

## Market Letter by Vattenfall Trading Services

### INDEX

1. GERMAN POWER: Spot relatively weak - long-term market further down.....	1
2. NORDIC POWER: All markets down.....	2
3. POLISH POWER: New Balancing Market rules determined spot prices .....	2
4. CO2 TRADING: Bearish sentiment .....	3
5. GAS TRADING: Sideways in a volatile market.....	4
6. COAL TRADING: Recession led to oversupplied market.....	4
7. OIL TRADING: Slight recovery .....	5

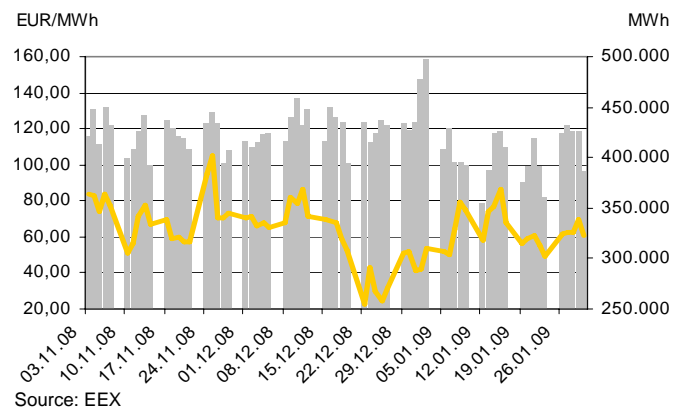
### 1. GERMAN POWER: Spot relatively weak - long-term market further down

**Spot prices in January were relatively low given the cold temperatures. An increasing demand was met by well prepared power plant operators due to proper revision planning.**

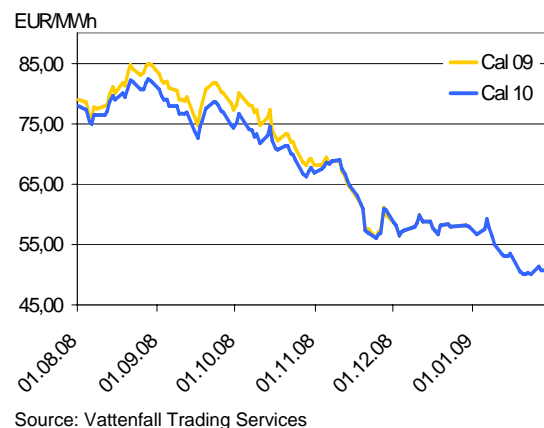
In January, Day-ahead Base opened at 41.38 EUR/MWh as consumption was weak despite very cold temperatures. During the month, temperatures were 4-5 degrees below the average temperatures of January 2008. The cold weather was also responsible for a low run of river production in the Alps. Until 15 January, the spot price traded up to 86.36 EUR/MWh on the back of continuous cold weather, wind speeds at low levels, and the end of the holiday season. A record high consumption in France of 91.000 MW in week 2 did not overburden supply and prices stayed at a relatively moderate level. Warmer temperatures triggering a lower demand, and an increased wind production of 5.000 MW on average pushed down the spot to 49.46 EUR/MWh on 23 January. In the last week of January, Day-ahead Base rose based on cooler weather. Stronger exports to France which have been partly triggered by strikes in France were counterbalanced by stronger imports from Austria. The spot market closed at 60.33 EUR/MWh on 30 January.

On monthly average, Day-ahead Base was delivered at 57.12 EUR/MWh, which is 2.60 euro above the average price for December 2008. The daily traded average volume decreased to 400,325 MWh.

**Figure 1: EEX Base in EUR/MWh**



**Figure 2: Cal 09 / Cal 10 base in EUR/MWh**



**The long-term market continues its stable downwards trends due to a weak economic outlook.**

# Commodity Markets at a Glance

Beginning of the month, Cal 10 traded slightly up to 59.25 EUR/MWh on 6 January, breaking the stable down channel the first time since August 2008. Bad unemployment data put downwards pressure on the market while the gas dispute between Russia and Ukraine and the war in Gaza strip opposed sent out bullish signals to the market. In the course of the month, the long-term market continued its long journey

south again on the back of a gloomy economic outlook, worse than expected US industrial production data, and the end of geopolitical tensions. On 23 January, Cal 10 broke through 50 euro mark trading at 49.99 EUR/MWh. At the end of the month, Cal 10 levelled off at 51.29 EUR/MWh being supported by a short-term uptrend in oil.

## 2. NORDIC POWER: All markets down

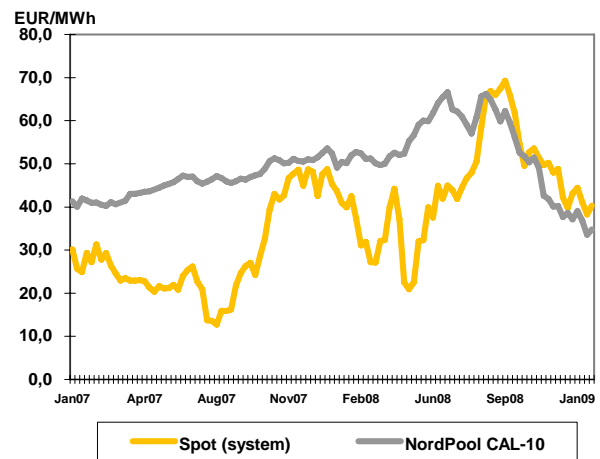
### Nordic spot prices decrease despite weaker hydrological balance

During January the system price continued down despite the fact that the hydrological balance weakened. Inflows were below normal in both Sweden and Norway except during week 3 and 4 when the inflow was 144 % respectively 132 % of normal. The beginning and the end of the month were dry. Temperatures were 1.81 degrees above normal with a very cold first week as well as two further cold spells during the month. The consumption was much lower than in previous years, especially in the first week of the month when much of the industrial consumption was down due to the holiday shutdown. Demand destruction is very obvious in Finland. During the first weeks in January consumption dropped by around 1.500 MW compared to last year. Also in Sweden the drop was large. During the month the nuclear capacity was high compared to previous months. Swedish reservoirs stood at 39.5% of maximum by the end of week 5, which is much lower than normal. At the same time, Norwegian reservoirs stood at 54.9% of maximum, which is below normal. Precipitation outcomes in Norway and Sweden amounted to 15.8 TWh in January, which is 87% of normal.

	2009	2008	2008
	Jan.	Jan.	Dec.
Avg system spot (EUR)	41.5	45.2	44.7

Source: NordPool

Figure 3: Spot price and forward Cal 10 for 2007-2009



On January 30 the Nordic Cal 10 closed at 35.90 EUR/MWh, down 2 euro compared to the last of December, on the back of lower coal and CO2 prices and despite the fact that the hydrological balance was weakened by almost 5 TWh during the month.

## 3. POLISH POWER: New Balancing Market rules determined spot prices

### Electricity demand decreased despite low temperatures.

January 2009 was much colder than the previous one with an average temperature of -2,5°C, down 4,7°C compared to January 2008 and almost 2 degrees

# Commodity Markets at a Glance

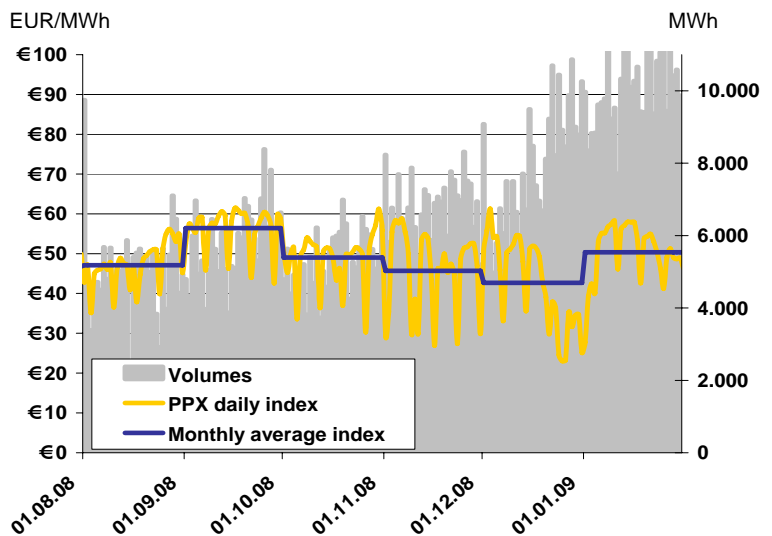
below the normal. Despite these low temperatures system monthly demand decreased by 3.1% year-on-year indicating how much the crisis impacted the Polish economy especially the industry sector. The fall in demand increased grid stability and allowed the TSO to put more cross-border flows on daily auctions. Total capacities were quite high with 500 MW of daily and 300 MW of monthly capacities. At the monthly auction for February, export capacities of 400 MW were offered.

The average spot prices in January were 52.43 EUR/MWh for base load, 63.54 EUR/MWh for peak load and 43.18 EUR/MWh for off-peak load. At the beginning of this year, new balancing market rules based on marginal pricing have been introduced. This influenced power trading sector in Poland heavily. With only one Balancing Market price, the spot was forced to follow its behavior. The structure of the spot price load has changed dramatically – peak hours went down while off-peak hours went up.

Forward contracts gained some liquidity in January. Cal 10 was falling during the whole month and ended at 48.50 EUR/MWh. On 12 January, Polish Energy Group PGE, the largest seller on the market put out a tender for 150 MW from February to December 2009. The average price of accepted bids was 48 EUR/MWh.

As of 1 March, the market will face an excise tax shift from generators to sellers and this will be the main issue in term trading in Poland until then.

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



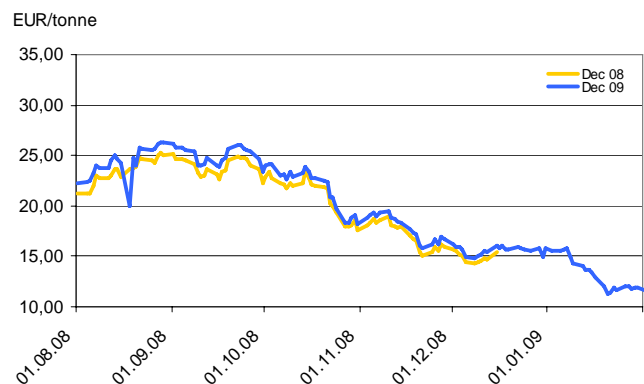
Source: PPX

## 4. CO2 TRADING: Bearish sentiment

**The CO2 market searched for a fair price level that equals the impact of the recession.**

EU allowances opened at 15.51 EUR/tonne on 2 January and remained stable above the 15 euros mark until 7 January being supported by the firm oil and German power market. During the rest of the month, the bearish sentiment of the recession and continued selling pressure on the spot market determined the direction on the emission market.

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



Source: Vattenfall Trading Services

# Commodity Markets at a Glance

CO2 certificates continuously traded down to 11.29 EUR/tonne until 20 January with a low demand for allowances in the market and industrial players continuing to cash in their certificates. During the last ten days of the month, the market moved sideways closing at 11.87 EUR/tonne on 30 January. Trading vol-

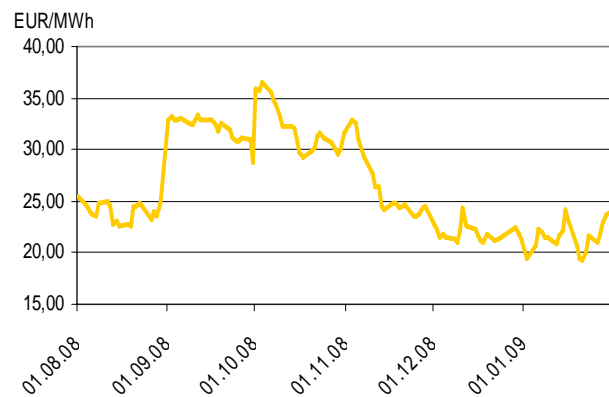
umes at the Bluenext spot exchange nearly halved towards the end of the month indicating that industrial players' overselling took a breather with further actors either waiting for higher prices or returning to normal hedging behaviour.

## 5. GAS TRADING: Sideways in a volatile market

**The gas market was mainly driven by the supply situation and cold temperatures on the continent.**

The prompt market saw a strong start into the year rising from 19.48 EUR/MWh on 2 January to 22.23 EUR/MWh on 6 January. The NBP front month was driven by cold temperatures triggering high demand and supply disruption due to Russia stopping its gas supplies through Ukraine. In the course of the month, the gas market developed sideways in a very volatile market. The end of the gas dispute between Russia and Ukraine on 20 January improved the supply situation and the NBP front month contract went down to 19.49 EUR/MWh. At the end of the month, gas price traded up to 23.91 EUR/MWh on the back

Figure 6: NBP front month in EUR/MWh



Source: Vattenfall Trading Services

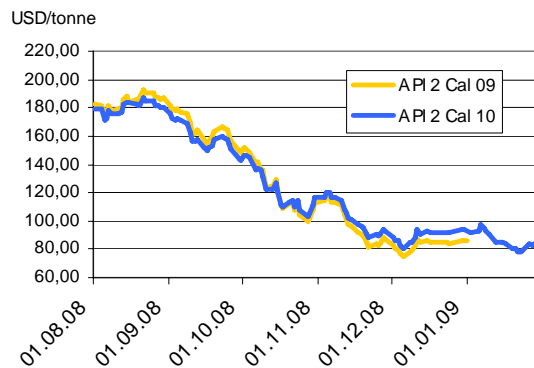
of cold weather, supply disruption, and higher UK exports to meet continental gas demand.

## 6. COAL TRADING: Recession led to oversupplied market

**Coal prices go in line with the German power market in January.**

API2 Cal 10 started into 2009 at 91.55 USD/tonne and increased to 97.55 USD/tonne until 6 January on the back of a rise in oil. On the short end, colder than normal temperatures led to higher burn than expected. Until 22 January the coal market fell by 20 dollar with lower oil and German power prices putting downwards pressure on the market. This trend was strengthened by a healthy global coal production and a weakening demand in the energy, steel, and cement industries. At the end of November, coal market rose to 84.80 USD/tonne driven by the firmer oil, German power, and UK gas markets. Lower than expected production in Indonesia as well as lower domestic demand and high

Figure 7: API 2 Cal 09 / Cal 10 in USD/tonne



Source: Vattenfall Trading Services

transport costs in Russia slightly reduced oversupply of the market. The situation on the global freight market is relaxed with ship capacities exceeding cargos.

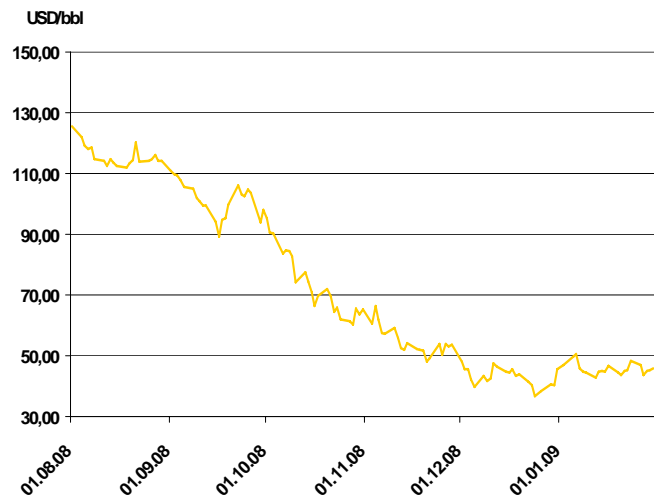
# Commodity Markets at a Glance

## 7. OIL TRADING: Slight recovery

In January, the oil market was dominated by geopolitical news and weak economic data.

The IPE Brent crude oil contract opened at 46.91 USD/bbl on 2 January. Israel's offensive in the Gaza strip and Russian gas supply cuts to Ukraine led to some panic buying of oil as a substitute product. In addition, capital flows into the oil market and people searching for investment opportunities moved the oil price to 50.53 USD/bbl on 6 January. During the rest of the month, oil entered into a sideways mode trading within the 43-48 dollar range being mainly driven by geopolitical news and global economic data. In the second half of the month, the Gaza ceasefire and Russia pumping gas through Ukraine to Europe again put some of the risk premium out of the market. On 23 January, the oil price increased to 48.37 USD/bbl due to OPEC supply cuts. Oil levelled off at 45.88 USD/bbl on 30 January.

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
BRIC	Acronym for the economies of Brazil, Russia, India and China combined.
C4	Voyage freight rate between Richards Bay and ARA
CRB	Commodity Research Bureau, commodity index which covers energy, grains, industrials, livestock, precious metals, and agricultures.
CHP	Combined Heat and Power Plant
CER	Certified Emission Reduction, resultant of an emission-reducing project in developing countries that has been certified
ECX	European Climate Exchange
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
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

# Commodity Markets at a Glance

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](mailto: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.

---