

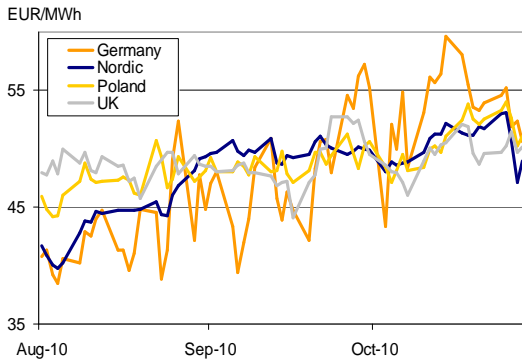
Commodity Markets at a Glance

October 2010

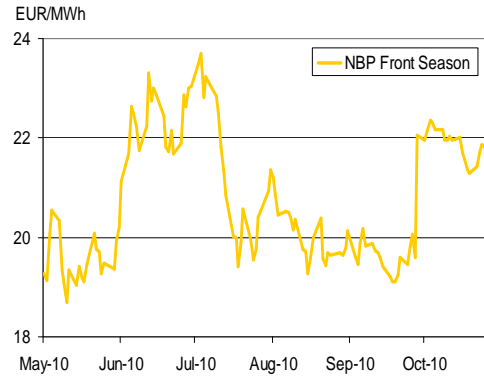
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Market Letter by Vattenfall Energy Trading

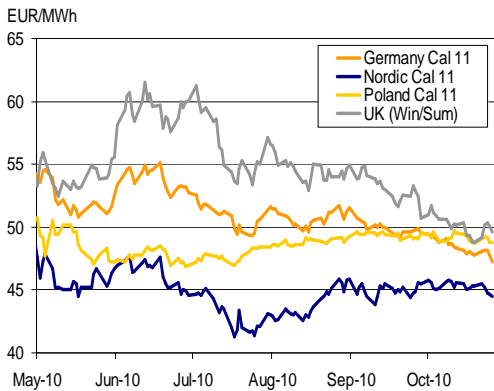
European Power Spot markets: Cold Snap



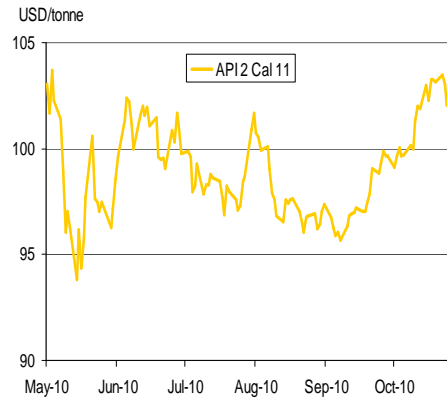
Gas Trading: New gas year



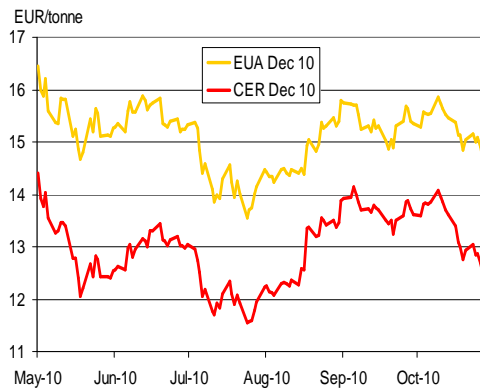
Power term markets: Price decline



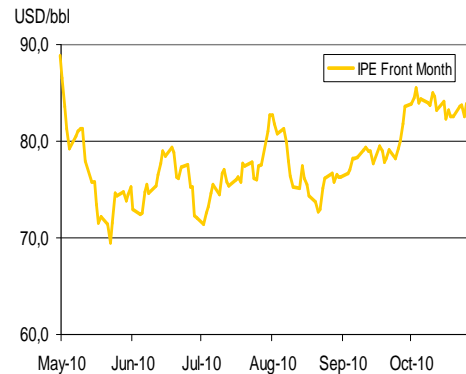
Coal Trading: Six-month high



CO2 Trading: Increasing EUA-CER spread



Oil Trading: Improved economic sentiment



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

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1. EUROPEAN POWER

Spot markets: Cold Snap

Spot prices on most European energy markets went up throughout October. The German spot price increased by 3.80 EUR/MWh compared to average September levels. The Polish spot rose 1.87 euro and the Nordic system price 0.29 EUR/MWh on average. Only the UK spot decreased by 1.06 EUR/MWh.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	49,66	49,66	50,03	47,82
Last month av	45,86	49,37	48,16	48,88
Difference	3,80	0,29	1,87	-1,06

Continental Europe

German Day-ahead Base started at 55.24 EUR/MWh into October. Spot prices traded from a low of 43.38 EUR/MWh on 4 October to a high of 59.66 EUR/MWh on 15 October. Despite high precipitation, run of river production was normal. Due to low temperatures, precipitation partly resulted in snowfall in the Alps. Low power plant availability supported the spot. The up move was tempered by a strong wind production that averaged at 5,400 MW. The daily traded average volume at EPEX spot increased by less than one GW to 578 GW.

French spot prices spiked in the middle of the month. Cold weather, maintenance outages and strikes supported the up move. On average, France imported 1,700 MW from Germany.

The bullish development on the French market along with a struggling return of a nuclear plant (Tihange) in Belgium kept the Belpex prices high. In Holland, the APX completely decoupled from its neighbours and cleared at a relatively low level of 51.99 EUR/MWh.

Nordic

The system price was relatively stable throughout the month until it dropped from over 50 EUR/MWh to 47.10 EUR/MWh on 28 October. At the end of the month, high price area differences of over 35 euro occurred. Area prices for Sweden, Finland and Eastern Denmark increased above 85 euro for a couple of hours on October 26. High consumption in

combination with low nuclear availability pushed the Swedish, Finnish and Danish prices up, while Norwegian producers kept the Norwegian and system price down. The month was slightly colder than normal, with a cold spell in the beginning and the second half of the month (-6°C below normal). In Sweden the problems to restart the nuclear reactors after yearly maintenance continued. 54% of the Swedish nuclear capacity was still offline due to maintenance on October 31.

During October, the hydrological balance weakened by approximately 3 TWh. Inflows exceeded normal levels for a couple of days in the beginning of the month, but they rapidly decreased due to lower than normal precipitation and temperatures. The precipitation outcomes in Norway and Sweden were approximately 18 TWh during October, which is around 90% of normal. Norway received almost 95% of normal precipitation, but in Sweden the month was much drier than normal. Swedish reservoir levels were 15% lower than normal at this time of the year and much lower than at the end of September. Norwegian reservoir levels were 18% lower than normal. The deficit in the Norwegian snow- and soil water storage decreased compared to previous months.

Poland

Polish Day-ahead Base opened at 50.66 EUR/MWh and went up over 53 euro in the second half of the month. The weather was predominantly cold and sunny, with temperatures 1°C below normal and cloudiness of 4.7 on an 8-degree scale. Monthly demand increased by less than 1% year-on-year. At the same time, the minimum supply margins were hovering on low levels during the whole month as there were many power plant outages. The tight situation influenced the spot and balancing market and caused some price spikes. The spot closed at 51.04 EUR/MWh on 29 October.

UK

UK Day-ahead Base opened at 50.66 EUR/MWh. Prices went slightly up in the second half of the month, when liquidity got stronger. The average baseload on business days traded at 48.22 EUR/MWh. There was an increase in power plant

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availability, which was countered by an increase in demand as colder weather arrived. UK spot closed at 51.04 EUR/MWh at the end of the month.

Term markets: Price decline

After a sideways trend in September, prices on most European term markets traded south in October. Decreasing trading volumes showed that activities on the market remained low.

Germany

The German Cal 11 decreased from 49.55 EUR/MWh to 47.28 EUR/MWh until the end of the month. Prices went down on the back of falling long-term gas prices and the power front month contract. Dark spreads also weakened as coal prices rose and the US dollar decreased. This put further pressure on the power term markets. The daily traded volume at EEX continued to decrease to 1,100 MW.

The Benelux forward market also declined steadily throughout the month, with continuously lower weekly closes. The Dutch-German spread remained relatively stable, with Dutch prices slightly above the German.

On the other border, the Belgian prices rallied over 1 euro higher than the Dutch spot, reflecting the larger spreads seen in the prompt market.

Nordic

Most contracts decreased during the month, but further out they decreased a little less than the front contracts. The market came up slightly at first on cold and dry weather and most of the contracts reached their monthly high on 12 October. Then they turned south on wetter and warmer forecasts. The Quarter 1/2011 contract peaked on 12 October at 52.05 EUR/MWh and closed at 48.80 EUR/MWh on October 29. The Nordic Cal 11 closed at 44.45 EUR/MWh, which was 1.14 euro lower compared to the last of September.

Poland

In October, liquidity on the whole term market was very healthy with only some price falls on the back-end products. The increase in liquidity was a result of

obligatory trade via power exchange that started in August. The October 2010 contract finished at 48.14 EUR/MWh (-0.13 euro), while Quarter 1/2011 traded at 48.79 EUR/MWh (-0.48 euro) by the end of the month. Cal 11 declined slowly from 49.54 EUR/MWh to 48.81 EUR/MWh (-0.64 euro).

UK

UK prices for the Summer 11 contract opened at 50.67 EUR/MWh. Prices traded down to 49.65 EUR/MWh on 29 October. Liquidity picked up along the curve, while margins decreased as some efficient new CCGTs entered the market. The Winter 11/12 started at 51.12 EUR/MWh and largely followed the Winter contract.

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2. CO2 TRADING: Six-month high

Prices for European Union Allowances (EUA) remained in the 14.50–16 EUR/tonne range.

EUA prices started strong and increased from 15.35 EUR/tonne to a high of 15.85 EUR/tonne on 11 October. In the second half of the month, prices started to falter and slid back down to 15.65 EUR/tonne until the end of the month. Decreasing gas and power term prices assisted the downward motion. The daily traded EUA future contracts volume on the European Climate Exchange was below the October 2009 level.

Prices for Certified Emission Reductions (CER) declined slightly stronger than EUA prices in the second half of the month. The ongoing discussion on qualitative restrictions and insecurity about future development of CER-related projects limited the interest in these certificates. As a consequence, the spread between EUAs and CERs increased from 1.70 to 2.20 EUR/tonne until the end of the month.

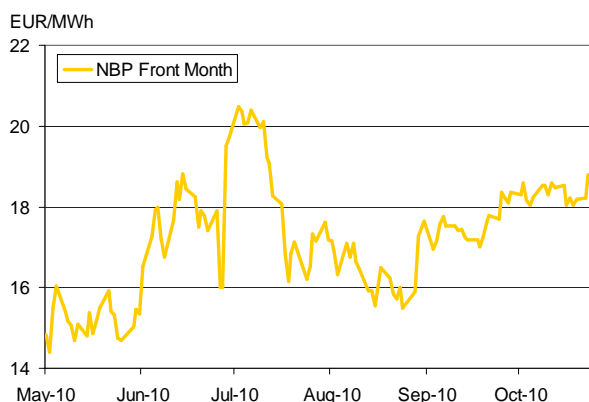
3. GAS TRADING: New gas year

Short-term gas prices increased, while the long-term prices went slightly downwards.

The NBP front month contract opened at 18.37 EUR/MWh and finished at 18.09 EUR/MWh after a late sell-off just at the close. The 1 October was the start of the “new gas year”, with market participants eagerly watching the supply flows as the winter period started. Long-term contracts were reset and new Take or Pay volumes came into play. October also saw a record daily volume of 59 mcm exported to Europe through the Interconnector and a record send-out of UK LNG (peak 90 mcm) to the NBP.

The NBP front summer started high into the new gas year. It traded in a range between a high of 22.36 EUR/MWh on 6 October and a low of 21.30 EUR/MWh on 22 October. The month was overall defined by a price decrease and closed at 21.61 EUR/MWh.

NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

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4. COAL TRADING: Six-month high

Coal prices went up on a global scale supported by a weaker dollar.

European coal prices rallied this month to a two-year high with a weakening US dollar playing a significant part in the upside impetus. Quarter 4/2010 prices closed the month at 104.15 USD/tonne, up 7.75 USD/tonne from September and the API2 Cal 11 closed up 3.64 dollar higher at 103.32 USD/tonne. FOB Richards Bay prices followed suit with an up move of Quarter 4/2010 prices of 9.30 USD/tonne month-on-month to 99.60 USD/tonne and the Cal 11 up 4.65 USD/tonne to 99.30 USD/tonne. API2 prices disconnected from the German Power Cal 11 with a correlation of 0%. In previous months the correlation was as high as 85%. Much of this decline can be attributed to the weaker US dollar against the Euro. Also of importance is the intermittent Indian demand for South African coal and the continued narrowing of the clean dark spreads.

Newcastle prices also firmed this month with the Quarter 4/2010 gaining 8.50 USD/tonne to 105.00 USD/tonne and the Cal 11 gaining 5.95 USD/tonne to 104.45 USD/tonne. Continuous strong demand from China and supply disruptions in Indonesia provided much of the support.

5. OIL TRADING: Improved economic sentiment

Oil prices traded on a higher level than in September but decreased slightly throughout the month.

In the first few days of the month, Brent front month increased from 83.58 EUR/MWh to a high of 85.52 EUR/MWh on 6 October. Good Chinese demand and growth numbers as well as more available funds for Quarter 4/ 2010 helped a more positive economic sentiment. The prices of oil products in Europe (mainly gasoline and diesel) were supported by the French refinery strikes. However, oil prices closed at

83.22 EUR/MWh, which was 0.37 euro below their opening price.

6. FX TRADING: German economic recovery

The US Dollar continued on its downward slide dating back to June, but recovered at the end of the month.

In October, key economic data began showing signs of stabilisation in the U.S. economy. This caused investors to begin questioning whether the Federal Reserve will really go forward with another round of Quantitative Easing. After a Federal Reserve speech, measures were still unclear and the dollar found support in the last week of the month.

With its foreign exchange reserves China has already bought and intends to buy new Greek bonds. The Asian commitment challenges confidence in solidarity in the eurozone. The Ireland downgrade put further pressure on the euro. However, the currency was supported by overall strong German data throughout the month.

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
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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