

GME NEWSLETTER – The new issue has been published

Rome 15 June 2021 – The new issue of the Gestore dei Mercati Energetici (GME) newsletter is online, downloadable from the website www.mercatoelettrico.org.

The newsletter opens with a speech by Agata Gugliotta and Gian Paolo Repetto of the RIE on the volatility of prices on the gas markets.

"The natural gas markets are experiencing a situation characterised by a significant volatility of prices. In March 2020, the spread of the pandemic in Europe and Italy had hit a market situation already characterised by a marked imbalance between weak demand and abundant supply, largely due to the wide international availability of LNG – explained the two analysts of the RIE -. The collapse in consumption caused by the lockdown, the mild temperatures and the relative low demand for heating created a combination of factors that led to the collapse of prices that reached historic lows in mid-2020".

Proceeding towards autumn "a rebound from summer lows could be generally assumed" according to Gugliotta and Repetto. Conversely "starting from September an important rise in prices began which in the following months and then during the first half of 2021 became increasingly significant and completely unexpected in its dimensions".

Three factors contributed above all to European and national demand, explained the two RIE researchers: "A particularly cold spring that diverted volumes to consumption for heating that were mainly intended for the replenishment of stocks after the start of the injection season (1 April); the resuming of consumption of productive activities following gradual easing of the restrictions linked to the pandemic; a sustained demand for methane by thermoelectric plants".

The increase in gas prices must also be seen in a context of general increase in energy commodities: "Firstly, oil, which in recent weeks has begun to rise again, exceeding the threshold of 70 doll/bbl at the beginning of June", Gugliotta and Repetto specified, adding that a further impact factor on the energy markets in recent months was also represented by the record prices of CO2 (EUA - European Union Allowances).

"In summary, the determinants of the trend of increasing prices of issuance permits are to be found: in the Market Stability Reserve (MSR), a containment mechanism that aims to avoid the excess liquidity of permits in the system; in the role played by finance with a growing number of hedge funds and other speculative entities that are active on the market; in the possible future implementation of the carbon border adjustment mechanism, a tax on carbon-intensive products imported into Europe; finally, above all, in raising of the EU's emission reduction targets from 40% to 55% by 2030 (compared to the 1990 values), a factor that will impose further tightening on the permit market, exerting a bullish effect also for the next few months", clarified the two RIE analysts.

For these reasons, the movements in prices on the wholesale markets will have a fairly rapid impact on the final consumer markets. *"In Italy, with regard to the final protected prices, after the increase recorded in the second quarter of 2021 (the final price before taxes +3.9%), the next update of ARERA for the third quarter should lead to an increase in the energy component (so-called 'Pfor') of almost 50% (approximately +8.8 c€/m3) – underlined Gugliotta and Repetto -. Furthermore, the increase in methane prices has had a significant impact on electricity prices which, with the contribution of other factors, such as the rise in emission prices, the recovery of demand and the reduction of imports, have pushed the PUN in recent months to 70 €/MWh and over 54 in December 2020. Here too with consequences on consumer prices that will become evident in the next summer quarter".*

In short, exceeding of the methane price system anchored to oil prices with moving averages, which has taken place for several years now in favour of pricing mainly linked to the specific supply/demand balance of the gas market, *"has allowed consumers to benefit from long periods of relatively low prices, lower than those they would have had to sustain with values linked to oil prices. Inevitably, the correlation with prices at the hubs can, however, expose prices to significant fluctuations due to economic situations, with marked declines, or unexpected rises even in the context of phases in which market fundamentals do not seem to fully explain these variations. And given the close link between methane prices and electricity prices, there is a risk that the volatility of the price signals generated on the spot markets will not reconcile with the enormous investment needs of decarbonisation processes"*, concluded the two RIE experts.



The new issue also includes the usual technical comments relating to the national and European electricity and environmental markets and exchanges, the section dedicated to analysis of the trends in the Italian gas market and the section covering analysis of the trends in Europe, which explores the trends on the main European commodities markets. The new GME publication also reports, as is now customary, the summary data of the electricity market for the month of May 2021.

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