Press Release

GME NEWSLETTER – The new issue has been published

Rome 17 January 2022 – The new issue of the Gestore dei Mercati Energetici (GME) newsletter is online, downloadable from https://www.mercatoelettrico.org.

The newsletter opens with a comment by Lisa Orlandi of the RIE on fragmentation of the oil market between 2022 and 2023. *"The beginning of the year, in fact, is the same only in numbers but certainly not in what then followed those numbers. The almost 80 dollars at the beginning of 2022 implied an increase in tensions, mainly of a structural and geopolitical nature, on the intertwining of which the overbearing return of a three-digit barrel would have been dependant* - observed the RIE analyst -. *The supply-demand imbalance determined by the recovery in post-pandemic consumption and the weak production capacity available, in particular after years of under-investment in upstream oil, was the structural reason for the increase that started at the end of 2021 and the following period of low prices linked to the emptiness of demand due to the pandemic. Therefore, a bullish context was already in place when the Russia-Ukraine war started, which amplified the trend by adding the so-called war premium to the prices and which represented the trigger of a new oil order".*

At this stage, "*although there was a break with the upward trend of the beginning of the year and the emergence of fears of recession, different factors prevented a more pronounced drop in prices which settled on a resistance threshold indicatively between 85 and 90 doll/bbl*," Orlandi pointed out. *Among these, structural factors can be identified, linked to an increasing demand and to persistent critical issues on the supply side given the inability to consistently increase production in the non-OPEC area and the reduced capability within OPEC Plus".* But also political factors: *"After several changes of direction and despite the tug of war with the United States which has repeatedly asked Riyadh to release more oil on the market, at the summit of 5 October, the OPEC Plus decided to cut oil production by 2 mil. bbl/g starting from November* - Orlandi said -. *A substantial and unexpected reduction which, however, also due to the inability to comply with the increases planned in the previous months, seemed more nominal than real and therefore to be understood more as the alignment of production with the targets set than as a clear reduction in world supply".*

To this situation, it must then be added the economic crisis connected to the progressive reduction of imports from Russia by the EU as the entry into force of the embargo on Russian oil approaches *"which necessarily had consequences on market sentiment, providing a certain support for prices",* admitted the RIE analyst according to the theory that *"the ongoing evolutionary dynamics, mainly of a political nature, will not be without consequences in the longer term, even if it is still difficult to identify the cues".*

At today, in fact, the entry into force of the ban on the purchase of Russian oil from 5 December and the definition of a price cap on Moscow oil by the G7 *"have not had a significant effect on prices. But the game has just begun and its outcome is completely open to changes. And this is precisely one of the main variables that will affect the trends of 2023, which opened with a bearish dynamic. Today's 78 doll/bbl are not, in fact, those of a year ago, when the escalation was ahead"*, specified Orlandi.

From a forecasting point of view, *"geopolitics and politics will continue to drive the energy markets. Both Russia and the Western world will continue to use energy as a weapon. In addition to the G7 embargo and price cap, there could be threats of a broader 'hybrid' war on the radar, affecting energy infrastructure and confirming the formation of broader alliances (Russia, China, India and the Middle East). In fact, there is no doubt that one of the outcomes of the war is the tensions between oil producers and consumers, with global geopolitical impacts"*, anticipated the RIE researcher. Furthermore, according to Orlandi, the European energy system will deeply change: *"The impact of European plans to reduce dependence on Russian hydrocarbons will be visible this year. The effects will cross continental borders and influence global oil flows as well as the growth of LNG demand in Asia* – admitted the RIE researcher -. *The EU embargo on Russian oil will also force member states into tight global markets, potentially increasing the geopolitical importance of relations with Turkey, Qatar and North Africa"* as Russian oil exports *"will complete their shift to the eastern economies"*.

"In general, without providing quantitative conclusions that would not find strong foundations at this moment, with the unfolding of the new global energy order, with longer and more insecure logistic chains, the picture will become structurally more unstable - concluded Orlandi -. *Therefore, it could be, as Daniel Yergin points out, that after three*

decades, the embargo and the price cap on Russia mark the end of a global oil market and the beginning of a more fragmented and, probably, more turbulent market".

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 in January, **the annual data on electricity market trading for the year 2022**.

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