

GME'S NEWSLETTER – The new issue has been published

Rome, 9 August 2016 – The new issue of the newsletter of Gestore dei Mercati Energetici (Gme) is online and can be downloaded from the website www.mercatoelettrico.org.

The issue starts with a piece by Lisa Orlandi of Rie dedicated to the oil market and its up and down trend in the first months of 2016 and what scenarios to expect for the rest of the year. *"On 20 January 2016 - Mrs. Orlandi highlights - Brent prices had touched \$ 26 per barrel, the lowest level in the last 12 years."* This drop has left hypothesize dire predictions for the rest of 2016 so as to assume a price of around \$ 10 per barrel. This bearish sentiment has led to forecasts of the main international institutions to favor a "lower for longer" trend. However, the expert of Rie empathizes *"precisely those 26 dollars in late January represented a turning point, [...] for the different attitude that from that moment began to take on the actors in the field: on the one hand, the exporting countries, driven by the fear of new collapses, have started talks on possible production control initiatives [...]; on the other hand, the speculative vocation traders have started to focus on the non-repeatability of the bearish cycle with a very substantial increase in long positions."*

The mood change, Mrs. Orlandi highlights, can have a strong influence on oil prices even in the absence of substantial changes of the current levels of demand and supply. *"So it was since last February, when [...] the prices have regained strength, initially rotating around 30\$ and then moving toward the threshold of 50\$ that, in some daily sessions, was also overcome."*

The market, as highlighted by RIE, showed a new scenario, thanks to two main factors: an offer that is starting to show signs of weakness and the strength of demand, with growth forecasts with India which has taken the place of China as a *pacesetter* of world consumption.

For the future, Mrs. Orlandi writes, the direction that the market will follow is *"that of the gradual rebalancing supply / demand that is already showing unequivocal signs. However, the different variables and unknowns condition, [...] the time of its actual materialization,"* Among other things, from November 2014, OPEC no longer directs the oil "traffic" and this policy of breaking with respect to the past involves that there are little or no able to balance the market.



On the demand side - the expert of RIE empathizes - things are not simple, *"the estimates of the main institutions have agreed to envisage a fairly "healthy growth" both in 2016 as well as in 2017, driven by non-OECD Asia demand and in particular India one, increasingly considered the "new China."*

Against these expected trends, however, they are opposed now the *"chronic doubts about Beijing's situation and after 13 years it has lost the palm of undisputed star of world consumption but it remains a key player, and the new concerns generated by Brexit."*

With reference to the evolution of the Brent prices, Mrs. Orlandi notes that *"The main institutions and investment banks remained confident even in a context such as that which emerged in July, in which a general negative attitude and a greater reunion to the current fundamentals have gained the upper hand on the upbeat animal spirits in last spring. Their most recent indications converge on 2016 prices that move in the range of 40-50 dollars".*

More bullish is the consensus forecast on 2017, when prices could fluctuate in the 55-60 dollars range, after resorption." The market - the expert of the Rie says - is therefore taking a direction of progressive rebalancing *"although the marching is held back by very high inventories, the elasticity of the prices of shale production, seasonal demand of the new market influencers, a very active but little strong finance."*

The new issue of the newsletter comes with the usual technical commentaries on the electricity and environmental national and European markets and exchanges, the section devoted to the analysis of the trends of the Italian gas market and the analysis section on trends in Europe, which delves into the trends of the main European commodity markets.

GME's new publication also reports, as customary, the summary data of the electricity market for the month of July 2016.

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