Press Release

GME'S NEWSLETTER – New issue now on line

Rome, 14 November 2014 - The new issue of the Newsletter of Gestore dei Mercati Energetici (GME) is now downloadable from www.mercatoelettrico.org.

The newsletter opens with a contribution by Alberto Clò, from RIE, about the unexpected fall of oil prices. In the opinion of Clò, *although this assumption could not be ruled out, as stated in isolation by Paul Stevens and Alphavalue in 2012, nobody would have imagined that it would occur in a tangle of geopolitical tensions never observed before, which had reduced supply to 3.5 million bbl/d.* The expert from RIE points out that two are the causal factors of the price fall: i) on the supply side, *the cycle of investments, which began in the mid past decade, with a total expenditure of $ 4,000 billion from 2003 to 2013 in the upstream sector alone, and which significantly increased current oil supply and production capacity (over 100 million bbl/g*); by contrast, ii) on the demand side, *its structural destruction in industrialised countries (2005-2013: -5.0 million bbl/d) - as the combined effect of elasticity to higher prices, efficiency improvements and recession - and the contingent slow-down of the growth of demand in emerging countries (especially in the Asiatic area).* These factors had two consequences: *strong oversupply of crude oil* and *increase of spare capacity to 7-8 million bbl/g*. Nevertheless, the United States played a crucial role in both cases: *since 2005, all the incremental production of oil at world level has come from this country.* As a result - infers the analyst from RIE - *the capability of addressing geopolitical tensions in the short-medium term cannot extend to the future, if political crises do not find a long-lasting solution and the downward pressures on prices (that are already biting investments and thus future supply) are not stopped. It goes without saying that the world cannot rely only on the north-American shale revolution, but that it also needs the incremental production of Iraq, Brazil and Russia. In conclusion, the causes for optimism of the present time do not correspond to equal feelings about the* *future. The stronger today's price contraction, the stronger tomorrow's repercussions.* With two side effects, concludes Clò: i) *as regards the deployment of renewables, the displacement that would inevitably occur, pushing back the grid parity that is claimed to be achieved;* and, ii) as regards gas prices, *whose values on the spot market showed a dynamics of a sign opposite to the one of oil, which had instead an impact on the implicit prices of long-term (oil-linked) contracts, a reduction of the related gap.*

The new issue comes, as usual, with technical commentaries about European and national power exchanges and environmental markets, with the section devoted to the analysis of the trends of the Italian gas market and with the one with insights into the trends of the main European commodity markets.

Additionally, as has become customary, GME's new publication reports **the summary data of the electricity market for the month of October 2014**.

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