

# Commodity Markets at a Glance

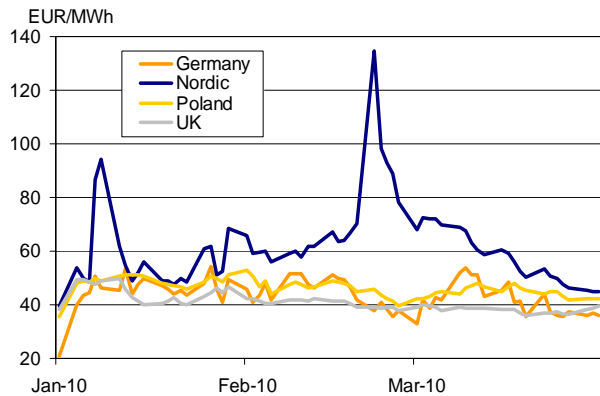
March 2010

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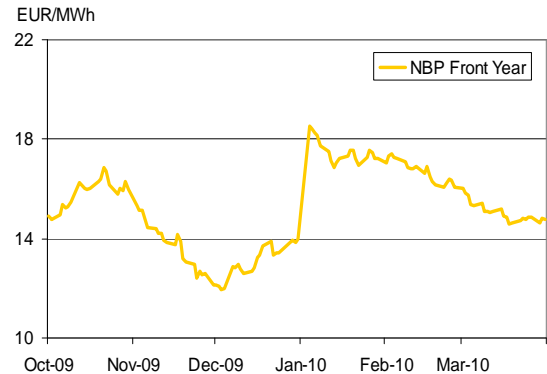
## Market Letter by Vattenfall Energy Trading

### European Power

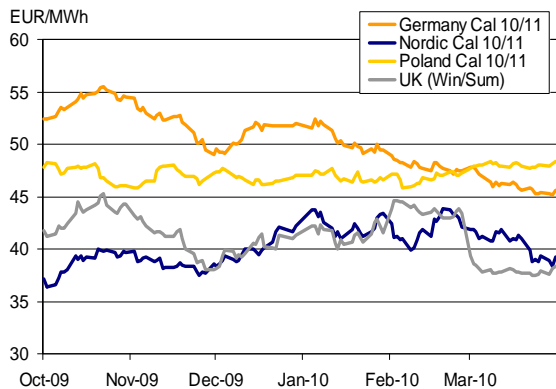
#### Spot markets: Nordic market back to normal



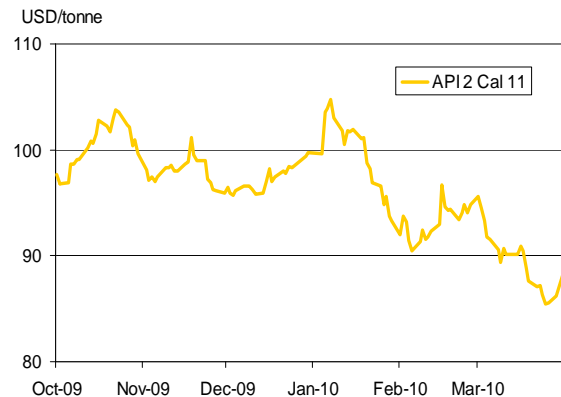
#### Gas Trading: End of winter season



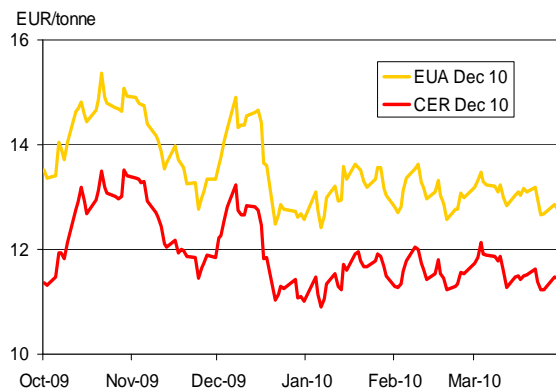
#### Power term markets: Poland overtakes Germany



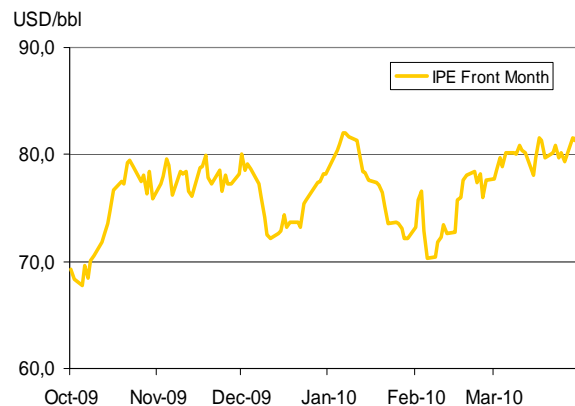
#### Coal Trading: Declining demand



#### CO2 Trading: Continuous sideways channel



#### Oil Trading: Up on equities



# Commodity Markets at a Glance

## 1. EUROPEAN POWER

### **Spot markets: Nordic market back to normal**

In March, prices on European spot markets traded on an overall lower level than in February. The Nordic market showed the biggest loss in average spot prices of 11.90 EUR/MWh compared to the previous month. On average, German prices lost 2.54 EUR/MWh, while UK prices decreased 2.49 EUR/MWh. Polish prices showed the slightest difference with a loss of 0.73 EUR/MWh compared to the average of February.

	Germany	Nordic	Poland	UK
Current month av	39.19	57.02	44.78	37.76
Last month av	41.73	68.92	45.51	40.25
Difference (EUR/MWh)	-2.54	-11.90	-0.73	-2.49

### **Continental Europe**

Day-ahead Base opened at 32.38 EUR/MWh on 1 March. In the beginning of the month, prices went up to 54 EUR/MWh on 9 March on 3°C lower than average temperatures. In the second half of the month, the spot continuously decreased on milder temperatures and less demand. Average wind production was 5,600 MW throughout the month. Day-ahead Base went down to 36.17 EUR/MWh on 31 March. The German daily traded average volume on EPEX Spot decreased by 5 GW to 552 GW.

Temperatures in France were 4°C lower than normal in the first half of the month. Overall, France imported 800 MWh on average from Germany in March to meet demand. Milder temperatures in the second half of the month, however, resulted in power exports to Germany. On average French Day-ahead Base traded at 44.65 EUR/MWh throughout the month.

The Netherlands exported to Belgium and France, particularly in the beginning of March due to the lingering cold weather conditions in the French market. Healthy power production in the Benelux market on the back of lower gas prices resulted in off peak exports to Germany. A failure of the Norded cable impeded exports to the Nordic market and prevented a stronger increase in prices. The average spot price was delivered at 39.05 EUR/MWh in

Holland (0.14 euro below Germany) and 39.60 EUR/MWh in Belgium.

### **Nordic**

Throughout March, the Nordic system price turned south as temperatures returned to more normal levels. March was the first month since November 2009 that was warmer than normal, with the average temperatures at 0.3°C above normal for the NordPool area. The average system price in the first week of March was 70 EUR/MWh and came down to 44.70 EUR/MWh in the last week of the month, despite continued delays of several power plants. Inflows were below normal during the month, while the hydrological balance strengthened due to slightly more precipitation than on average. The precipitation outcomes in Norway and Sweden were approximately 13.2 TWh during March, which is 107% of normal. Swedish reservoirs stood at 14.5% of maximum by the end of week 12 which is 17.2% lower than normal for this season. Norwegian reservoirs stood at 28.5% of maximum, which is 13.3% lower than normal. The natural storage, the snow- and soil water storage, continued to show an even bigger deficit, especially in Norway. The Nordic daily traded average volume decreased by 129 to 906 GW.

### **Poland**

The Polish spot price opened at 42.37 EUR/MWh on 1 March. Day-ahead Base traded on a higher level than in its neighbouring countries throughout the month and peaked at 48.08 EUR/MWh on 17 March. The average monthly temperatures accounted for 3°C, which was marginally lower than the normal historical outcome. In the first half of the month, temperatures were below average and rose above normal in the second half. Demand increased for the fourth month in a row and rose by 3% compared to March 2009. Poland kept its net exporter status with about 160 GWh sent out. However, exports declined more than 50% on a year-on-year basis, mainly because of negative German-Polish spreads.

### **UK**

UK Day Ahead base opened at 39.03 EUR/MWh on 1 March. The main fundamentals throughout the

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month were the warmer temperatures and the reduced demand, which supported the price decrease. After falling below 35 euro on 20 March, the UK spot picked up to flatten out during the last week. The up move was mainly assisted by an unexpected plant outage at Sizewell Nuclear reactor (the UK's Flagship Plant). Day-ahead base closed at 39.56 EUR/MWh on 31 March.

## ***Term markets: Poland overtakes Germany***

Prices in the German and Nordic term markets decreased, while the Polish prices increased above German levels throughout March. The UK market traded flat before season ending.

### **Germany**

Since the beginning of 2010, the German term market has traded down. Cal 11 opened at 47.80 EUR/MWh on 1 March and traded downwards thereafter on the back of decreasing gas and coal prices. The relatively low spot prices in Germany also had a bearish impact on the term market. Cal 11 closed at 45.60 EUR/MWh on 31 March, which was 1.90 EUR/MWh lower than on the last of February.

### **Nordic**

The Nordic Cal 11 opened at 41.85 EUR/MWh on 1 March. All front contracts decreased considerably throughout the month. A slightly stronger hydrological balance and a much lower system price had a weakening effect on the term market. On 31 March Cal 11 closed at 39.20 EUR/MWh, which was 2.9 EUR/MWh lower compared to the last of February.

### **Poland**

On 1 March, Polish Cal 11 opened at 47.72 EUR/MWh and moved slightly up throughout the month. The up move was supported by a stronger PLN against the euro. Already in the beginning of the month, German prices decreased below the Polish price level and reversed the spread between Germany and Poland from slightly positive to -2.50 euro. Reasonable liquidity and price movements on the term markets were only perceived in the front-end

part of the curve, while the back-end was uneventful. Prices for April 2010 increased throughout the month and finished at 43.47 EUR/MWh, which was 3.31 euro higher than in the previous month. Quarter 2 2010 expired at 43.85 EUR/MWh and gained 1.98 euro. Cal 11 closed at 48.36 EUR/MWh, which was 1.09 euro higher than the last of February.

### **UK**

UK prices for Summer 2010 opened at 39.31 EUR/MWh on 1 March, while Winter 10/11 started at 45.11 EUR/MWh and went slightly down thereafter. Both contracts ended just below where they started the month. The Summer 2010 contract closed at the end of March at 38.32 EUR/MWh and the Winter 10/11 traded down to 43.70 EUR/MWh. Both contracts shared the bearish sentiment that could also be seen on the spot market in the beginning of the month. The driver along the curve has been the gas on the off peak and the coal on the peak with the French prices taking a back seat.

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## 2. CO2 TRADING: Continuous sideways channel

### CO2 market is waiting for signals giving direction.

Since the beginning of 2010, prices of European Union Allowances (EUA) remained in a sideways channel between 12.60 and 13.80 euros. On 1 March, CO2 prices opened at 13.19 EUR/tonne. EUAs with delivery in December 2010 lost slightly throughout the month, closing at 12.90 EUR/tonne on 31 March. Without clear market signals, participants kept their observant attitude and prices did not break out of the channel. Volumes traded at ECX in March decreased and were just above 240 million tonnes, compared to 288 million tonnes traded in February. Prices for Certified Emission Reductions (CER) slightly detached themselves from the development of EUAs. A potential risk of used CERs coming back into the ETS trading scheme led the CER discount to widen and subsequently the energy exchanges to close CER market places due to uncertainty. Towards the end of the month, CO2 exchanges reopened CER markets again with certain restrictions for market participants.

## 3. GAS TRADING: End of winter season

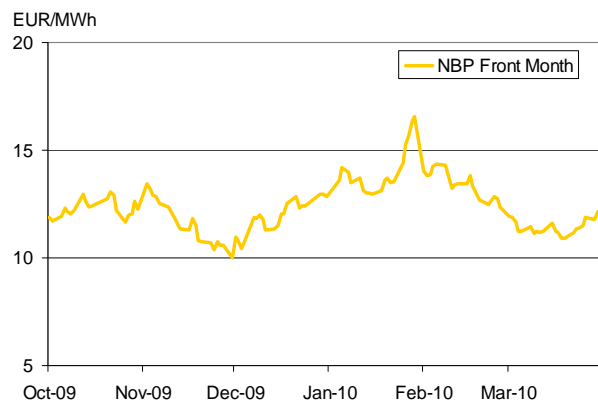
### Milder temperatures had a weakening effect on gas prices in March.

The NBP front month opened at 11.91 EUR/MWh on 1 March. In the beginning of the month, gas prices decreased to 10.92 EUR/MWh on 18 March on the back of less heating demand. To some extent, the decrease in demand was compensated by storage injections starting mid-March and gas-based power generation. This led to gas imports from Continental Europe. Gas purchases by banks at the end of the month supported the upmove of gas prices until 12 EUR/MWh on 31 March.

The NBP front year started at 16.02 EUR/MWh on 1 March and went continuously down to 14.75 EUR/MWh until the end of the month. Throughout March gas was rather decoupled from the oil prices.

Gas prices were mitigated throughout March by warmer weather and the expectation of further increasing temperatures.

### NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

## 4. COAL TRADING: Declining demand

### Coal prices weaken throughout March with a slight up move at the end of the month.

API2 Cal 11 opened at 95.59 USD/tonne on 1 March and went down to 88.20 USD/tonne until the end of the month. Demand for European coal contracted heavily on the back of competitive gas prices, high stockpiles and depressed dark spreads. European prompt prices hovered around the 70-75 dollar mark finding support from Colombian and Russian production costs. South African coal continued to be attractive for Indian and Far Eastern buyers, causing the front-end of the curve to firm, further pegging API 4 above API 2. The implied freight traded at a discount of around 5-10 dollar all month. On the Pacific side, prompt FOB Newcastle prices firmed in March, edging closer to 100 USD/tonne, despite a lack of buying interest from China. Prices increased on the back of a strong coking coal market, relatively low stockpiles and constrained throughput from Australia as a result of the tropical cyclone Ului. Chinese demand for overseas coal declined as a result of falling domestic prices and relatively high stockpiles, effectively reducing the need for expensive imported coal, especially from Australia.

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## 5. OIL TRADING: Up on equities

**Oil prices continued the uptrend in March that had already started in February.**

IPE Brent Oil opened at 77.68 USD/bbl on 1 March and went up thereafter. Strong economic data had a positive effect on equities and oil. The refinery maintenance that started in March and hence the stronger refinery margins supported the up move of the front month. The ongoing discussion about the long-term effect of Greece's debts on the euro also had a strengthening effect on oil prices. The front month broke through the 80-dollar-level early in March and closed at 82.12 USD/bbl at the end of the month.

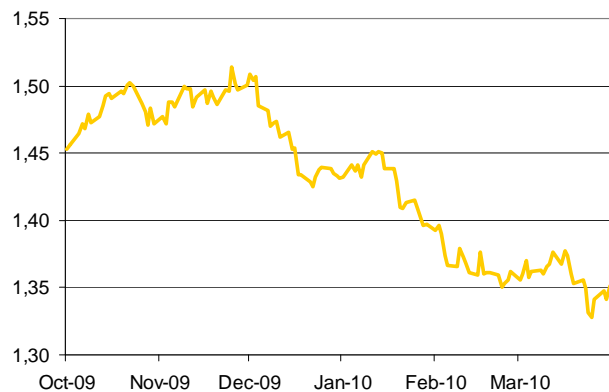
## 6. FX TRADING: Weakening Euro

**Overall the EUR/USD exchange rate went down throughout March on the back of a weaker euro.**

On 1 March the EUR/USD exchange rate opened at 1.36 EUR/USD. Overall the exchange rate lost throughout March and fell below 1.35 EUR/USD in the second half of the month. The complexity of

refinancing Greece's debt and the discussion about the respective involvement of Germany, France and the IMF had a weakening effect on the euro. The British Pound also lost throughout March impaired by the fastest growing Debt/GDP ratio amongst the western AAA-rated countries and the upcoming election. Pressure has been mounting on the Obama administration to take action against China for undervaluing its currency. The dollar slightly lost at the end of March and supported the upsurge of the exchange rate to 1.35 EUR/USD.

### **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
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.
GDP	Gross Domestic Product
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
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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VATTENFALL ENERGY TRADING

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

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