

GME NEWSLETTER – The new issue has been published

Rome 14 July 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 comment by Lisa Orlandi of the RIE on the role of oil and OPEC on the international markets: *"Sixteen months have passed since that 11 March 2020, when Covid-19 was declared a pandemic; months in which the announcements of unprecedented lockdowns and restrictive measures filled the news pages, added to the inexorable and tragic count of infections and victims that affected almost all the countries of the globe - emphasised the RIE analyst -. In such an anomalous and complex year, the world has come to a halt: the virus has triggered the worst global economic crisis since the Great Depression, with a contraction in GDP equal to 3.3% on a global scale and with a never before seen conditioning of the freedom of movement of a large part of the population".* In this context *"the transport sector was the first to be directly affected by the restrictions, slowing oil consumption for the month to around 77 million barrels per day (mil. bbl/d), a level not observed since 1995 and lower by around 20 mil. bbl/d compared to the beginning of the year - Orlandi recalled -. The reduction in consumption thus took place in an already very fragile context, characterised by excess supply and aggravated by the marked tension between the two giants of OPEC Plus, Saudi Arabia and Russia, which in March failed to reach an agreement on production cuts. Hence the drop in prices down to the minimum of 20 dollars/bbl touched in the month of April. In a situation of apparent impasse, it was the Alliance of Producing Countries that took over the reins of the market, smoothing out internal differences and resulting in signing - at the extraordinary summit on 12 April - of an agreement that has no historical precedent."* The reverberation on prices *"was gradual but noticeable with prices having picked up momentum already in May, reaching over \$30/bbl"*, continued the RIE researcher, adding that the *annus horribilis* 2020 ended with an average value of the European reference crude oil close to 43 dollars per barrel *"but with prices that at the end of the year significantly exceeded \$50/bbl. A trend that underlies a discontinuous dynamic, with an abrupt but limited downward fluctuation followed by a rapid and gradual recovery, which consolidated strongly in the first half of 2021"* once again thanks to *"continuation of the efforts of the Russo-Saudi mission"*. Crude oil prices thus benefited from stability and rose from \$55 a barrel in



January to the 60-70 range in the February-May period, realigning at pre-Covid levels. But there are also other reasons that contributed to determining this growth pattern in the year that most define "the restart". *"The start of mass vaccinations and the prospects for a recovery of the world economy - with an estimated increase in GDP of 6% - have fuelled a growing of optimistic expectations on the increase in oil consumption, closely related to the actual economic trend, - clarified the RIE analyst -. and the recovery in demand is actually taking place: from about 93 mil. bbl/d in the first quarter of 2021, on the same levels as in the corresponding period of last year, it reached 94.9 in the second quarter: an increase of 12 mil. bbl/d compared to the most critical period of 2020"*. However, in the context of a demand-driven picture that seems to become increasingly clear, *"the central months of 2021 are characterised by greater uncertainty on the supply side. The usual monthly OPEC Plus summit, scheduled for 2 July and then postponed to the 5th of the month, was in fact cancelled following significant internal divergences. In particular - Orlandi admitted - , the absence of an agreement was determined by the resistance of the United Arab Emirates which asked to review the mechanism by which individual countries contribute to the cuts should the agreements extend beyond the deadline of April 2022"*. *"Given the latest events and at least for the short term, it would be natural to ask ourselves with understandable fear 'Who's in the driving seat now?' - wonders the RIE expert -. On the demand side, the peak has not yet been reached, despite the pre-announcements and the fact of it being taken for granted by many. Instead, on the supply side, at least four other elements are added to the elephant in the room represented by the risk of holding the Alliance,"* namely the US shale, the possible cancellation of sanctions on Iran, the OPEC spare capacity and the continuing collapse of investments in the upstream phase. *"How the pieces of this complex puzzle will come together is not, to date, predictable but"*, concluded Orlandi, *"we should also deal with the oil market in the years to come, as we cannot imagine a situation where, wiping the slate clean, overnight we can do without it, despite an increasingly targeted path of decarbonisation of energy systems. In fact, incisive political measures and a radical change in lifestyles would be needed to bend the consumption curve, which is still not visible on a global scale"*.

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



the analysis of the trends in the Italian gas market and the analysis section on 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 June 2021.

Gestore dei Mercati Energetici S.p.A.

Governance Department

Tel. +39 06 8012 4549

Fax. +39 06 8012 4519

governance@mercatoelettrico.org

www.mercatoelettrico.org

Press Release