

Commodity Markets at a Glance

November 2008

Market Letter by Vattenfall Trading Services

INDEX

1. GERMAN POWER: Spot market eased.....	1
2. NORDIC POWER: Supply under pressure.....	2
3. POLISH POWER: Downwards trend	3
4. CO2 TRADING: Industrials selling	3
5. GAS TRADING: Gradual consolidation in a bearish market	4
6. COAL TRADING: Negative sentiment	4
7. OIL TRADING: Flattened downwards trend	5

1. GERMAN POWER: Spot market eased

Spot prices lost almost 22 EUR/MWh on the back of increased wind, good plant availability and mild temperatures.

In the first week of November, Day-ahead Base traded on a high level between 73.85 EUR/MWh and 83.72 EUR/MWh on the back of low wind production despite warmer temperatures. In the next two weeks, wind output tripled pushing the spot below 60 EUR/MWh on some days. On 25 November, Day-ahead peaked at 104.90 EUR/MWh due to low winds and cold temperatures. The price spike was mainly caused by hour 18, which came out at 494.26 EUR /MWh. At the end of the month, the spot price eased and closed at 73.25 EUR/MWh. The power plant availability was good during the whole month with no unexpected outages and most German nuclear plants back in operation. Until now, there have been no signs of a falling demand from industrials visible. Exports to France were still close to maximum especially in the second half of the month. Temperature profile was normal with a warmer first week, decreasing temperatures towards the middle of the month and freezing temperatures in the last week of November.

On monthly average, Day-ahead Base was delivered at 63.72 EUR/MWh, which is 21.90 euros below the average price for October. The daily traded average volume increased to 411,749 MWh.

Figure 1: EEX Base in EUR/MWh

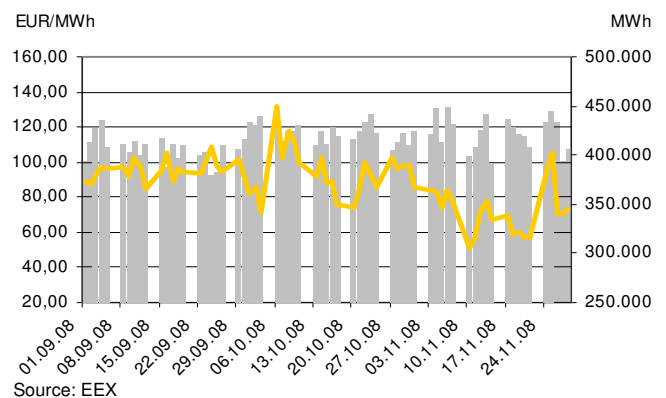
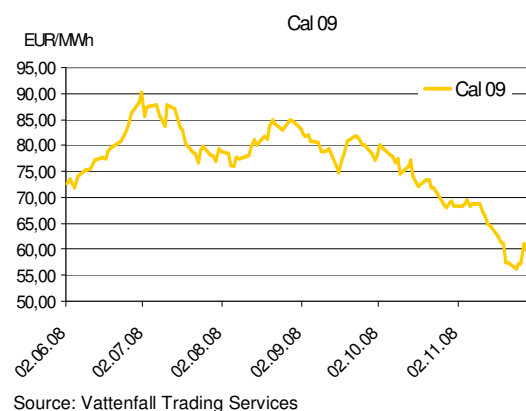


Figure 2: Cal 09 base in EUR/MWh



Commodity Markets at a Glance

The long-term market accelerates its journey south in November.

The Cal 09 stabilised in the 68 to 70 EUR/MWh range in the first week of November before it started to continuously trade down to 56.14 EUR/MWh until 24 November. This level was last traded in September 2007. Main driving factors were further signs of recession

and bearish price signals from fuel and CO2 markets. Lower prices at the end of the month triggered heavy buying interest in a thin market thus leading to price increases. The Cal 09 closed at 59.80 EUR/MWh, down 8.40 euros compared to the end of the previous month.

2. NORDIC POWER: Supply under pressure

Nordic spot prices further decrease as balance weakens

During November the system price continued its journey south with the falling marginal cost of thermal production. Inflows were slightly below normal in Sweden and above normal in Norway, especially during week 46 when Norway had 171% of normal. The beginning and the end of the month were colder than normal while the middle was above normal temperatures. During the cold spell in week 48, the market saw high peak prices in the system price for the first time this winter. The system price went up to almost 125 EUR/MWh on hour 18, 25 November. The new start up time of nuclear power plants Forsmark 3 and Oskarshamn 3 is estimated to 19 respectively 24 December. But start up of the units must be approved by the Authority. The reactor Ringhals 3 was also off grid during November and the unit is expected back to grid in the middle of December. Around 35% of the Swedish nuclear capacity was off-line during November. Swedish reservoirs stood at 63.3% of maximum by the end of week 48, which is below normal. At the same time, Norwegian reservoirs stood at 78.9% of maximum, which is slightly below normal. Precipitation outcomes in Norway and Sweden amounted to almost 20 TWh during October, which is some 104% of normal.

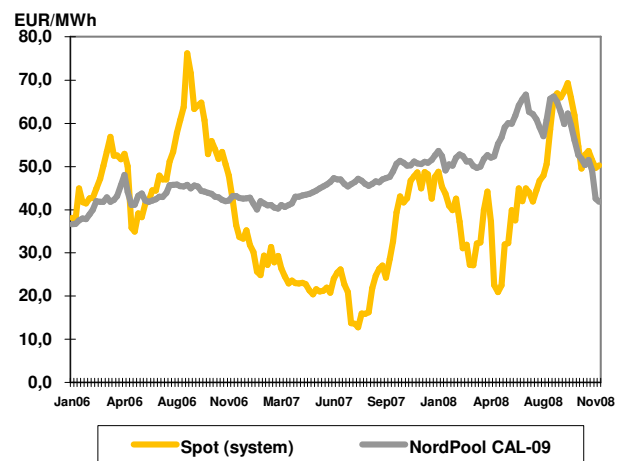
On 28 November, the Nordic Cal 09 closed at 43.65 EUR/MWh, down 7.10 EUR/MWh compared to the last of October, on the back of lower coal and CO2 prices.

Also the front quarter product Q1-09 closed down at 45 EUR/MWh, down 10.90 EUR/MWh compared to the last of October as a consequence of lower marginal costs for coal production and an unchanged hydrological balance during the month. The economical slow-down has started to affect the demand.

	2008 Nov.	2007 Nov.	2008 Oct.
Avg system spot (EUR)	51.2	45.5	56.9

Source: NordPool

Figure 3 –spot price and forward Cal 09



Commodity Markets at a Glance

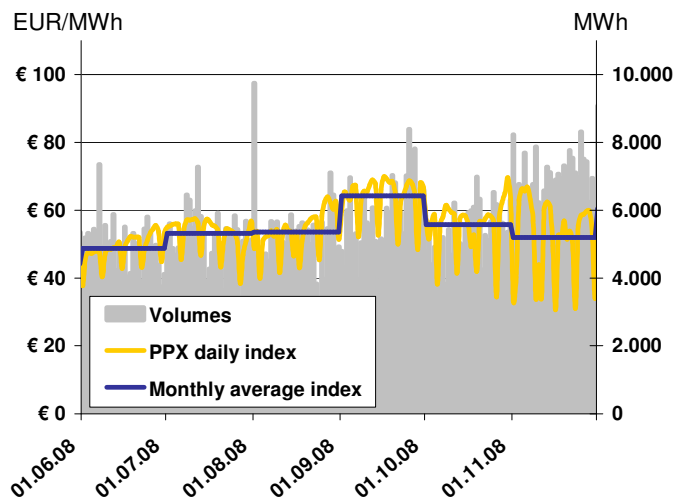
3. POLISH POWER: Downwards trend

A lower demand pushed prices down.

With an average temperature of +5.2°C, November temperatures were 3.3 higher than in 2007. The system monthly demand decreased year-to-year by 6.7% which was mainly caused by a decrease in industrial production. Further downwards pressure came from the level of allowed export capacities, which had been cut down to zero for almost one-third of the month by TSO. At the end of the month the system situation was so healthy that 500 MW were permitted to export. This is well above the usual amount of 300 MW of export capacities. The average spot price for November was 53.83 EUR/MWh for base load, 78.09 EUR/MWh for peak load and 37.93 EUR/MWh for off-peak load. The off-peak was much lower due to two national holidays.

In mid November, the largest seller on the market PGE put out a tender of 500 MW for 2009. The average price of 62.45 EUR/MWh gave some upwards support to the Cal 09. But with the bearish sentiment prevailing, forwards for 2009 decreased to 59.89 EUR/MWh end of November. In addition, the EUR/PLN exchange rate helped to reduce forward prices as the euro surged from 3.56 to 3.80 PLN and beyond.

Figure 4: Prices & volumes on Polish Power Exchange (PPX)



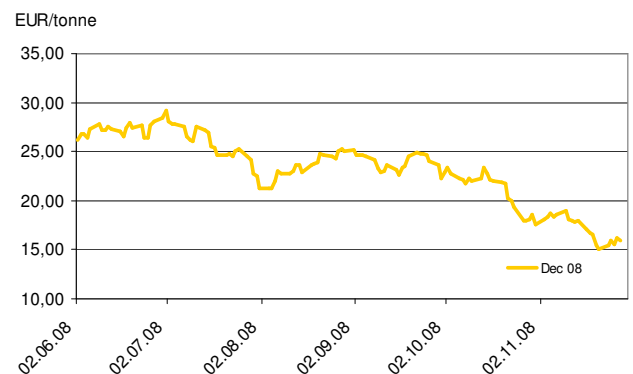
Source: PPX

4. CO2 TRADING: Industrials selling

The impacts from the credit crunch capitalise on the carbon markets.

Beginning of November, EU allowances stabilised between 18 to 19 EUR/tonne. During the last three weeks the market went further down due to increasing fear that the actual impact of the recession might be worse than expected. This development was fueled by big industrial players announcing shut downs of production. Selling of the potential surplus of CO2 certificates by industrials added more downwards pressure. As a result, the CO2 prices

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



Source: Vattenfall Trading Services

Commodity Markets at a Glance

traded down from 18.93 EUR/tonne on 10 November to 15.11 EUR/tonne on 21 November. At the end of November, prices rebounded to 15.94 EUR/tonne correlating stronger with fuel markets and weather situation again. With Germany beginning to issue

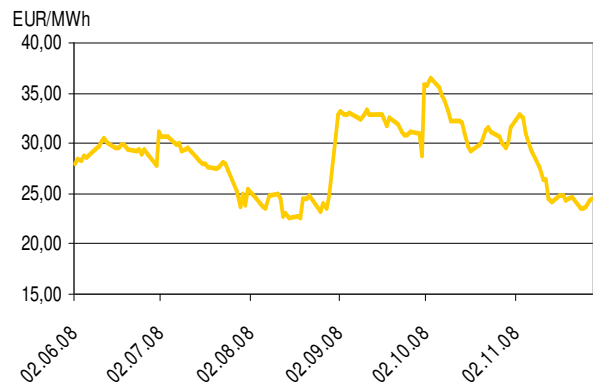
allowances on 10 November, trading volume for spot trading at the most liquid spot exchange Bluenext increased. Currently 68% of allowances for 2008 within the ETS are issued, with Poland and Italy being the biggest players still to issue allowances.

5. GAS TRADING: Gradual consolidation in a bearish market

A healthy supply situation and a weakening oil market pushed down the gas market.

The NBP front month opened at 32.92 EUR/MWh on 3 November and traded down to 24.70 until 14 November on the back of mild temperatures and a healthy supply situation. Good LNG supplies to the Isle of Grain contributed to an oversupply scenario. Towards end of the month, colder temperatures pushed up demand in Continental Europe with interconnector flows going from the UK to the continent. Additional demand was covered by gas storages. This helped to stabilise the gas price within the 23-25 EUR/MWh range. On the back-end of the curve, gas followed the decreasing oil market which saw some signs of consolidation towards the end of the month. On 28 November, NBP front month closed at 24.50

Figure 6: NBP front month in EUR/MWh



Source: Vattenfall Trading Services

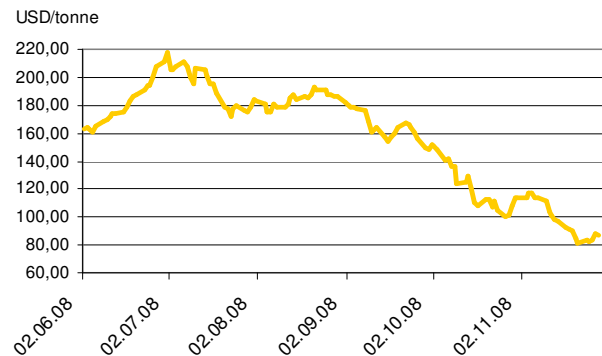
EUR/MWh, down 7.05 euros compared to end of October.

6. COAL TRADING: Negative sentiment

Demand for hard coal weakens while supply is healthy.

Starting into the month at 114.07 USD/tonne, API2 Cal 09 fell by more than 27 dollar to 86.76 USD/tonne due to the global recession and its impact on the supply-and-demand-balance. Lower demand growth in the Pacific and healthy supply sent bearish signals to the market. While some of the Russian producers are operating already unprofitable, the Chinese coal market is oversupplied and more exports can be expected. Steel mills and cement producer have purchased too much

Figure 7: API 2 Cal 09 in USD/tonne



Source: Vattenfall Trading Services

Commodity Markets at a Glance

coal and they try to delay and reduce the quantities, which is putting pressure on steam coal prices. Coal burn in France, Germany and UK fell combined by 8.2% or 7.9 million tones year-to-date vs. the same period last year, which was already weak in terms of coal burn due to a mild winter. Main reason is the introduction of the LCPD, and the absence of a cold win-

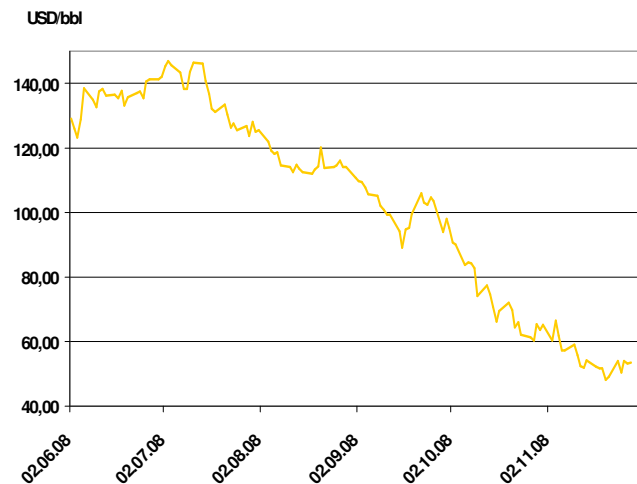
ter and a hot summer. The sentiment is negative due to weak oil (down 20% in November), the strong USD as well as the weak S&P Equity index (down 7% in Nov.). Freight fell more than 30% last month with ships exceeding cargoes and trade financing difficult to come by. Capes, which are double the size of Panamax ships, were trading at a 50% discount.

7. OIL TRADING: Flattened downwards trend

A weak economic outlook dominates the global oil market.

The front month WTI contract traded down from 60.48 USD/bbl on 3 November to 48.08 EUR/MWh on 20 November continuing the downwards trend from beginning of July when oil peaked at 146.48 USD/bbl. Support for the oil market came from low US inventory statistics, supply cut threats by the Opec, and capital injection by US government which helped to stabilise equity markets on the short-run. Towards the end of the month, decline of prices was halted and the market entered into a sideways mode levelling off at 53.49 USD/bbl on 30 November.

Figure 8: IPE Brent Oil in USD/bbl (front month)



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
LCPD	Large combustion plants directive, places limits on emissions from the combustion of coal, oil and natural gas in the UK

Commodity Markets at a Glance

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

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.
