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NEWSLETTER GME – New issue now online

Rome 15 June 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 Lisa Orlandi from the RIE on the effects of the lockdown on the oil market. "*From 70 to 20, then from 20 to 40. Four figures that testify to the anomalous price trend of Brent Dated - the international benchmark - in the first five months of 2020. If we did not consider what really happened, by reading these data we would conclude that a traumatic event has occurred, something commonly referred to as oil crash, now being resolved*", observes the RIE researcher, adding that however its resolution,"*is much more uncertain, as are the related effects both in terms of intensity and duration*". However, 2020 had not started badly: "*The US-China tariff dispute seemed to have been resolved, Britain's exit from the EU had eliminated an important factor of uncertainty, OPEC Plus seemed solid and united in its intent to control world production. Hence, the strengthening of oil which at the beginning of January reached 70 dolls/bbl*". Then the outbreak of coronavirus and lockdown. "*The adoption of such restrictions is unprecedented and affects the heart of oil demand: the transport sector - Orlandi explains -. All this, in a context already very fragile due to the strong tension between the two OPEC Plus pillars, Saudi Arabia and Russia, which worsened in early March with the failure to agree on production cuts*". This is how the barrel price began its bearish spiral: in March alone the prices halved, "*going from 50 to 25 dolls/bbl, reaching the minimum of 20 dollars at the end of April*". The extraordinary summit of Easter (April 12) of OPEC Plus was organised in the context of a dark and apparently unsolvable scenario, which completely distorted the failure of the previous one. "*Immediately, despite its historical significance, the agreement did not have any bullish effect on prices for at least three main reasons: because it was considered insufficient to cover the huge emerging demand gap; due to* *the difficulty in fully complying with it, in the wake of a historical tendency by OPEC member states (now OPEC Plus) to avoid the rules; finally, because in addition to the countries adhering to the cuts, other important producers would have had to adapt their offer to the new order of things* – points out the RIE analyst -. *This initial and motivated distrust has, however, gradually eased. Despite a strongly negative change in consumption also in May (estimates indicate -21 million bbl/d on the same month of 2019), prices have recovered, once again reaching above 30 doll/bbl and, at the beginning of June, reaching almost 40*". Two main elements came into play to support this slight recovery: "*On the demand side, the general easing of restrictions on mobility, which leads to estimate a reduction in consumption gradually more contained in the second half of the year; on the offer side, the confirmation and the strengthening of the April agreement at the OPEC Plus summit on 6 June*", Orlandi continued adding that, in any case,"*even in the optimistic hypothesis that total closings will not be repeated following a second wave of infection, 2020 is now seriously compromised and the estimated drop in oil demand is around 9 million bbl/d: such as to erase the growth of the last decade in one year*". As for US shale oil, "*the holders of this industry perhaps hoped that Covid-19 was the right way to eliminate it and in fact the first data published by the US Department of Energy after the price drop to 20 doll/bbl - and even lower values for the WTI (reference crude oil for the USA) - could at least foresee a new heavy setback for the sector*", adds the RIE researcher. Despite this, "*with the rise in prices to 40 dolls/bbl, the scenario may be less pessimistic as far as it is final. The increase in prices essentially foresees the possibility of a partial recovery of shale oil production, so that once again this industry would benefit in part from the sacrifices of others*". In short, "*the strong uncertainty that weighs on the current context, in turn generated by an entirely unimaginable event, leads us to believe that the partial rebalancing that the oil market seems to have regained at the beginning of June is fragile. The future evolution of the market will in fact depend on numerous and imponderable factors, closely related to each other* - Orlandi concludes -*: from the times of recovery of the world economy; from the times of reconstruction of oil demand; the keeping of OPEC Plus as market conditions tend to improve; the ability of the*

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producing countries to survive the setback they are forcibly facing; from the recovery of investments in exploration and production, the decline of which is estimated to amount to approximately 190 billion dollars in 2020 compared to the initially planned budget ".

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 May 2020.

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