Commodity Markets at a Glance

September 2008

Market Letter by Vattenfall Trading Services

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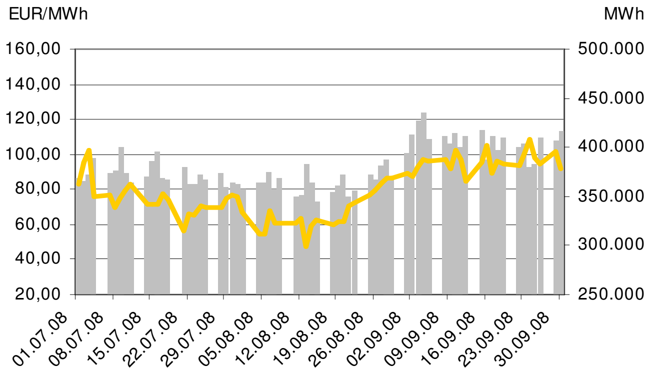
1. GERMAN POWER: Long-term market very volatile

The spot market was lifted considerably due to the lack of wind and high power flows to France.

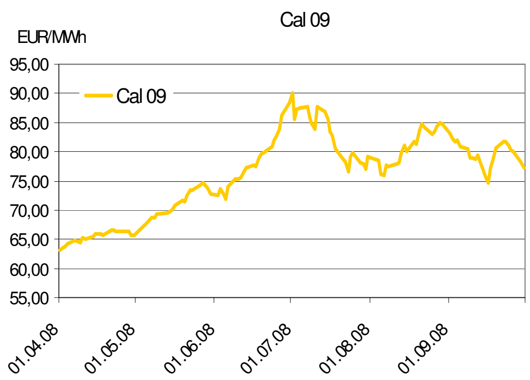
Day-ahead Base opened at 88.70 EUR/MWh on 1 September and stayed well above the 90 euros level for the rest of the month. Bullish influence mainly came from low wind production which averaged 2.500 MW and high exports to France. On average, power flows from Germany to France amounted to 760 MW (compared to 360 MW in September 2007) with highs flows especially in Peak hours and from 20-24h. Hydro reservoirs operators in the Alps still built up their reservoir levels which did not ease the tension on the spot. Temperatures during the month were slightly above the normal of 14.3°C. Towards the end of September power plant capacity in Continental Europe was about 10.000 MW less than expected putting some additional upwards pressure on the spot. Day-ahead Base reached a year's high at 108.92 EUR/MWh on 24 September and closed the month at 91.57 EUR/MWh.
On monthly average, day-ahead base was delivered at 88.30 EUR/MWh, which is 26.50 euros above the average price for the preceding month. The daily traded average volume increased considerably to 398.703 MWh.

Figure 1: EEX Base in EUR/MWh



Source: EEX

Figure 2: Cal 09 base in EUR/MWh



Source: Vattenfall Trading Services

The long term market was dominated by fluctuations in the oil market.
The Cal 09 opened the month at 83.25 EUR/MWh and traded down to 74.75 EUR/MWh until 16 September on the back of the impact of the financial crisis and a weakening oil market. In the second half of the month, the long-term market was characterized by strong volatility. The front year saw large spreads up to a couple of euros between closing and opening prices mainly

due to a heavily fluctuating oil market. Accordingly, the Cal 09 jumped up to 81.73 EUR/MWh on 22 September just to fall back to 77.29 end of September.

2. NORDIC POWER: Spot up, long-term down

Nordic spot prices increase as the hydrological balance weakens.

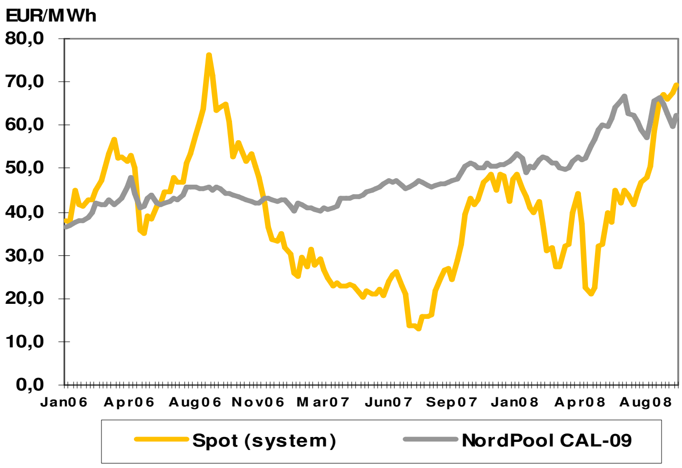
During September the system price continued to climb up and even reached a level slightly above the marginal costs of coal production. Inflows were below normal in both Sweden and Norway in the beginning of the month and stayed down during September. In the last week of the month there was a gradual transition from dry, high dominated weather into a slightly more dynamic regime. The inflows increased at the end of the month but they were still below normal. Swedish reservoirs stood at 70.7% of maximum by the end of week 39, which is below normal. At the same time, Norwegian reservoirs stood at 82.7% of maximum, which is also below normal. Precipitation outcomes in Norway and Sweden amounted to almost 10 TWh during September, which is some 53% of normal.

On 30 September, the Nordic Cal 09 closed at 58.55 EUR/MWh (down 8.25 EUR/MWh compared to the last of August) on the back of lower coal and CO2 prices. Also, the Q1/09 product closed down, at 66.60 EUR/MWh (down 7 EUR/MWh compared to the last of August) as a consequence of lower marginal costs for coal production despite a weaker hydrological balance.

	2008 Sep.	2007 Sep.	*2008 Aug.*
Avg system spot (EUR)	67.5	25.2	54.6

Source: NordPool

Figure 3 - Nordic spot price and forward Cal 09



3. POLISH POWER: Most expensive month ever

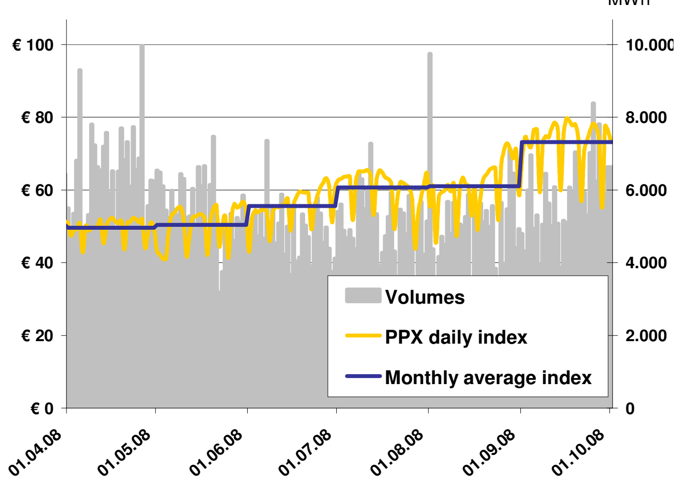
Spot and forward market were extremely bullish due to insecurity of coal supplies and fears of system instability.

September in Poland was quite cold and very rainy. The monthly average temperature was set at +13^{0}C which is slightly below normal. Cloudiness was much higher than the average. The system monthly demand increased by 2.3% year-on-year.

The main issues influencing energy prices were system stability and insecurity of coal supplies. Due to maintenances and outages some September days saw large restrictions by the transmission system operator on export capacities. Some days showed the system supply/demand balance on a verge of collapse. As temperatures went lower, production from CHPs helped to stabilize the situation. Currently, Polish mines have substantial problems with coal output. At the beginning of the month domestic hard

coal producers announced another coal price increase of about 30% and started to deliver less coal within existing contracts. The energy sector depends mostly on domestic fuel, which even after a rise is still much cheaper then internationally traded one. As a result, spot prices even reached 80 EUR/MWh for base load and 98 EUR/MWh for peak load. On average, delivered prices were 73.15 EUR/MWh for base load, 91.42 EUR/MWh for peak load and 57.69 EUR/MWh for the off-peak.
The Cal 09 climbed up to 68.64 EUR/MWh, while the fourth quarter product for 2008 skyrocketed to almost 77 EUR/MWh.
While the wholesale market was in very bullish sentiment, the President of Regulatory Affairs announced that due to a lack of competition on the energy market retail prices for households will continue to be kept under regulation in 2009 - contrary to prevailing expectations.

Figure 4: Prices & volumes on PPX



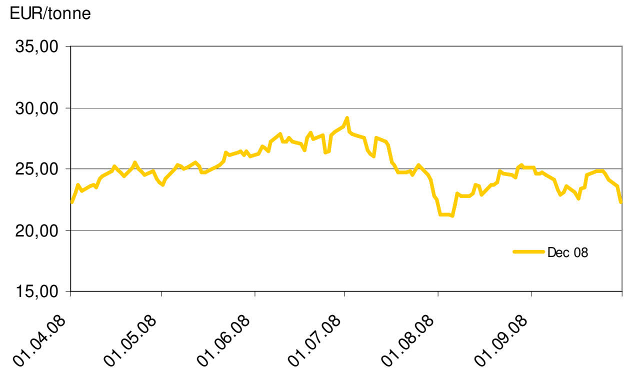
Source: Vattenfall Trading Services

4. CO2 TRADING: Sideways market

Correlation of CO2 market with oil market and German power increased.

In September, the CO2 prices were highly volatile ranging between 22.39 EUR/tonne and 25.13 EUR/tonne. Fear of recession, being accompanied by lower industrial production forecasts, as well as retreating oil prices pushed down the CO2 market to 22.60 EUR/tonne until 16 September. The rebound in oil drove CO2 back to 24.84 EUR/tonne on 22 September before it slumped to 22.29 EUR/tonne on 30 September partly due to the insecurity on the US bailout. In the course of the month, correlation of CO2 with the oil market and German power increased. Trading volume of EU allowances rose sharply up to 276.5 million which made September the second busiest month to date.

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



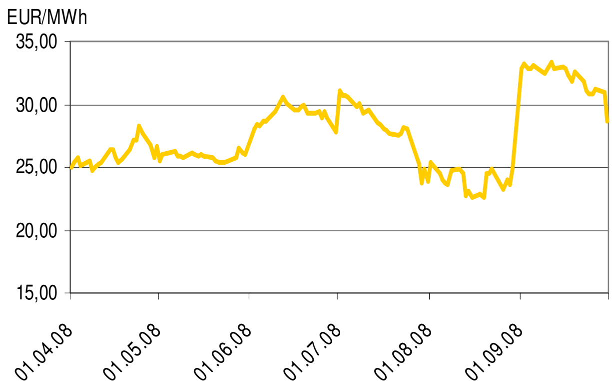
Source: Vattenfall Trading Services

5. GAS TRADING: Beginning of winter season

Gas prices in September were driven by the supply situation.

The NBP front month jumped to 32.83 EUR/MWh on 1 September marking the summer-winter transition. In the course of the month, gas prices ranged between 31-33EUR/MWh until 23 September on the back of short-term supply shocks, such as continuing outages of gas fields respectively delayed maintenances. Towards end of the month, gas prices slightly retreated due to an improved supply from UK and Norway despite a growing heating demand in UK. News on Isle of Grain LNG terminal doubling its import capacity to UK this year put additional bearish impetus to the market. NBP front month closed at 28.72 EUR/MWh, up almost 4 euros compared to the previous month.

Figure 6: NBP front month in EUR/MWh



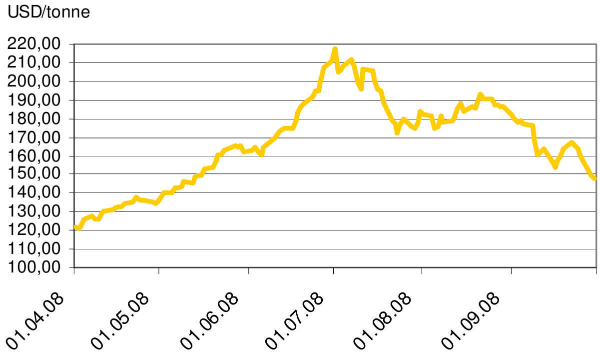
Source: Vattenfall Trading Services

6. COAL TRADING: Financial crisis hits coal market

The coal market has fallen by 20% in September.

API2 Cal 09 traded down from 181.94 USD/tonne on 1 September to 148 USD/tonne end of September on the back of the global financial crisis and recession in many parts of the world. Stocks in ARA are relatively high due to weak demand in Europe and good spot availability of coal. Physical Traders were long and utilities were patient, which forced the traders to dump their lengths. Hence, the market transformed from a seller to a buyer market, which can be seen in the C4-implied freight spread narrowing to just $2 reflecting the absence of speculators. This spread was trading as high as 13 US dollars in the last 18 months and had negative freight economics as a consequence. The volatility and financial crisis led to a reduction of risk taking. Historically, commodities underperformed other asset classes at the later part of a recession and. There are signs that we are at the beginning of a global recession given that the IMF cut its global economic growth forecast to 3%. The downtrend in coal is supported by the negative sentiment in spite of a balanced market in Q4'08 to Q1'09. After the exaggeration of the market to the upside in June and July, the market is going to exaggerate to the downside given that most of the traders are driven by fear and gear.

Figure 7: API 2 Cal 09 in USD/tonne



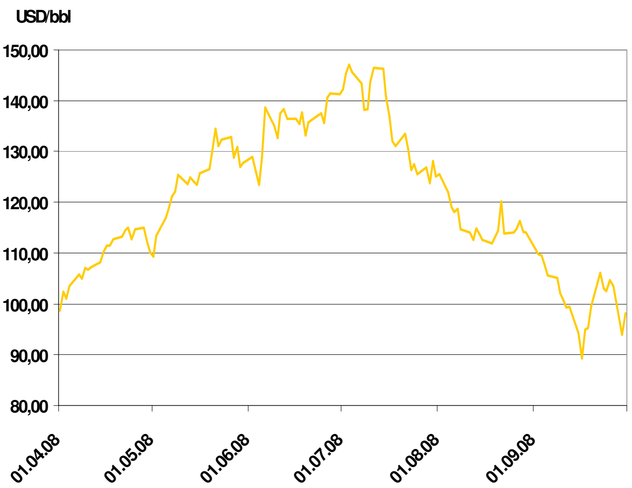
Source: Vattenfall Trading Services

7. OIL TRADING: Oil enters second phase of correction

The oil market saw a record one day move of more than 16 USD on 22 September.

In the first half of the month, oil continued its journey south trading down to 89.22 USD/bbl until 16 September. Thus, the oil price was almost down at the starting point of the extreme bull-run from beginning of this year. Major bearish impetus as well as uncertainty came from the plunging financial markets as well as from speculative players reducing their positions. In the second half of the month, the WTI oil contract heavily fluctuated first bouncing back to 106.04 USD/bbl before retreating to 93.98 USD/bbl on 29 September. On 22 September, oil prices made a record-breaking jump of 16.37 USD/bbl due to short covering of financial traders before the October contract expired. At the same time, the market saw very thin volumes. Supply concerns in US such as lower than expected stock levels and refineries under normal production were outweighed by the financial crisis. Oil closed at 98.17 USD/bbl on 30 September, down 15.88 USD from end of August.

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
ARA	Amsterdam-Rotterdam-Antwerp, major coal importing ports in northwest Europe
C4	Voyage freight rate between Richards Bay and ARA
CHP	Combined Heat and Power Plant
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
OTC	Over-the-counter trading
PPX	Polish Power Exchange Towarowa Gielda Energii SA
SWEPOL	Submarine cable connecting Sweden and Poland
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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