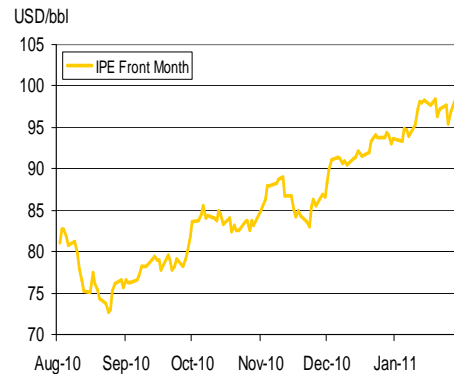


#### Trading: Spot trading disruption



#### Oil Trading: Egyptian turmoils

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



# Commodity Markets at a Glance

## 1. EUROPEAN POWER

### Spot markets: Warm January

Spot prices on European energy markets started 2011 at a lower level than they stood at the end of year 2010. The average Nordic system price went down 12.03 EUR/MWh. The UK followed with 8.64 euro downward move. On average, the Polish spot decreased by 5.83 euro and the German spot by 5.42 euro.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	50.13	69.62	49.31	57.02
Last month av	55.55	81.65	55.14	65.66
Difference	-5.42	-12.03	-5.83	-8.64

#### Continental Europe

German Day-ahead Base opened at 59.86 EUR/MWh on 3 January. Despite low temperatures, the spot prices went down to 47.28 EUR/MWh in the first week during the holiday season. After that, temperatures went up significantly and kept prices down. On average, temperatures in January were 2°C warmer than average. At the end of the month, prices recovered on increasingly cold weather and decreasing wind production forecasts, closing at 61.76 EUR/MWh on 31 January. Precipitation was also below normal in the Alps. As a consequence, Swiss hydro reserves were at record low levels and Germany's exports to Switzerland were comparably high. The daily traded average volume at EPEX Spot increased by 17 GWh to 630 GWh.

The average temperatures in France were 1°C higher than normal. Power plant availability remained unusually high, as in December. Therefore the demand could be mainly met by national power generation. On average, France imported 800 MW from Germany.

In the Benelux market, the year 2011 started on a strong bearish momentum, with significant changes in the temperature forecast compared with the last week of December. The Benelux system mainly followed this trend and spot prices went down severely during the first half of the month to settle at 51.50 EUR/MWh baseload (compared to 59 EUR/MWh mid-December). Germany stayed relaxed during the

month, triggering high imports into the Netherlands. With coal and gas prices coming off as well, marginal costs decreased significantly - another bearish factor for spot prices during the month. Overall, January surprised the market on the downside, as did the start of February on the back of still bearish weather and healthy plant availability.

#### Nordic

The system price came down during January due to warm and wet weather. The month started with warmer than normal weather, after very low temperatures in December. Mid-month temperatures almost reached 6°C above normal and on average January was 1°C warmer than normal. During the first week, the system price stayed above the 80 EUR/MWh level and peaked at 87.43 EUR/MWh on 3 January. Prices headed south thereafter and ended at 62.75 EUR/MWh. In Sweden the nuclear reactors were running, and only one reactor was on reduced output.

During January, the hydrological balance strengthened with approximately 3.6 TWh and inflows were below normal levels. At the beginning of the month, inflows were high. The precipitation outcomes in Norway and Sweden were approximately 16 TWh during January, which is around 110% of normal. Snow and soil water levels strengthened during the month, especially in Norway. Swedish reservoirs stood at 34% of their maximum by the end of week 4 which is 24% lower than normal at this time of the year and much lower than at the end of December. Norwegian reservoirs stood at 37% of their maximum, which is 26% lower than normal. The natural storage, the snow and soil water storage, shows a large deficit in both Norway and Sweden, but the deficit is expected to decrease during the coming week.

#### Poland

January was rather warm in Poland, with the average temperature 1°C above the normal level and 6°C above January 2010. Weather conditions led to lower demand. Demand decreased by almost 3% and the supply margin was down by 6% year on year. The average price for baseload amounted to 47.08 EUR/MWh, representing a 2% decrease year on year. The peak price fell by 3%. The overall price

# Commodity Markets at a Glance

decrease was triggered by lower demand and healthy supply. Polish spot prices were significantly lower than the spot in Sweden (on average by 22.54 EUR/MWh) and also compared to other CEE countries (by 4.31 EUR/MWh lower compared to Czech Republic, and 0.75 EUR/MWh lower compared to Germany). This resulted in substantial energy exports to linked power systems.

## UK

UK Day-ahead Base opened at 58 EUR/MWh and closed at 54.59 EUR/MWh. After an exceptionally cold start to the winter, temperatures came up for the first time in two months. This triggered a drop in prices as dangerously low stock levels of gas were replenished through spot purchases and low demands. Nuclear availability remained good, as did the availability of other fuels, resulting in low sparks and a generally depressed market. At the end of the month, some colder temperatures started to appear on the horizon, which injected a more bullish sentiment.

## ***Term markets: Weak start***

On the power term markets, prices decreased throughout January. In Poland the downward move was slightly delayed and started mid-month.

## Germany

After low trading volumes and high prices in December, the German Cal 12 reached a high of 53.99 EUR/MWh on 11 January 2011. Prices decreased thereafter down to 51.65 EUR/MWh together with commodity prices. However, as can be derived from rising trading volumes of averagely 1,500 MWh per day, the market started the new year with new impetus. In the last week of the month, prices recovered slightly from 50.84 EUR/MWh on 25 January to 51.65 EUR/MWh until the end of the month, on the back of rising commodity prices.

The Dutch Cal 12 contract followed this bearish trend and shed around 3 EUR/MWh throughout the month. As a consequence of a stronger spread between the Netherlands and Germany in delivery, the Netherlands/Germany Cal 12 spread bounced back

at the end of the month to trade above 0.50 EUR/MWh again.

## Nordic

Prices for most contracts decreased throughout the month. Contracts further out on the curve lost less than the front contracts. The weather change had a large impact after six really cold and dry weeks. The market opened straight down on 3 January on the back of warmer and wetter weather forecasts. The Quarter 2/2011 contract decreased from 63.77 EUR/MWh on 30 December to 50.55 EUR/MWh (-13.22 euro) on 31 January. The Nordic Cal 12 closed at 46.35 EUR/MWh, 4.60 euro lower than on to the last day of December.

## Poland

Liquidity on the term market was healthy, with 692 MW of February 2011, 393 MW of March 2011, 225 MW of Quarter 2/2011 and 270 MW of Cal 12 traded in January. In the middle of January, the Polish Monetary Policy Council decided to raise interest rates by 0.25% giving minor bearish potential for term products. Cal 12 traded downwards until the end of January to 50.77 EUR/MWh. Mild weather forecasts for February resulted in a February 2011 product price decrease. At the end of January, it was traded at 48.79 EUR/MWh. The other mostly liquid products, March 2011 and Quarter 2/2011, also decreased in price.

## UK

The curve followed the depressed spot and gas markets. Margins got tighter for sparks and darks, and switching levels were hit for the front month too, with such strong coal prices knocking gas off the margin. Summer 11 started the month trading at 57.36 EUR/MWh and moved down to 53.71 EUR/MWh. Sparks continued to slide, with some weaker fundamentals pushing down.

The Winter 12/13 contract started at 61.57 EUR/MWh, largely followed the Summer contract closing at 58.09 EUR/MWh.

# Commodity Markets at a Glance

## 2. CO2 TRADING: Spot trading disruption

**The theft of European Union Allowances (EUA) led to spot trading suspension for over a week.**

Prices for European Union Allowances (EUA) opened at 14.22 EUR/tonne. Despite decreasing commodity prices, CO2 prices went up to 14.93 EUR/tonne until the end of the month. As spot trading was suspended for several days, traders showed increased interest in forward-traded products. The EUA future contracts trading volume on the European Climate Exchange went up by 7% year on year.

Prices for Certified Emission Reductions (CER) initially went down on a record issuance of certificates. Mid-month, CER prices reached a low of 10.89 EUR/tonne on 13 January due to uncertainty regarding EC restrictions on specific industrial CER offset types. The spread between EUAs and CERs increased throughout the month to 3.52 EUR/tonne on the 31 January.

## 3. GAS TRADING: Healthy LNG supply

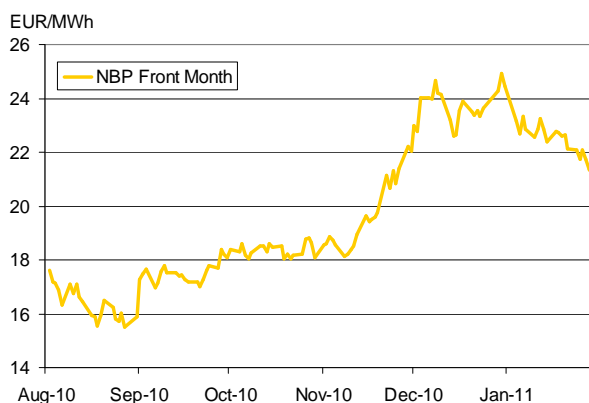
**Healthy supply – especially of LNG – drives prices down in January.**

The NBP front month contract (February) opened at 23.16 EUR/MWh and gradually declined until reaching its low point on the last trading day at 20.98 EUR/MWh. Supply was very healthy, in particular of LNG, which accounted for between 20% and 25% of daily supply. The previous bullish sentiment on the back of depleting storage facilities quickly disappeared as withdrawal rates declined.

On 26 January Statoil announced that Norway's biggest gas field, Troll, had reduced its production capacity due to short-term repair work, driving up the NBP within day contract. LNG volumes remained strong with more than 20% of the UK's supply being met by LNG send-outs taking down the within day contract from its high as it became clear to the market that the system coped well even without Norwegian supply.

The NBP front summer traded down from 21.41 EUR/MWh to 20.36 EUR/MWh until the end of the month, following movements in the prompt market.

## NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

## 4. COAL TRADING: Supply disruptions

**Floods throughout the main coal production regions worldwide continued in January.**

Following last month's surge in prices, European coal prices corrected downwards as demand weakened largely on the back of weather returning to relatively normal levels. Prices began on a bullish run as the supply disruptions continued to occur in the main coal-producing regions, with the floods in Queensland which had a number of producers declaring force majeure being the main catalyst. It is estimated that 5 million tonnes of thermal coal exports were lost. Prices then headed south fuelled by weakened demand in Europe, weakened gas and power prices and the lack of fresh fundamental news. Prices staged a recovery in late January on the back of heavy rain in Richards Bay, South Africa, where 31 rail wagons derailed and prevented around 0.7 million tonnes from being delivered to the port, which was already critically low in stocks. Adding to this price recovery were Cyclone Anthony and Cyclone Yasi which threatened an already precariously supplied Queensland. There was a threat of strike action at the Cerrejón mines in Colombia, which would limit a lot of supply into Europe. Russian rail authorities raised coal tariffs by 8%, adding roughly 3 US dollar to production costs and lastly, Indonesia stopped several Panamax vessels from leaving Kalimantan

# Commodity Markets at a Glance

because the authorities have not yet signed a regulation legalising pure trading and sales.

## 5. OIL TRADING: Egyptian turmoils

**The market managed to open higher in January as political risk moved to the fore.**

Buoyed by strong demand growth in BRIC countries and a cold start, the winter fundamentals are still looking reasonable for most refined products. OPEC has increased deliveries under its term contracts which is depressing the front-end crude spreads. Altogether, fundamentals have become a bit more mixed in January, with products looking stronger and crude looking weaker.

What has buoyed the markets is the political events in Egypt and the perception that this might spill over to other Middle Eastern countries. With the deteriorating situation in Tahrir Square oil moved through the 100 USD/bbl level towards the end of the month.

## 6. FX TRADING: Euro recovery

**The EUR/USD exchange rate strengthened throughout January.**

After reaching a low of 1.29 EUR/USD on 10 January, the EUR/USD exchange rate went up to 1.37 EUR/USD until the end of the month.

The euro strengthened after a well received debt issuance from Spain and Portugal. Hawkish

statements from Trichet, President of the European Central Bank, and a higher inflation in the Eurozone brought a first rate hike forward, which further supported the euro.

The British pound lost against the euro and the US dollar after the publication of poor UK GDP data for Quarter 4 2010.

At the end of January, Japan was slightly downgraded to AA- by the rating agency Standard & Poor's for the first time in nine years, which roiled the currency markets.

Worries over the geopolitical tensions in Tunisia and Egypt and their contagion effects drove U.S. short-term rates lower.

**Exchange Rate EUR/USD**



Source: Vattenfall Energy Trading

# Commodity Markets at a Glance

## 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
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 Emissions 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 <sub>2</sub> O project	CDM Project to reduce Nitrous Oxide (N <sub>2</sub> 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

---

## PUBLISHED BY

VATTENFALL ENERGY TRADING

E-Mail: [trading@vattenfall.de](mailto:trading@vattenfall.de)

---

## General Conditions of Use

*Vattenfall will use reasonable efforts to provide updated, accurate and complete information in this document. Vattenfall makes no representations or warranties for the quality, correctness, up-to-dateness, availability and/or completeness of the information voluntarily provided. Vattenfall may make changes or amendments to the information voluntarily provided in this report or even terminate the publication, at any time, without prior notice. Vattenfall shall not be liable for any direct or indirect loss of property or financial loss, including loss of profit, caused by the use or non-use of the information made available in this document, nor any other damages connected to the information available in this document in any other way, unless Vattenfall or its employees or its agents can be proven to have acted intentionally with regard to the cause of damage.*