

Commodity Markets at a Glance

June 2008

Market Letter by Vattenfall Trading Services

SUMMER BREAK

Commodity Markets at a Glance will make a brief summer break skipping the next issue beginning of August. In September an extended issue will be published covering market developments in July and August.

INDEX

1. GERMAN POWER: New record levels on forward market	1
2. NORDIC POWER: Firm markets	2
3. POLISH POWER: Market bull run	3
4. CO2 TRADING: Continuous uptrend	3
5. GAS TRADING: Low demand on prompt market	4
6. COAL TRADING: Coal boosted by speculative players	4
7. OIL TRADING: Fastest price increase ever	5

1. GERMAN POWER: New record levels on forward market

In June, spot quotations stayed on a firm level on the back of high fuel costs and CO2 prices

Day-ahead Base on the EEX opened at 73.46 EUR/MWh and increased to the month's high of 94.37 EUR/MWh on 4 June. During the rest of the month the market traded sideways. Spot quotations settled down in the range of 68.83 and 93.86 EUR/MWh. The average temperature was slightly above the normal with warmer temperatures towards the end of the month. Wind production was heavily varying during June which caused price fluctuations from day to day. Warmer temperatures in France led to an additional demand of 2.000 MW due to the increased use of air cons. In week 25 and 26 slight cooling water restrictions of about 400 MW put additional pressure on the spot. The hydro situation in the Alps especially in France was very good during the whole month. Maintenance of nuclear power plants occurred as scheduled.

Spot quotations at the EEX closed the month at 89.19 EUR/MWh on 30 June. On monthly average, day-ahead base was delivered at 73.24 EUR/MWh, which is 17 Euros above the average price for the preceding month. The daily traded average volume was set at

Figure 1: EEX Base in EUR/MWh

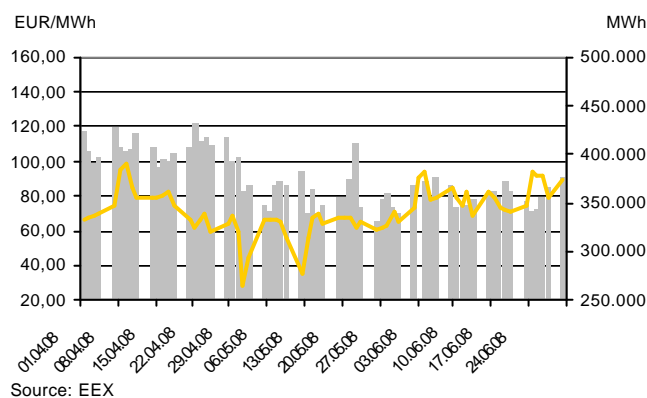
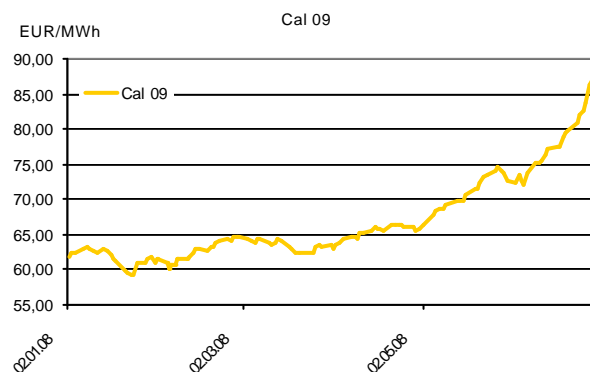


Figure 2: Cal 09 base in EUR/MWh



Commodity Markets at a Glance

351.445 MWh, which is 2.345 MWh above the volume of May.

The long-term market climbed to new all-time highs driven by the strong oil and coal markets.

The Cal 09 opened at 72.50 EUR/MW and continuously traded up to a new all time high of 88.30 EUR/MWh on 30 June. In addition to the firm oil and coal markets, the rising CO2 prices put additional pressure on the forward market.

2. NORDIC POWER: Firm markets

Nordic spot prices recovered while the forward market saw new highs.

During June, the spot price deliveries in all Nordic areas rose compared to the preceding month. Inflows in Norway and Sweden were on the whole below normal and well below the high values seen during May. There were numerous nuclear revisions during June: In Sweden less than 60% of the installed nuclear capacity was available. Large area price differences between southern Norway and the other price areas persisted. During the month, southern Norway saw a delivery of 25.0 EUR/MWh which is less than half of the Swedish area price of 57.6 EUR/MWh. The reservoir filling in Sweden for week 26 amounted to 72.1% of maximum, which is considered rather normal, whereas for the south Norwegian price area a reservoir filling of 74.5% of the maximum for the corresponding week is considered well above normal levels. Precipitation energy in Norway and Sweden during June amounted to 14.8 TWh, which is 116% of normal. Temperatures during the month were on normal levels whereas Danish wind production was about 180% of normal.

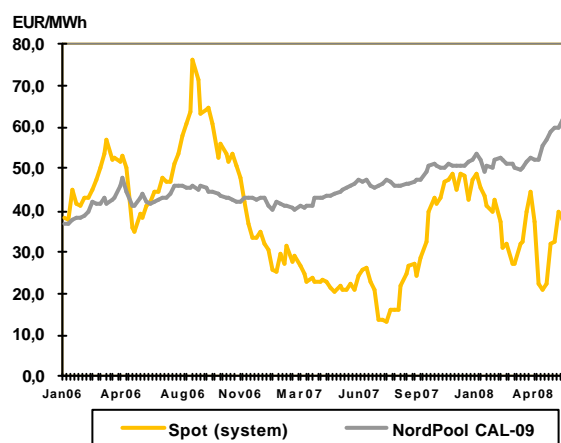
On June 30 the Nordic Cal 09 closed at 68.25 EUR/MWh (+9.10 EUR/MWh). This new all time high had been reached as a consequence of the very bullish commodity price developments. The new front

quarter contract Q4-08 also closed up strongly at 73.35 EUR/MWh (+11.20 EUR/MWh compared to the preceding month) also driven by the much higher marginal costs for coal production.

	2008 June	2007 June	2008 May
Avg system spot (EUR)	40.5	23.7	25.8

Sources: Nordpool

Figure 3 – Nordic spot price and forward Cal 08 for 2006-2008



Commodity Markets at a Glance

3. POLISH POWER: Market Bull Run

With no National Allocation Plan in place, Polish spot and forward prices went up significantly breaking all expected boundaries.

The average temperature in June was +18,4°C, which was slightly higher than the normal (+16,7°C), but almost on the same level as last year. The average cloudiness was lower than last year. The system monthly demand increased Year-to-Year by 1.48%. Monthly export capacities for August were again cut to zero.

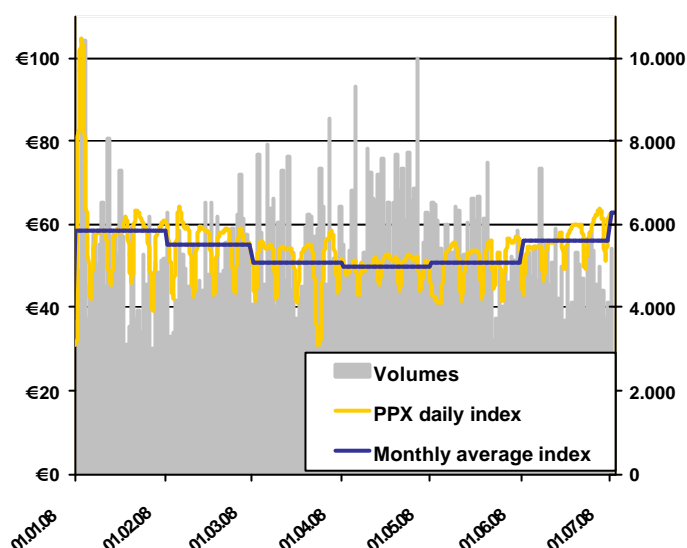
On average, spot prices in June were delivered at 56.19 EUR/MWh for base load, 64.29 EUR/MWh for peak load and 49.90 EUR/MWh for off peak. All prices went slightly up especially at the end of the month with the start of the warm season. Balancing market prices averaged slightly higher than the spot at 59.36 EUR/MWh. Forward base load for Cal 09 rose more than 5 EUR/MWh during June and closed at 64.69 EUR/MWh at the end of month. The Q4 2008 contract traded even higher and reached a level of 65.81 EUR/MWh.

Currently, supply in the system is low due to high temperatures and low precipitation. If this trend con-

tinues some serious cooling water restrictions could arise.

On 1 July, the Prime Ministry finally approved the NAP for Poland. The allocation is more favorable for the energy sector than in previous versions. It leaves generators with 11.4% lower allocation than 2007 real emissions, while previous projects showed even 20%. Significant price changes due to NAP are not visible yet.

Figure 4- Prices & volumes on PPX



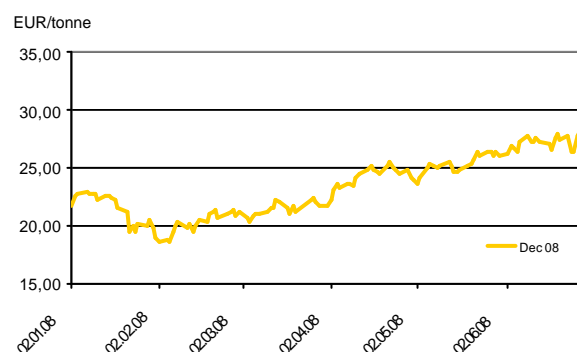
Source: Vattenfall Trading Services

4. CO2 TRADING: Continuous uptrend

As in the previous month, CO2 quotations mainly followed developments in the oil market.

CO2 opened at 26.17 EUR/tonne on 1 June and traded up to 28.38 EUR/tonne on 30 June. The CO2 market mainly followed the uptrend in the oil and coal market though but with more moderate price increases. On 26 June, EU decided to include the aviation sector into the EU Emissions Trading Scheme as of 2012 which gave new impetus to the

Figure 5: European Union Allowances in EUR/tonne on forward market



Source: Vattenfall Trading Services

Commodity Markets at a Glance

CO2 market. EU is aiming to reduce the CO2 emission in the aviation sector by 3% compared to the average 2004-2006 emissions. Towards the end

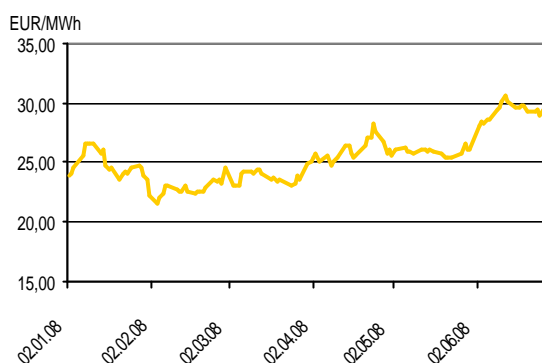
of the June, the spread between the years 08/09 widened from 0.65 to 1.25 EUR/tonne reflecting the effect of the interest rate.

5. GAS TRADING: Low demand on prompt market

Overall, the gas market traded relatively sideways lacking bullish news.

The NBP front month opened at 28.02 EUR/MWh and traded up to 30.51 EUR/MWh on 12 June although the market was characterized by a relatively low demand and injection levels at almost record highs of 70% for this time of the year. In the second half of the month gas quotations eased on the back of average temperatures and a sound Norwegian supply. Gas quotations closed at 28.81 EUR/MWh on 30 June. The back-end of the curve was driven by the oil market. The winter/summer-spread widened from 13 to 16 p/Thm due to the front season gaining more attention from UK traders.

Figure 6: NBP front month in EUR/MWh



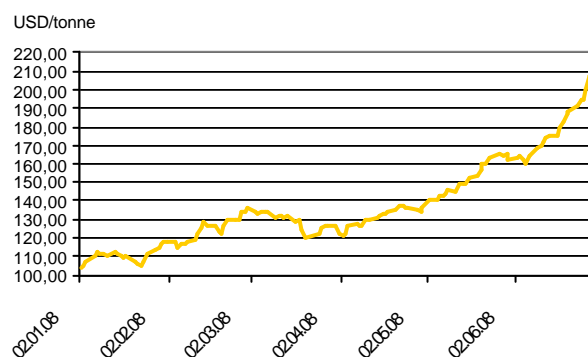
Source: Vattenfall Trading Services

6. COAL TRADING: Market further up

Coal contracts stayed very firm throughout the month.

During June API2 Cal09 rose by 48.5 USD/tonne to 211 USD/tonne on 30 June. Given the correlation between oil and coal lately, API2 was boosted by significant speculative players. The firm paper market was supported by similar gains on the physical site. The API2 physical monthly Index rose from 158.76 to 185.8 USD/tonne and API4 rose from 119.5 to 143.1 USD/tonne respectively. Given that Newcastle allocation was cut by 2 million metric tonnes (mt) in Q3/08 and rail bottlenecks in China unsolved on top of outstanding export licence of 25 million mt, Newcastle Cal09 rose by 41 Dollar to 181 USD/tonne. Vietnam, which exports 25 million mt per year to China, plans to

Figure 7: API 2 Cal 09 in USD/tonne



Source: Vattenfall Trading Services

reduce it due to higher domestic demand, which should lead to higher imports out of China of international

Commodity Markets at a Glance

standard coal quality. Potential strikes in Colombia and South Africa together with power shortages in South Africa limits supply growth in the Atlantic, which counterbalances weak coal burn in Europe due to environmental restrictions. A derailment in South Africa lead stock to fall to 2 million mt and bunker availability

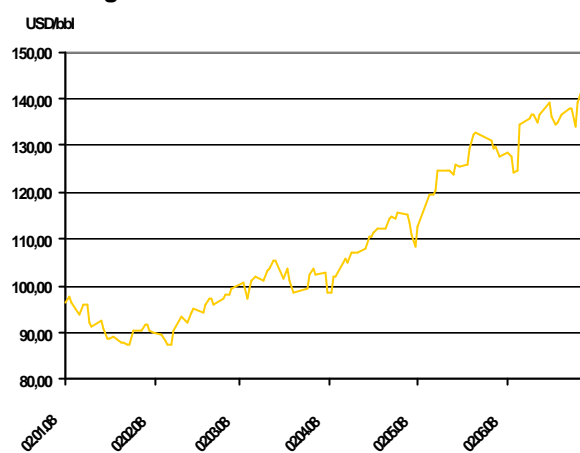
problems persists. Exports out of US are impacted by flooding and railing issues as well as a very firm domestic market. Metallurgical coal transport receives preference to steam coal due to higher margins and Russian railcar shortage has begun.

7. OIL TRADING: Fastest price increase ever

Geopolitical tensions pushed the oil price to a new all-time high.

On 4 June, Brent contract dropped to 124.23 USD/bbl completing the correction phase from end of May. On 5 June the oil market rocketed with the fastest increase ever gaining more than 11 USD in two days. This movement was fuelled by a stronger Euro on the back of European Central Bank rate hike expectations and increasing tension between Iran and Israel. For the rest of the month, Brent crude oil swung within the 135 to 141 USD/bbl range and closed the month with a new all of 141.82 on 30 June due to Israel carrying out a rehearsal for an attack on Iran's nuclear facilities. Also, rebel attacks in Nigeria blowing up Chevron's crude oil pipeline pushed the oil higher.

Figure 8: IPE Brent Oil in USD/bbl



Source: Vattenfall Trading Services

ABBREVIATIONS USED

API2	All Publications Index at the Amsterdam-Rotterdam-Antwerp Range
API4	All Publications Index for South African free on board (FOB) coal
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
ITL	International Transaction Log, records transactions of CERs to national registries
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
PPX	Polish Power Exchange Towarowa Gielda Energii SA
SWEPOL	Submarine cable connecting Sweden and Poland
TSO	Transmission System Operator

Commodity Markets at a Glance

PUBLISHED BY

VATTENFALL TRADING SERVICES

E-Mail: 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 Europe 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.