

# Commodity Markets at a Glance

May 2009

## Market Letter by Vattenfall Trading Services

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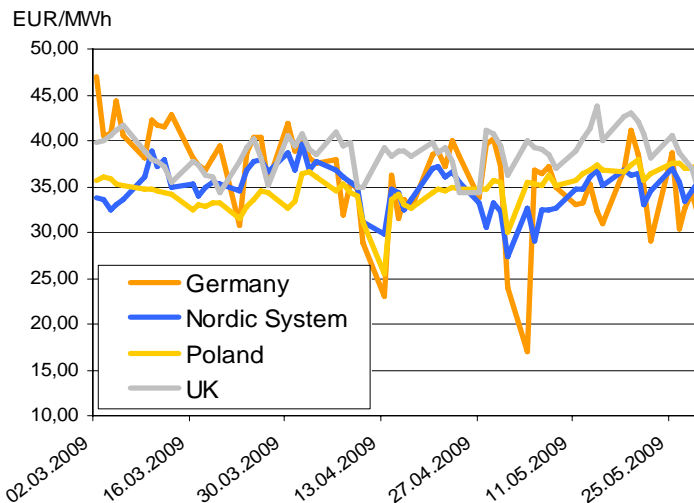
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### 1. EUROPEAN POWER

#### **Spot markets: Temperatures and industrial demand drive the market**

Continuous weak demand from the industrial sector kept prices on European spot markets on a low level. German spot market lost 2.10 EUR/MWh compared to the average price of April, the Nordic system spot went down by 0.30 EUR/MWh, while the average spot prices in UK and Poland increased by 0.98 EUR/MWh respectively 2.09 EUR/MWh.

**Figure 1: European power spot markets in EUR/MWh**



Source: Vattenfall Trading Services, EEX, Nord Pool, PPX

#### **Germany**

Day-ahead Base started at 24.04 EUR/MWh on banking holiday 1 May and reached a month's low at 17.06 EUR/MWh on 4 May due to strong winds. Negative prices in hours 0-6, with hour 2 reaching minus 151.67 EUR/MWh caused this year's low. For the rest of the month, the spot traded in the 29-41 EUR/MWh range. Wind production was very strong at the beginning and at the end of the month with weekly averages of 5,500 respectively 6,000 MW. Mild temperatures were slightly above the normal. Power plant availability was healthy despite some base load capacities going-off and returning from maintenance. Industrial demand continued to be weak both in Germany (~4.500 MW lower than in 2008) and France (3.000 MW lower than in 2008). Inflows from the Alps increased due to snow melting finally picking up.

On monthly average, Day-ahead Base was delivered at 30.93 EUR/MWh, slightly below the price at which May contract went into delivery. The daily traded average volume decreased by 5% to 358,752 MWh.

#### **Nordic**

During May, the system price moved sideways with the hydrological balance. On average, the system spot declined to 33.30 EU/MWh. Inflows in Sweden and Norway were 94% respectively 80% of the normal. The precipitation outcomes in Norway and Sweden amounted to 9.9 TWh (93% of normal). Swedish reservoirs stood at 42% of maximum by the end of

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week 22, which is lower than normal but heavily increased compared to last month. At the same time, Norwegian reservoirs stood at 47.8 % of maximum, which is slightly higher normal. Warmer temperatures in April and May resulted in snow melting peaking early this year. This means, that inflows will be lower than normal in the coming weeks. The high temperatures in combination with the economical slowdown brought down consumption by 3-3.5 TWh compared to previous years. 1 reactor in Sweden and 2 reactors in Finland completed their yearly maintenance.

	2009 May	2009 April	2008 May
Avg system spot (EUR)	33.3	33.6	26.1

Source: NordPool

## Poland

Poland experienced relatively mild weather in May. Average temperatures reached 13.3°C, which was slightly lower compared to last year and the historical normal outcome of 14°C. System monthly demand declined in May by 4.95% year-to-year on economic slowdown. The low demand supported the grids stability and influenced healthy flows on daily

capacities while a monthly capacity of 600 MW was offered. For June and July monthly auctions, 700 MW of export capacities were available. A negative cross-border trading balance between Poland and Germany was registered in May for the first time in the last two years. Especially import from Germany in Off-peak hours proved to be profitable last month.

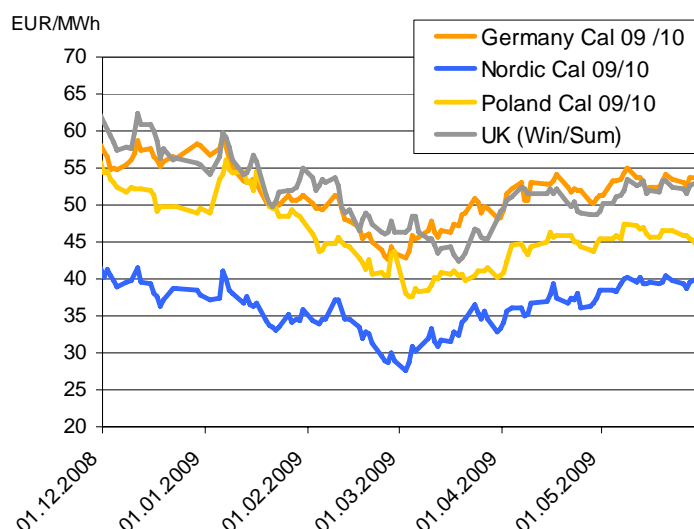
The average spot price in May amounted to 35.02 EUR/MWh for Base Load, 39.36 EUR/MWh for Peak Load and 32.08 EUR/MWh for Off-peak Load. Spot prices in May were higher than in April, especially in Off-peak hours because of lower CHP generation.

## UK

The Day-ahead market in UK opened at 36.22 EUR/MWh and increased to 43.85 EUR/MWh until mid of May. In the second half of the month, spot prices weakened again following lower gas prices and closed at 34.37 EUR/MWh end of month. Situation on the supply side was relaxed with supply margin not falling below 10,000 MW despite LCPD plants being to a large extent off-line. Temperatures were relatively cold and averaged 2-3°C below the normal. On the demand side, Peak Load demand went down to 40,000-41,000 MW due to sinking industrial consumption.

## Term markets: Front year gains across Western Europe

Figure 2: European long term markets in EUR/MWh



Long-term markets in Western Europe strengthened in May on the back of stronger commodities and equities. In Poland, term markets slightly lost towards the end of the month.

## Germany

Cal 10 gained to 53.25 EUR/MWh beginning of May and developed sideways subsequently mainly following developments in equity markets. Cal 10 trading volumes were healthy in the first half of the month but declined in the second half due to market lacking a clear direction and European and US banking holidays. Interestingly, Cal 10 did not follow the very strong up move observed in oil. They rather followed carbon certificates and closed at 53.72

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EUR/MWh on 29 May, 2.32 euro above the last quotation in April. The strong contango reflects the optimism of market participants.

## Nordic

The Nordic Cal 10 closed at 40.10 EUR/MWh on 29 May gaining 1.70 euro during the month despite a slightly stronger hydrological balance. The Cal 10 contract continued to be more correlated to coal, oil, CO2 and global economy than to the hydrological balance.

## Poland

After liquidity of Cal 10 was weak during the first three weeks in May, some offers on the supply side appeared at the end of the month. Contracts for quarters and the Balance of Year, i.e. the average forward price for coming rest of this year, were illiquid with market participants waiting for clear direction on

price movement. Cal 10 fluctuated around 45 euro last month and finished at the level of 44.68 EUR/MWh. Q3 and Q4 remained in horizontal trend below the 40 euro mark.

## UK

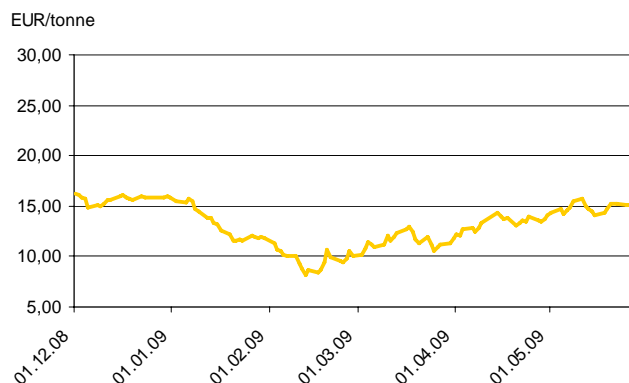
The Cal 10 followed development on the oil market at the beginning of the month rising from 50.30 EUR/MWh on 1 May up to 53.48 EUR/MWh on 8 May. In the course of the month, term quotations developed sideways ranging between 51-54 euro being driven by coal and CO2. Focus on the term market shifted to the July contract with July prices increasing heavily during May due to planned maintenances and decreasing supply margin in UK for this summer. At the end of the month, Cal 10 traded at 52.98 EUR/MWh, up 3.12 euro compared to the last of April.

## 2. CO2 TRADING: Looking for direction

**After three weeks of bouncing around, the CO2 market traded flat at the end of the month.**

From beginning of the month until 11 May, CO2 rose from 14.38 EUR/tonne to 15.77 EUR/tonne on the back of stronger oil and power market. The uptrend was followed by a decline down to 14.07 EUR/tonne on 15 May before prices rebounded and marched sideways until the end of the month. With much of the market gathering at Carbon Expo in Barcelona and some banking holidays across Europe, the market was quiet and failed to respond to the strong gains posted in oil in the second half of the month. CO2 market finished at 14.93 EUR/tonne, having earned 0.79 euro in a month. Beginning of June, Spain's grid

**Figure 3: European Union Allowances in EUR/tonne on forward market**



Source: Vattenfall Trading Services

operator Red Eléctrica began to publish real-time data on the CO2 emissions of the power sector

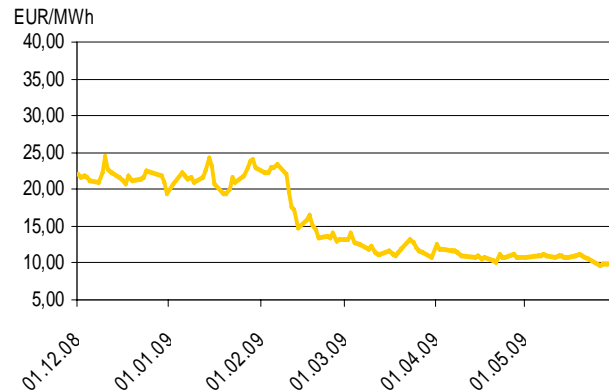
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## 3. GAS TRADING: Marching sideways

**Healthy LNG flows, supply interruptions and good storage injections kept the gas market stable.**

NBP front month opened at 10.56 EUR/MWh trading sideways until 22 May. Steady LNG flows both to the UK and to Zeebrugge provided a healthy supply situation during the whole month. Unplanned interruptions at e.g. Kollness, Norway, and scheduled maintenances failed to lift UK gas prices. Demand was relatively weak at a normal seasonal level. High storage injections and increasing interconnector flows to the continent, especially towards the end of the month, supported the demand side. Storages across Europe are at high levels, UK levels were set at 70% (compared to 56% in May 2008). On the last few

**Figure 4: NBP front month in EUR/MWh**



Source: Vattenfall Trading Services

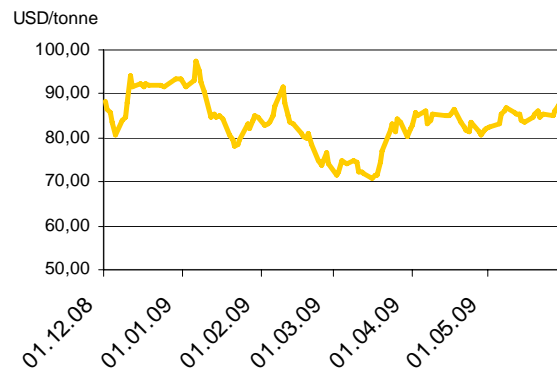
trading days, gas fell by 0.50 euro levelling off at 9.80 EUR/MWh on 29 May.

## 4. COAL TRADING: Firmer market

**Coal gained on the back of higher equities and oil despite well-stocked supplies.**

API 2 Cal 10 opened at 82.50 USD/tonne on 1 May and rose to 88.04 USD/tonne in the course of the month. Coal prices were mainly driven by higher share prices, a firmer oil market and a weaker US dollar. Oversupply situation and high stocks continue to characterise the coal market. Electricity generation by burning gas is cheaper than by burning coal in the UK for this summer. Chinese spot buying due to on-going negotiations with domestic producers and high domestic coal prices supported Newcastle prices. Further support came from India. Final purchasing of India before the start of the monsoon season stabilized prices at Richards Bay Coal terminal, South Africa.

**Figure 5: API 2 Cal 10 in USD/tonne**



Source: Vattenfall Trading Services

This helped to compensate for the weak European demand. Freight rates increased heavily in May.

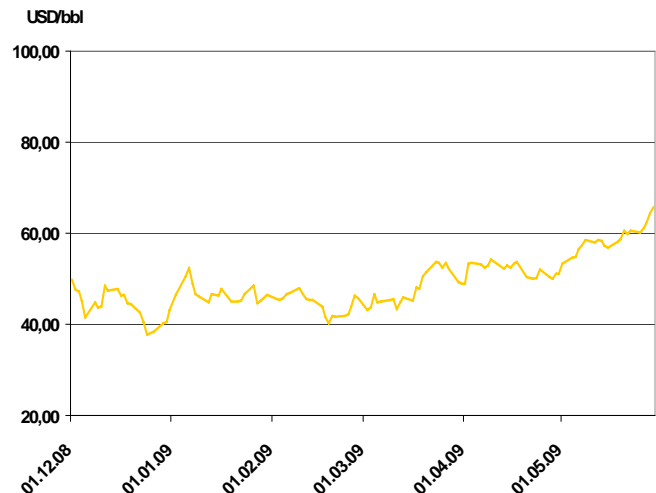
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## 5. OIL TRADING: Upwards channel

Optimism due to slightly improved economic data as well as a strengthening EUR/USD rate fueled the oil market in May.

IPE Brent Oil jumped to 53.42 USD/bbl on 1 May and further firmed until end of the month. Economic optimism on the back of improved economic data has turned the momentum to the upside. Additional impetus came from a stronger EUR/USD rate which led to increased investments into dollar-quoted commodities which are used as inflation and currency hedge. This was supported by the strong contango in the oil curve. Fundamentally, the situation on the oil market remained largely unchanged, though. US inventories stayed on extremely high levels especially crude oil and gasoil. The slight decrease in stocks was interpreted as bullish signal for the oil market though it was caused by lower imports and not by growing demand. OPEC compliance rose to over 80% which made further supply cuts redundant given OPEC's view on a fair price level around 75 USD/bbl.

Figure 6: IPE Brent Oil in USD/bbl (front month)



Source: Vattenfall Trading Services

Brent Oil closed at 65.66 USD/bbl on 29 May having gained more than 14 dollar compared to the end of April.

## 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	Liquified 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
NBP	National Balancing Point, gas hub in Great Britain

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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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