

NEWSLETTER GME – New issue now online

Rome 13 March 2020 –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 newsletter begins with an intervention by Alberto Clò from RIE on the impact of coronavirus on energy markets. *"Coronavirus is beating hard on energy markets and industries, with impacts that could project in the long term - Clò points out - . "An unprecedented threat to the world economy" as defined by the OECD, which cut the growth estimates in 2020 by 0.5%, from +2.9% to +2.4%, compared to the forecast of the Economic Outlook of November, with the risk for the scenario to get even worse: an era of new recession".* According to the professor there are six variables in the oil economy that will be most affected: prices, demand, production, investments, intra-fuel competitiveness; producer/consumer economies. *"The level of downward prices is difficult to predict, as they depend on many interdependent factors",* the analyst of the RIE points out adding that much, in particular, will depend on demand. *"In a few weeks, the Chinese demand has fallen by 20% due to the drastic reduction in air transport (-80%), the shutdown of a large part of the factories, the general contraction of the economy. The first estimates made by the OECD assessed the drop in Chinese gross product in 1.2% compared to 2019, from 6.1% to 4.9%, and in 0.8% compared to the expectation of November ",* Clò explains. But there is more. The market balance will also depend on the reaction times of the third circle: production. *"Not immediate times for the convenience of companies and not reducant it until the contribution margins (revenues minus variable costs) are positive".* As the crisis continues, then *"as conventional production still prevails over the total production and, indeed, on the rise, the excess supply is expected to increase (despite the several million barrels per day lost in Iran, Libya, Venezuela). The result - the professor adds – would be a further downward pressure on prices in a negative spiral that could stop only with the reduction of the health emergency or a drastic cut in production".* As if this were not enough, the drop in prices *"will further reduce investments for more reasons",* Clò adds, for example for the *"strict financial rules that companies have adopted",* for *"their pressure on companies to reduce exposure to the risks of climate policies by turning towards low-carbon technologies, even if less profitable than traditional businesses"* and for the



"inability to operate in many countries with large proven reserves (Iran, Iraq, Libya, Venezuela) . In short – the professor states - low investments today, mean a lower supply tomorrow". The penultimate aspect is that of the impact on the interfuel competition. "There is a direct correlation on the methane segment already suffering from the large excess of supply and consequent collapse of prices now exacerbated by the coronavirus". However, there is more. "The dependence on Chinese technology and manufacturing is clearly showing how high the vulnerability of the energy systems that depend on the foreign supply chain of renewables is, under the illusion that energy security can be achieved by simply exchanging a dependence with the other" the analyst of the RIE explains. Finally, "there is one last elemtn that is worth, albeit briefly, to recall: the impact of the crisis on the economies of producer and consumer countries - Clò clarifies -. As early as the counter-shocks of 1998-1999 and 2014, had shown that a drop in prices did not see winners and losers, yet only losers. The collapse of the economies of the countries that most depend on the revenues from exports of oil and methane did not in fact correspond to the advantages of the countries that imported them". In essence, "this crisis could be an imput to begin a reflection on some issues to learn from them how to change them. The first – the professor underlines - is the growing vulnerability to Asia-related supply chains of the economies that have made large use of them, also taking into account the reduction of their economic advantages. The result should be a consolidation of the trend - already started both in Europe and America - to bring back to Italy (reshoring) activities located abroad or to reduce technological dependence in crucial sectors such as telecommunications or energy in new low-carbon technologies. As happened with the establishment of the European Battery Alliance in electric mobility and the recent allocation of EUR 3.5 billion. The second truth, it seems trivial to say, is that the world economy still depends heavily on oil and replacing it in 'a blink of an eye' is a long and extremely complex path. All this is linked to the third truth - concludes Clò -: the inevitable path to the energy transition to the post-fossil one is much more difficult than what has been imagined up to now".

The new issue also includes the usual technical commentaries on the markets and the national and European electricity and environment exchanges, the section devoted to the



analysis of the trends of the Italian gas market and the section with an analysis on European trends, which delves into trends in key European commodities markets.

The GME's new publication also reports, as customary, the summary data of the electricity market for February 2020.

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Press Release