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NEWSLETTER GME – New issue now online

Rome 13 April 2018 – 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 opens with an intervention by Lisa Orlandi from the RIE on the apparent balance of the world oil market. The analyst points out that "*In the first quarter of the year, the Brent Dated prices - reference international benchmark - remained stable at 60-70 doll/bbl, a threshold that in some days was even exceeded, for the first time since December 2014. A range that many define as balance, supported by factors already tangible starting from the second half of 2017 and especially from October, when prices steadily above 60 have begun to reflect a more balanced demand and supply compared to what happened after the 2014 crash, in addition to the return of a geopolitical risk premium* ". The undisputed protagonists of this delicate historical phase are the new OPEC Plus and the US shale oil, which have been competing for a year and a half, with an outcome that is anything but certain. Orlandi explains that "*2018 is expected to be a key year in which the strenght of the agreement will be tested and in which the intentions of the parties will be better understood. Until now, the mechanism has proved to be effective and efficient but a future jam can not be ruled out*". "*The broader OPEC is compelled to confront with the United States, whose oil supply has started to rise again strating from last spring exceeding the threshold of 10 million bbl/day and beating the historical record of 9.6 million bbl/day achieved in 1970 under the presidency of Richard Nixon*". In addition, if we consider that "*there is still limited knowledge of shale oil and its 'behavior' in relation to the different market conditions and that the estimates on recoverable resources are strongly uncertain, the future of this production, both in terms of direction and intensity, it is practically impossible to predict and other producers are struggling with an unsolvable problem*", Orlandi explains. Starting from 2017, the tug of war between OPEC and the United States has been joined by "*increasing geopolitical instability in key areas of production and transit, triggering a relevant psychological component that sometimes prevails over market fundamentals*". In this scenario, as the researcher from the RIE explains, the prices of crude oil "*have never moved form 60 dolls/bbl. It is therefore unlikely that a vertical fall in prices will occur because the agreement on cuts - as long as it is in force - seems to define a minimum resistance floor around this threshold, as the stock* *reduction process for which it was designed has now started*". She adds that "*the analysis of the first quarter of the year - and of the last six months - seems to support the idea that the price of crude has reached a balance around 65 doll/bbl, a price at which OPEC and non-OPEC production cuts and the increase in US production are balanced*". Pending further responses, "*it might be possible to venture that this year the market will still experience an offer fully capable of responding to the demand, but in a context of progressive rebalancing. On the farthest future, instead, the hypotheses are various and range from those who believe that oil will remain dominant in the world energy mix to those who instead perdict its imminent end. A third option is the current period of balance, with its multiple questions whose answers, as they become clear, can lead to very different outcomes*".

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 March 2018.

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