

# Commodity Markets at a Glance

February 2009

## Market Letter by Vattenfall Trading Services

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### 1. GERMAN POWER: Demand destruction gets apparent

#### Spot prices decline due to falling industrial demand despite cold temperatures and less wind.

Day-ahead base started at 49.47 EUR/MWh on 2 February and slowly descended on a weekly basis fluctuating between 46.29 EUR/MWh and 65.9 EUR/MWh until 20 February. The main reason for the downwards journey in February was the significant load reduction due to shut down of industrial production. Bullish factors such as cold temperatures, down 3-4°C compared to the two previous years, and low wind generation of 3.000 MW on average, down 2.000 MW compared to February 2008, could not prevent the price drop. In the last few trading days, the spot even went further south trading down to 37 EUR/MWh on 23 February as warmer temperatures triggered further load reductions and wind speeds slightly increased. Additional bearish impetus came from weak spot prices on the gas market which came significantly off. Run or river production was slightly below last year's level though still healthy. Power exports to France followed a straight pattern for this season. On 28 February, Biblis A went offline and remains to be shutdown until September. The spot market closed at 40.89 EUR/MWh, some 10 Euros below last month's closing.

On monthly average, Day-ahead Base was delivered at 47.79 EUR/MWh, which is 9.30 Euros below the average price for January 2009. The daily traded average volume decreased by almost 30,000 to 371,961 MWh.

Figure 1: EEX Base in EUR/MWh

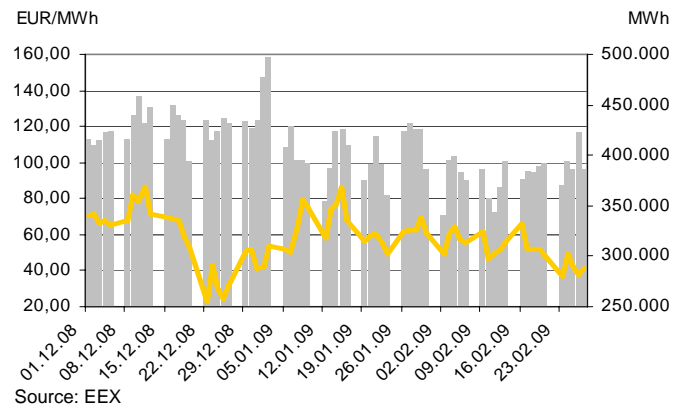
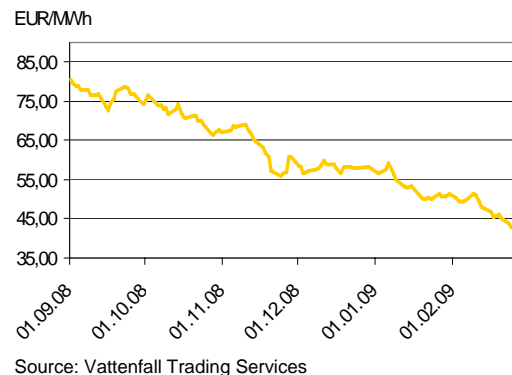


Figure 2: Cal 10 base in EUR/MWh



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## Weak fuel markets and a softening spot pushed down the long-term market by 8 EUR/MWh.

Beginning of the month, Cal 10 traded up to 50.30 EUR/MWh until 9 February mainly on the uptrend in coal. Weaker gas and coal prices, gloomy equity markets and soft spot prices on the power market moved

the long-term market down to 42.65 EUR/MWh on 25 February. At the end of the month, the Cal 10 regained some strength and traded up to 43.40 EUR/MWh until 27 February, still 7.89 EUR/MWh down compared to the last of January.

## 2. NORDIC POWER: Demand destruction continues

### Nordic spot prices continued to decrease despite weaker hydrological balance.

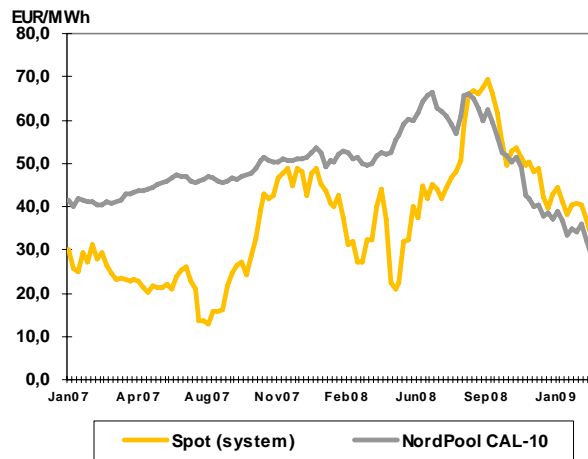
During February the system price continued down despite the fact that the hydrological balance weakened. Inflows were below normal in Sweden and Norway during the last month, except during week 9 when the inflow was 149% respectively 174% of normal. The beginning of the month was dry while the end was getting wet. The middle of the month was much colder than normal. In the northern parts the month was much colder than normal, and parts of northern Sweden had the coldest February for the last 15 years. The consumption was much lower than in previous years. Temperature was 0.1 degrees below normal. Industrial consumption was much lower than in previous years. The demand destruction continues. During February the nuclear capacity was high compared to previous months. Swedish reservoirs stood at 25.5% of maximum by the end of week 9, which is much lower than normal. At the same time, Norwegian reservoirs stood at 42.8% of maximum, which is below normal. Precipitation outcomes in Norway and Sweden amounted to a 13.5 TWh during February, which is 96% of normal.

On February 27, the Nordic Cal 10 closed at 28.85 EUR/MWh, down 7.05 EUR/MWh compared to the last of January, on the back of lower coal and CO2 prices and a very low consumption.

	2009 Feb.	2009 Jan.	2008 Jan.
Hydrological balance (TWh)	-11.6	10.6	15.6
Avg system spot (EUR)	38.0	41.5	45.2

Sources: VTS Balance for weeks 9 and 5 & NordPool

**Figure 3: Nordic spot price and forward Cal 10 for 2007-2009**



## 3. POLISH POWER: All contracts down

### Further shrinking demand pushed down the spot in Poland despite cold temperatures.

February 2009 brought some really cold and snowy days across Poland. An average temperature ac-

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counted for  $-0.7^{\circ}\text{C}$ , what was almost  $4^{\circ}\text{C}$  lower than in the previous year and lower comparing to normal historical outcome ( $0.3^{\circ}\text{C}$ ). Despite low temperatures, system monthly demand dropped by 5.94% year-on-year. It is undoubtedly true that Polish economy feels the pinch of global crisis.

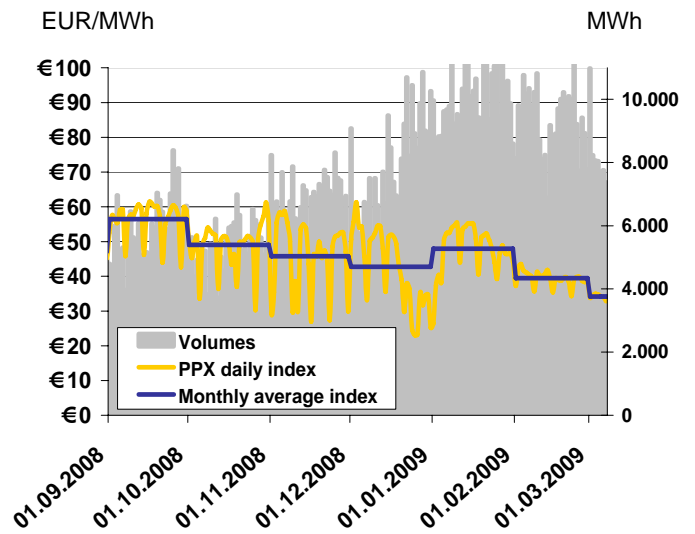
Shrinking demand increased the grid's stability and influenced healthy flows on daily capacities while 400 MW of monthly capacity was offered. For March monthly auction 400 MW of export capacities was available.

The average spot price in February amounted to 39.53 EUR/MWh for Base Load, 44.12 Euro/MWh for Peak Load and 35.82 Euro/MWh for Off-peak Load. Since the beginning of a month, constantly declining spot prices have been observed. The balancing market followed the spot direction.

Forward contracts for Cal 10 during the month held some liquidity. Other contracts were found to be rather illiquid. Cal 10 was falling during the whole month and ended with 43.80 EUR/MWh. Also the rest of term contracts were bearish. Quarters were even cheaper and finished slightly above 40 EUR/MWh.

prices slightly recovered closing at 10.17 EUR/tonne on 27 February. The upwards correction was triggered by market players closing their short positions

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



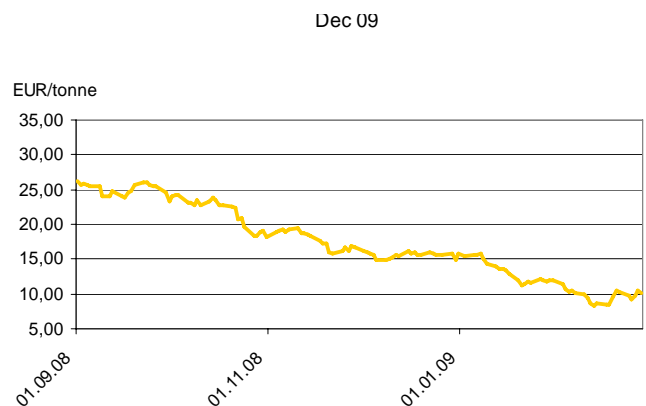
Source: PPX

## 4. CO2 TRADING: Bearish sentiment prevails

**After having reached new lows, the carbon market saw its first short upwards correction this year.**

CO2 opened at 11.38 EUR/tonne on 2 February giving up to 8.21 EUR/tonne until 12 February. The bearish sentiment on the market prevailed being supported by weak energy prices and new even lower price estimates of about 9 Euros. Spot volumes at Bluenext were still high during the whole month with industrial selling continuing to be the main price driver. At the same time, overselling of allowances might have led to increased volatility similar to what had been seen on 13 February when the EUA Dec 09 contract was gaining and losing within a +/-11% range. In the second half of the month, emission

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



Source: Vattenfall Trading Services

as well as stronger oil and long-term power market at the end of the month. Bearish signals came from new forecasts predicting the emission market being long on EUAs. News on Germany and Great Britain allocating allowances to its installations initially put some

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pressure on the market but the volumes did not materialize on the market subsequently. End of February,

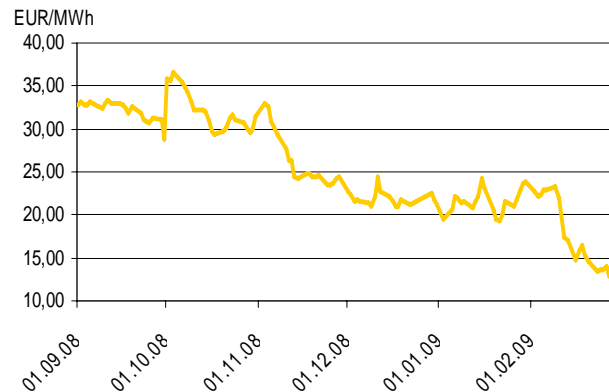
57% of 2009 allowances are issued with Polish issuance for 2008 and 2009 eagerly being awaited.

## 5. GAS TRADING: Back-end following prompt market

**A lowering demand and a healthy supply determined the market direction in February.**

Beginning of the month, the gas market was stable with colder weather and higher demand meeting a flexible supply. Until 9 February NBP front month traded between 22.21 EUR/MWh and 23.34 EUR/MWh. Prompt prices dropped to 12.91 EUR/MWh until 27 February on the back of a continuously healthy supply combined with a lowering demand due to milder weather, and new LNG arrivals. Russian gas flows to the continent remained at a low level. The dispute between Russia and Ukraine caused only a small uplift in prices at the end of the month. The back-end

Figure 6: NBP front month in EUR/MWh



Source: Vattenfall Trading Services

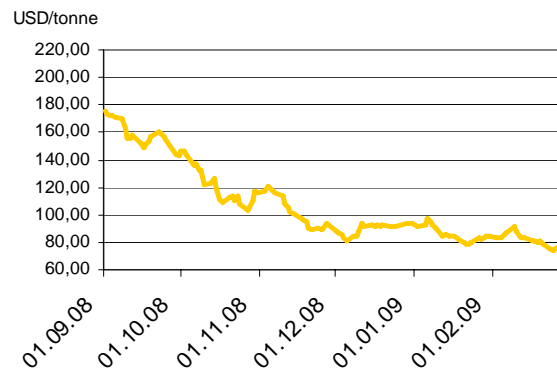
followed the prompt market despite low storage levels of 25% at Rough gas storage in UK.

## 6. COAL TRADING: Oversupplied market

**A healthy supply met a falling demand.**

Coal prices rose from 82.92 USD/tonne on 2 February to 91.58 USD/tonne on 9 February. This development was driven by hedging activities of utilities, colder temperatures in north Western Europe leading to higher coal burn than anticipated, and geopolitical risks affecting the oil market. Dropping gas prices, which made UK gas generation for summer base load more profitable than coal generation, put downwards pressure on the front quarters. In combination with lower energy prices, dropping shares, and a stronger USD, this led to coal prices falling further to 74.19 USD/tonne on 27 February. Healthy coal stocks and a weak demand in energy, steel, and cement industries added to the

Figure 7: API 2 Cal 10 in USD/tonne



Source: Vattenfall Trading Services

downward trend. The freight market was still oversupplied in February.

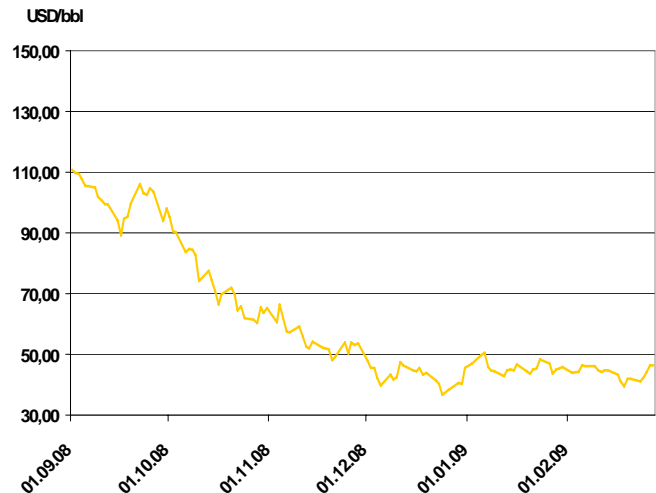
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## 7. OIL TRADING: Sideways channel

**Bullish news battled with the overall bearish economic outlook.**

Crude oil opened at 43.82 USD/bbl on 2 February and rose to 46.21 USD/bbl until 6 February due to OPEC talks to cut production and geopolitical tensions in Nigeria. Bearish global economic indicators and oil demand being revised downwards by IEA, EIA and OPEC moved oil down to 39.55 USD/bbl until 18 February. The market lacked strong upwards factors with uncertainty on election outcome in Israel and exports cuts from Nigeria limiting the downside. In the course of the month, oil gained again to 46.35 USD/bbl on the back of the implementation of the OPEC supply cuts and the signing of the US stimulus package. Brent front month gained 0.47 USD/bbl compared to the January closing.

**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
LNG	Liquefied natural gas
NAP	National Allocation Plan, determine the total amount of CO2 that installations covered by the EU ETS can emit in a given Member State

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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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