Commodity Markets at a Glance

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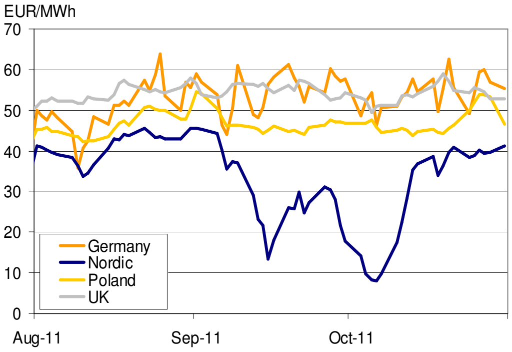
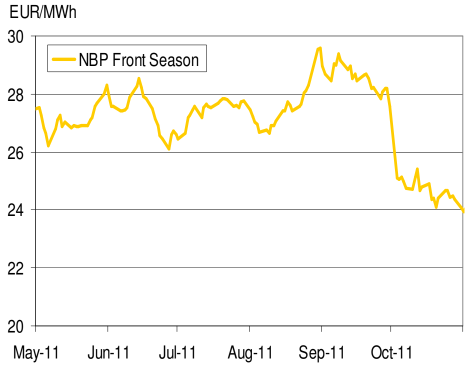
Market Letter by Vattenfall Energy Trading

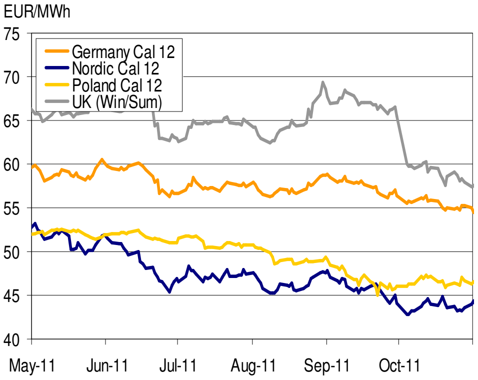
European power spot markets: Soft closings amid warm weather



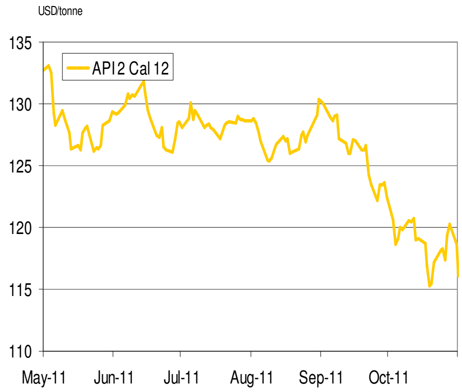
Gas Trading: Front season declines, prompt stronger



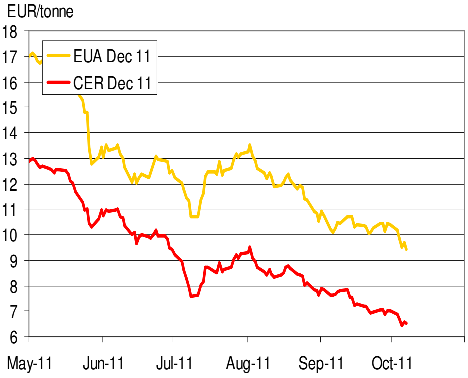
Power forward markets: Mixed picture in Europe



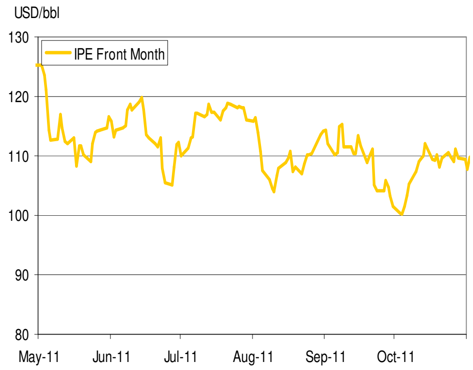
Coal Trading: Prices fall on weakening economy



CO_2 Trading: Further decline on weak economy and commodities



Oil Trading: Oil finds some support



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

Commodity Markets at a Glance

1. EUROPEAN POWER

Spot markets: Soft closings amid warm weather

Spot prices in Europe once again declined, mostly on the back of good supply and comparatively warm temperatures. In Germany, the Nordic countries and Poland, the spot lost about 1 EUR/MWh. Polish prices firmed slightly as demand increased and the maintenance level was high.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av.	51.65	27.95	46.99	53.80
Last month av.	52.64	28.94	46.66	54.57
Difference	-0.99	-0.99	0.32	-0.77

Continental Europe

The German spot market lost further value in October. On average, day-ahead baseload lost almost 1.00 EUR/MWh from September and traded around 51.65 EUR/MWh. Prices were mainly dragged down by warm temperatures and healthy supply. October temperatures averaged at 12.1ºC, which is 1.5 degrees above a five-year average. The supply situation was good, both from conventional and renewable energies. Reaching 5,300 MW, production from wind turbines was 1,500 MW above average and also solar power gained on the back of increasing installed capacity, adding 4,600 MW supply during peak hours. Therefore, for the first time since the moratorium, Germany exported up to 4,000 MW peak power to France. The healthy supply situation from renewable resources also dampened both dark and spark spreads. It was not until the end of October, when day-ahead base gained in expectation of lower temperatures. While the contract had opened at 41.91 €/MWh in the beginning of the month, it closed at 55.34 €/MWh on 31 October.

In the Netherlands, October delivered overall on the low side, around 52 EUR/MWh for base, which is 5 EUR below day-ahead market values. The lower clearing was triggered by healthy renewable power in Germany and good power plant availability across Europe. The risk premium of the October contract, which was previously based on expectations of tight supply and colder temperatures had faded away week after week as the weather remained bearish. Holland exported power to Germany during working days and imported during the week-end. Healthy flows from France through Belgium, as well as from the UK and Norway, helped to keep the Dutch system balanced throughout the month.

Nordic

While the first ten days of the month were very wet and inflows were extreme, the hydro balance weakened towards the end of October. The system price came down to 6 EUR/MWh in the beginning of the month but it increased after a period with less precipitation than normal, reaching over 30 EUR/MWh in the middle of the month. In combination with low nuclear output in Sweden, prices even reached the 40-EUR-level at the end of October. During October, the nuclear output in Sweden increased from 40% to 65% at the end of the month and in Finland all plants were running.

The precipitation outcomes in Norway and Sweden were approximately 17.8 TWh during September, which is approximately 3 TWh less than normal. Swedish reservoirs stood at 90.4% of maximum by the end of week 44 which is almost 9% above normal. Norwegian reservoirs stood at 88% of maximum, which is 0.2% lower than normal. The warm month has kept reservoir fillings high but snow and ground water levels are much lower than normal.

Poland

Temperatures in Poland averaged at 9ºC, about 3ºC above October 2010. Despite this, the domestic demand increased by 1%. In combination with a higher maintenance level, the average day-ahead baseload on the Polish Power Exchange amounted to 204.01 PLN/MWh, representing a 3% increase year-on-year and a 1% increase month-on-month. However, as the Polish Zloty lost against the Euro, Polish spot prices decreased year-on-year when nominated in Euro, averaging at 46.99 EUR/MWh.

Export to the Czech Republic, Slovakia and Germany was only about 600 MW per day despite lower price levels (more than 4 EUR below Czech and German prices). Import from Scandinavia would have been profitable but was cut on the back of very high hydro

production combined with nuclear power plants maintenance in Scandinavia.
The average balancing market outcome was higher than in the previous year as there were some price spikes resulting from the high maintenance level and high demand.

UK
October started with very low spot gas prices resulting in low power quotations. The return of 1 GW on the IFA cable, connecting the French and British transmission systems, was delayed until the end of October. Additional outage on the other 1 GW IFA pole and the BritNed cable put further pressure on spot prices during the first half of October. However, in the second half, gas prices recovered and also lifted spot power settlements. Due to the high dark spreads and 2.2 GW nuclear power plants returning from maintenance, the dirty spark spread, the relation between gas input price and power output price excluding the CO_2 factor, was under pressure the second half of October. The October power contract traded last at 57.50 EUR/MWh and settled about 3.75 EUR lower at 53.75 EUR/MWh at the N2EX, one of the UK power exchanges.

Commodity Markets at a Glance

Forward markets: Mixed picture in Europe

While Continental and UK forward power prices were soft in October, Nordic prices gained following drier weather forecasts.

Continental Europe

The German Cal 12 trading continued its lacklustreness and weak prices from the previous month. The contract opened at 55.51 EUR/MWh on 4 October and closed at 54.98 EUR/MWh at the end of the month. On average, Cal 12 ranged 2.00 EUR/MWh below the previous month's value even reaching pre-Fukushima levels on the back of weak macro-economic, the Euro debt crisis and a weak German spot market. The traded volume reached 900 MW per day and was therefore even lower than in September. Uncertainty in the market prevailed so market participants were hardly willing to take risks and open positions.

Dutch long-term contracts fell in October in line with German contracts. The Cal 12 lost around 1.50 EUR/MWh. The spread Holland-Germany remained stable in the Cal 12, around -0.25 EUR. Worrying news about the situation of the Euro zone and a lack of bullish factors on the front products made the Cal 12 fall to the level seen before Fukushima. It closed at 54.80 EUR/MWh on 31 October.

Nordic

Most Nordic long-term contracts increased during the month, despite lower levels in the beginning and the end of October amid wet weather. The Cal 12 contract closed at 44.40 EUR/MWh on 31 October, 30 cents up from its closing on 30 September. The Nordic Q1/2012 closed at 47.85 EUR/MWh, up from 46.95 EUR/MWh at the end of September as drier weather forecasts dominated the picture. On the back of wet weather in the beginning of the month, both contracts traded at monthly low on 4 October.

Poland

In October, after a temporary decrease in the middle of the month, the November 2011 contract increased by 0.5%, reaching 206.50 PLN/MWh at the end of the month. The increase was the result of stronger spot and balancing market prices. However, Q1/2012 and Cal 12 traded a little lower, reaching 202.98 PLN/MWh and 202.24 PLN/MWh respectively.

Having said that, the curve moved up when nominated in Euro. Cal 12 increased by 0.7% from 45.98 EUR/MWh to reach 46.29 EUR/MWh.

UK

Due to the very bearish start of spot gas prices at the beginning of October (Winter 11), the power curve dropped significantly during the first days of the month. Despite a short recovery in the middle of October, it also closed lower on the back of bearish economic sentiment, warm weather and low spot settlements. The dirty spark spreads, i.e. sparks excluding the CO_2 factor, dropped during the second half of October when gas recovered with dark spreads still staying at very healthy levels and CO_2 trading much lower. The Winter 12 contract closed 63.25 EUR/MWh at the end of October, down 2.75 EUR from September.

2. CO_2 TRADING: Further decline on weak economy and commodities

CO_2-prices tested the 10-EUR-mark in October on the back of weak commodities and economic data.

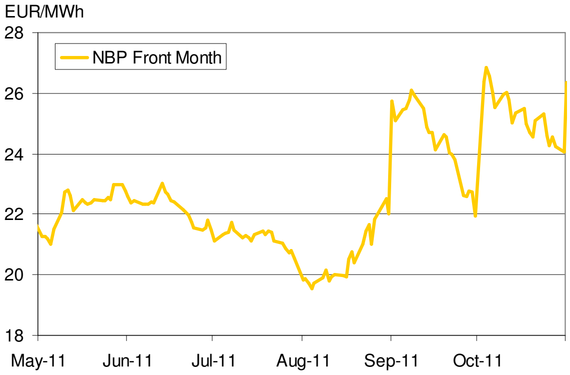
In line with lower commodity markets and weak economic perspectives, also CO_2 notations lost further value. December 2011 even tested the 10-EUR-mark several times but only broke it in intraday trading. The contract opened at 10.20 EUR/tonne and closed at 10.18 EUR/tonne at the end of October. The prospect of one-digit notations almost halted trading activities, so that only about 12 Mio tonnes were exchanged per day. This is even 3 Mio tonnes below September's value, which had already been far below average.

3. GAS TRADING: Front season declines, prompt stronger

NBP November gas prices declines on low demand while spot contracts were supported by prospects of colder temperatures.

NBP and TTF front season prices continued their downward trend in October. The November contract opened around 26.00 EUR/MWh in October and cooler temperature forecasts across the UK in the first trading week initially pushed the contract to its monthly high at 26.04 EUR/MWh. This was followed by a continuous decline on the back of warmer temperature forecasts. The November contract settled shortly above the 24.00 EUR-level. Realised total demand was 254 mcm/d, which is 18 mcm/d below the normal level for October.
However, increasing demand supported NBP and TTF prompt prices, sending the rolling TTF day-ahead contract from below 20 EUR/MWh to a range between 22-25 EUR/MWh.

NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

4. COAL TRADING: Prices fall on weakening economy

Despite low stockpiles, coal prices lost value on the back of the economic crisis.

For the majority of October, API2 coal prices continued their downward march, with Q4/2011 falling from 121.25 USD/tonne to a low of 114.25 USD/tonne on 19 October. API4 prices similarly bottomed out on the same day at 110.50 USD/tonne, coming from 116.90 USD/tonne at the end of September. FOB Newcastle prices also declined, falling about 6 USD to 117.15 USD/tonne. Prices rebounded only slightly at the end of the month.
Continued worries about the global economy, particularly Europe and the United States, have depressed both market sentiment and prospects for coal demand. Fundamentally, coal stockpiles in Europe and South Africa have reached their highest levels in more than a year and Chinese stockpiles are now comfortable with most regions fairly re-stocked ahead of the winter. India stockpiles at power generators remain at low levels and some regions have experienced black-outs. However, the market continues to look at macro-economic data and found some support from Brent crude prices.

5. OIL TRADING: Oil finds some support

Oil trading found support in physical tightness.

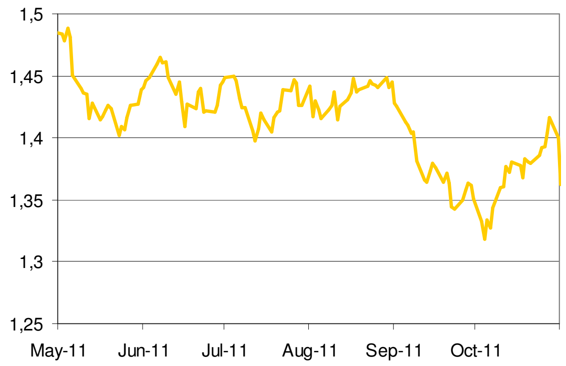
After a low opening in the beginning of October, oil rebounded amid physical tightness. Brent traded up to 114.5 USD/bbl from a low of 101.60 USD/bbl at the start of the month. Euro worries seemed to fade for a while as the G20 summit came closer. Even though the worries on the European crisis remain, the US economy seemed on a sounder footing and a lot of the bad news from July and August was already priced in. Despite this, the monthly average was 108 USD/bbl, 1.5 USD lower than in September. In the meantime, market participants expected a strong end of the year with the lowest OECD stocks since 2007 and refineries running hand to mouth. Demand has been weak so far, but low stocks and expected increasing demand in the coming months give some upside potential.

6. FX TRADING: EUR/USD with small gains

The EUR/USD exchange gained slightly but on a continuously low level as the EU crisis persisted.

The EUR/USD exchange rate was on a continuously low level in October. Coming from an average of 1.377 in September, it averaged at 1.371 in October. US data stabilised at low levels. Around the globe, purchasing managers index (PMI) data was generally weak. However, the main focus was on the European crisis: several G20 summits were held but brought only few measurable results. Italy and Spain were downgraded with a negative outlook and banking group Dexia was nationalised between France and Belgium. In Greece, the vote of confidence, plans for a referendum and increased austerity measures supported the markets' nervousness. Jean-Claude Trichet held his last press conference before handing over to Mario Draghi.

Exchange Rate EUR/USD



Source: Vattenfall Energy Trading

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ABBREVIATIONS

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 north-west 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, resulting from an emission-reducing project in developing countries that has been certified
Dark spread	Spread between the fuel and power price for a generator
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 Unit
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 the UK and Europe
LNG	Liquefied natural gas
MCM/D	Million cubic metres per day
NBP	National Balancing Point, gas hub in Great Britain
NCG	NetConnect Germany – German gas market area
N_2O project	CDM project to reduce nitrous oxide (N_2O)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OTC	Over-the-counter trading
PPX	Polish Power Exchange, Towarowa Giełda Energii S.A.
Spark spread	Difference between the price of electricity sold by a producer and the price of the used fuel
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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