

GME NEWSLETTER – The new issue has been published

Rome 15 December 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 balance of the oil market over the last few years. *"The coronavirus pandemic has caused a clear split between the period before it and the subsequent one: a split that, probably, will not end with revocation of the pandemic emergency"*, underlined the RIE researcher. *"In 2020, the virus caused a deep economic recession and a vertical collapse in oil consumption, dragging prices towards lows close to 10 doll/bbl"*, she added. *"But, at the end of the same year, however, the announcement of availability of different vaccines and the consequent hypothesis of the end of the darkest period of this outbreak helped to support the Brent recovery which, in December 2020, reached again 50 doll/bbl"*. On the other side, 2021 *"closes with a scenario once again compromised by the coronavirus and its mutations. The price volatility observed during the year and the short-term uncertainties are closely connected to the ongoing pandemic and its ability to affect oil demand"*, admitted Orlandi. *"However, the situation appears less dramatic than a year ago, and this leads us to believe that the occurrence of contagion waves and subsequent restrictive measures, if compared to what happened in 2020, probably will not occur"*.

What is clear, the RIE analyst pointed out, is that *"the pandemic has confirmed - if someone needed this confirmation - that oil still plays a central role in everyday life. Therefore, the under-sizing of upstream investments could prove to be the trigger of a new oil shock: this situation would, in fact, lead to an increase in prices that is difficult to manage. The current level of investments is below 400 billion dollars, in 2014 this figure was over 800 billion"*. According to Orlandi's forecasts, therefore, *"until 2030, oil will still play a central role in all scenarios, even the most ambitious ones. Compared to 29% in 2020, the weight of this source on the world mix varies from 25% of the Net Zero Emissions (NZE) scenario to 30% of the Stated Policies Scenario (STEPS) in the next ten years, confirming the high inertia that characterizes the whole energy system"*. However, it is clear *"that a large part of the reduction efforts will be concentrated in the twenty years 2030-2050; however, the distance between 'where we are going' represented by Announced Pledges Scenario (APS) and 'where we should go' (NZE) can still be seen as*



a huge gap", said the RIE researcher. "This scenario, including the announced climate commitments, keeps unchanged the oil impact on world demand equal to 22% by 2050, with a drop of just 7 percentage points if compared to present period. The reduction provided with the NZE scenario, where the source in question would matter just for an 8%, is quite different". The hard core of consumption "continues to be represented by petrochemicals and transport (including road transport)" while production "will be increasingly concentrated in OPEC countries and Russia: countries with big reserves thanks to the large size of existing fields and their slow rate of decline. In 2050, the dependence on supplies from this group of producers varies from 53% of the STEPS scenario to over 60% of the NZE scenario." For these reasons, "the consumption trend outlined by the IEA in the different scenarios raises many concerns about the ability of the offer to meet them, especially in the next ten years and even beyond", concluded Orlandi. The low number of investments that has been going on for seven years, seriously stressed by this health and economic crisis, will turn, probably, into a shortage of supply that will make the market extremely vulnerable to sharp price rises".

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 November 2021.

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