

Commodity Markets at a Glance

March 2008

Market Letter by Vattenfall Trading Services

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1. GERMAN POWER: Slightly down

A high wind generation kept spot quotations on a low level despite cold temperatures at the beginning of March and some time around Easter.

Spot quotations in March opened at 52.43 EUR/MWh. Cold temperatures at the beginning of the month led prices step up to 59.38 EUR/MWh on 10 March. In week 11, average wind production was at 10.000 MW which calmed down spot prices. Around Easter, quotations softened to 39.83 EUR/MWh due to a reduced load. Wind generation in March was constantly high with a production between 6.000-10.000 MW. Spot quotations in Switzerland were firm throughout the whole month despite high precipitation in the second half of March though with limited effect on the German price level. Export to France averaged between 4.000-5.000 MW with high flows especially in off-peak hours. Towards the end of the month, the return of Jämschwalde eased the pressure on the supply side. This resulted in combination with a reduced load due to the Easter holidays in decreasing spot prices. Spot quotations at the EEX closed the month at 61.11 EUR/MWh on 31 March. On monthly average, day-ahead base was delivered at 53.34 EUR/MWh, which is 6.10 euros below the average price for February. The daily traded average volume was set at 442.302

Figure 1: EEX Base in EUR/MWh

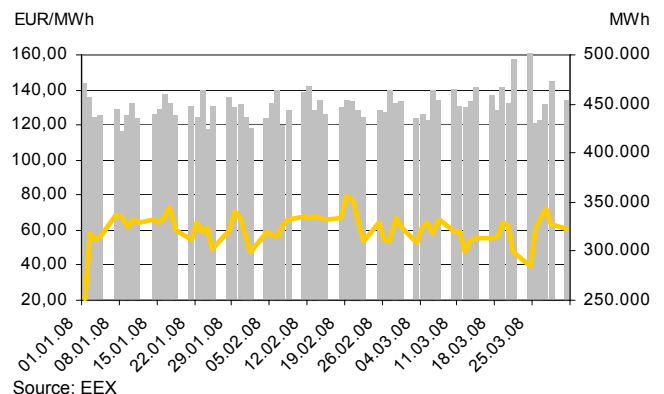
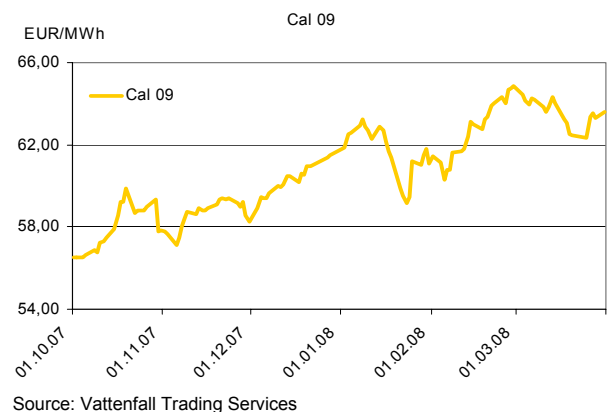


Figure 2: Cal 09 base in EUR/MWh



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MWh, which is 3.722 MWh above the volume of the preceding month.

After having peaked on 29 February, Cal 09 continuously developed downwards due to the economic crisis and a weak US Dollar.

The Cal 09 opened the month at 64.45 EUR/MWh, which is 0.40 euros below the all-time high of 29 February, and continued this downward tendency until 20

March. This development was mainly driven by further signs of an economic crisis such as the repeated cuts of the federal funds rate in the US, the Bear Stearns crisis and a weak US-Dollar which affected oil and gas markets. In the last third of the month, the consolidating commodity markets drove Cal 09 back to 63.58 EUR/MW, down 1.27 EUR/MW compared to the closing of February. On average, Cal 09 was traded at 63.58 EUR/MWh.

2. NORDIC POWER: Spot and Cal 09 bearish

Nordic spot delivery further down, hydrological balance unchanged.

During March the spot continued to fall, the month being delivered at 29.6 EUR/MWh. Exports from the Nordpool area to the continent continued to stay on very high levels, implying large hydro production. A temperature surplus of about 1.5 °C on a monthly basis means that the warm trend continued, although the temperatures reached values below normal the week after the Easter holidays. Precipitation in Norway and Sweden during the month amounted to 17.3 TWh corresponding to 130% of normal amounts. Also, Danish wind production was above normal at 150% of the usual deliveries during March. This corresponds to a daily average production of 1.260 MW. The reservoir levels in both Sweden and Norway are still above normal values, and with the main hydrological surplus (about 10 TWh) stored in Norwegian snow, there will probably be continued pressure for Norwegian generators to produce during the coming months.

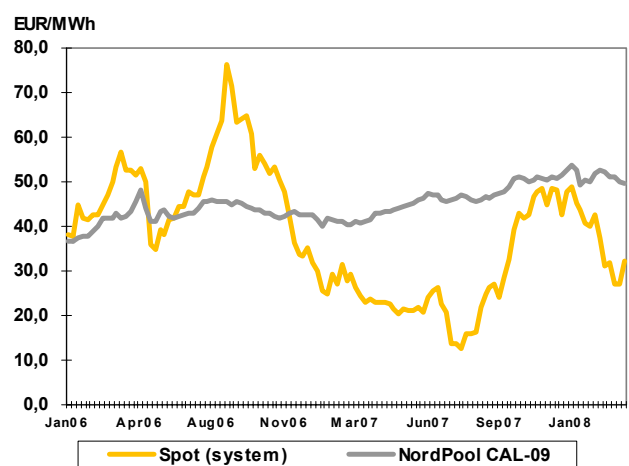
On March 31 the Nordic Cal 09 closed at 50 EUR/MWh, down 2.8 EUR/MWh compared to the preceding month on the back of lower coal price futures and partially offset by a 1 EUR/Tonne increase in CO2 allowances. The Q2-08 contract closed unchanged at

32.3 EUR/MWh whereas Q3-08 closed down 1.1 EUR/MWh at 37.7 EUR/MWh.

	2008 March	2007 March	2008 Feb.
Avg system spot (EUR)	29.6	23.8	38.5

Source: NordPool

Figure 3 – Spot price and Cal 09



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3. POLISH POWER: Downswing on all markets

Low quotations on spot and balancing markets sent out bearish signals to the forward market.

The average temperatures in March were +4.28°C, which is slightly above normal values. The monthly system demand increased YtY by 1.38%.

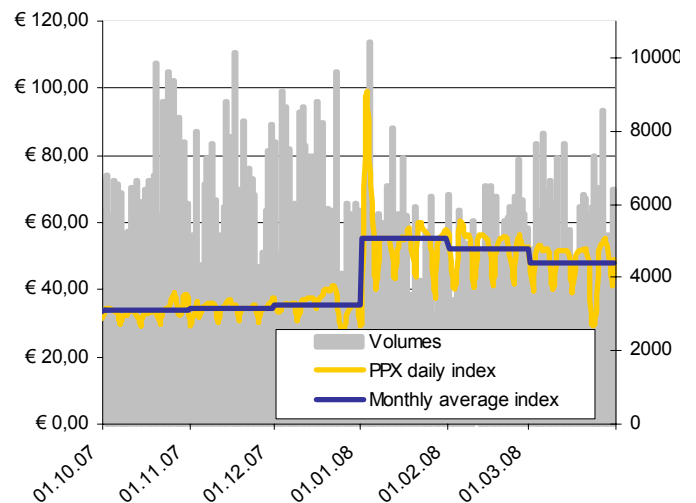
Spot prices in March were on a constantly low level. The only volatility was observed due to some weather changes and the Easter holiday season. Excluding Easter effect, March closing was only 175.31 PLN/MWh for base load. Whole March closed at the level of 170.31 PLN/MWh for base, 211.29 PLN/MWh for peak and 142.12 PLN/MWh for off-peak. Balancing market prices were also relatively low. Monthly peak of CROs (balancing market buy price) was about 11.51 PLN/MWh below the PPX peak in the same period.

Lowering spot prices together with a weak balancing market, uncertainty of what will happen after LTTPAs termination (1 April) and the TSO's non-permission to carry out monthly Cross Border Trading export auctions for both April and May gave bearish signals for forward contracts. Q3 and Q4 traded lower almost every day and fell about 5-7 PLN/MWh during the month.

Cal 08 delivery prices on PPX (whole 1Q) closed at 183.45 PLN/MWh for base, 213.70 PLN/MWh for peak and 146.63 PLN/MWh for off-peak.

Other factors influencing the market were the full import via SWEPOL and the national allocation plan which is still not approved.

Figure 4 - Prices and volumes on the Polish Power Exchange



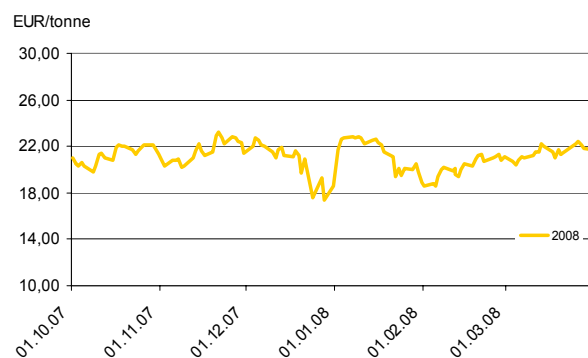
Source: Vattenfall Trading Services

4. CO2 TRADING: Moderate increase

In the absence of fundamental news, the CO2 market basically followed the commodity markets.

Currently the market is waiting for some fundamental news; also the Carbon Market Insights Conference did not come up with new conclusions. CO2 contracts started into the month at 20.68 EUR/tonne continuing the upward tendency of February. In the course of the month, CO2 moved further up and peaked at 22.39 EUR/tonne on 26 March mainly due to coal slightly improving compared to gas quotations. The

Figure 5: European Union Allowances in EUR/tonne



Source: Vattenfall Trading Services

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month levelled off at 21.72 EUR/tonne which is 0.58 EUR/tonne above the final quotation of February. The official EU publication of CO2 emission data beginning of April will stimulate the CO2 market again. The CER market settled down at a level of 16 EUR/tonne

maintaining the usual spread to the EUA market. In March, EEX launched the trade of CER futures and started with promising trading volumes, well above CER trading volumes at NordPool.

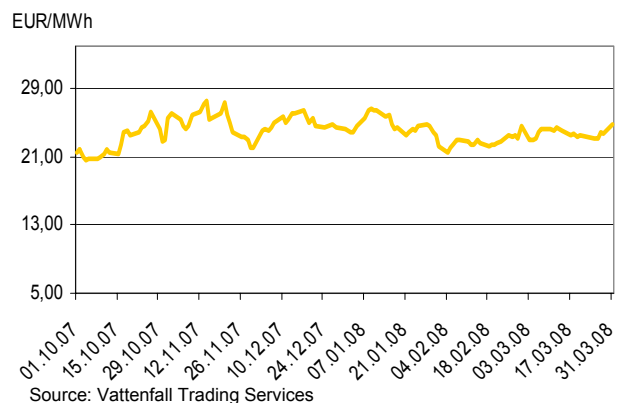
5. GAS TRADING: Market calms down

The gas market in March calmed down after its latest upswing in February. At the end of the month, the market broke out of its sideways channel due to increased buying interest.

March showed the characteristics of a sideways gas market, i.e. rising prices at the beginning of the month followed by stagnating prices mid-month (at a level well above 24 euros) and decreasing quotations towards the end (23.15 EUR/MWh on 25 March). This picture was disrupted by a bullish outbreak towards the end of the month on the back of increased buying interest which drove the NBP front month to 24.83 EUR/MWh on 31 March.

On the short-end, lower than expected exports via the Bacton-Zeebrugge interconnector and a volatile supply from Norway supported firm developments. The high supply in the UK was met by a high demand due to cold temperatures in March. The switching

Figure 6: NBP front month in EUR/MWh



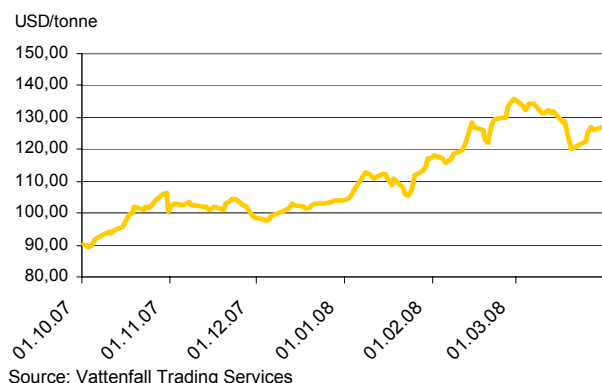
price between coal and gas was set at 5-6 euros premium in favour of gas which led to increased physical demand. On the back-end, high oil quotations gave additional support to the gas market.

6. COAL TRADING: Correction after all-time high

The coal market corrected sharply on the back of US financial crisis. Freight market softens as well.

The coal and freight markets remained very volatile throughout the month. Cal09 API2 opened at 133.63 USD/tonne after having tested the all-time high of 136.03 USD/tonne end of February. The market corrected sharply after the Bear Stearns crisis reaching 120 USD/tonne on 20 March. Towards the end of the month, coal quotations slightly recovered to 127 USD/tonne on 31 March. On the supply side an unreliable throughput at Newcastle port in Australia, weather

Figure 7: API 2 Cal 09 in USD/tonne



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problems in Indonesia, an increased inland demand in South Africa, and the production cut at Ensdorf put a bullish impetus on the market. In South America, Columbia gets politically isolated and loses export capacity via Venezuelan ports. The absence of additional

supply disasters cuts panic premium and freights soften as well. Overall demand does not exceed expectations. In addition, the accelerating subprime crisis forces banks to reduce long positions.

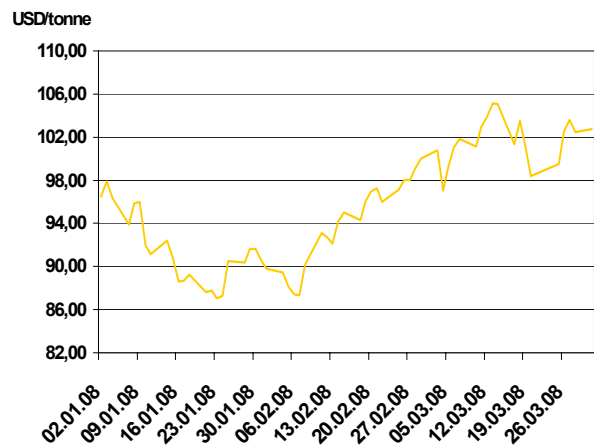
7. OIL TRADING: En route to new all-time high

Strong physical and financial demand boosted Brent contracts to a new record level.

Brent started the month jumping above the 100 USD/bbl weak for the first time ever. The main driver was the further weakening US-Dollar which led to increased buying interest from hedge funds into what is regarded as a "safe haven". In addition, cold temperatures, a rising demand from Middle East, China and India, and the OPEC decision to stick to its current production quota drove Brent to a new all-time high of 105.18 USD/bbl on 13 March.

In the second half of the month, the Bear Stearns crisis triggered oil prices to decline to 98.40 USD/bbl on 20 March. Bearish signals from the US household sector, i.e. consumers' reticence to buy gasoline due to a low confidence into the US economy, supported this trend. Reduction of crude oil stocks and a bomb attack in Iraq heated the market and lifted prices back above 100 USD/bbl.

Figure 8: IPE Brent Oil in USD/bbl



Source: Vattenfall Trading Services

ABBREVIATIONS USED

API2	All Publications Index at the Amsterdam-Rotterdam-Antwerp Range
CER	Certified Emission Reduction, resultant of an emission-reducing project in developing countries that has been certified
EEX	European Energy Exchange, Leipzig
EUA	European Union Allowance
LTPPA	Long Term Power Purchasing Agreement
NBP	National Balancing Point, gas hub in Great Britain
OPEC	Organization of the Petroleum Exporting Countries
PPX	Polish Power Exchange Towarowa Gielda Energii SA
SWEPOL	Submarine cable connecting Sweden and Poland
TSO	Transmission System Operator

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