Press Release

## GME'S NEWSLETTER – Issue no. 182 now online

Rome, 17 June 2024 – Issue no. 182 of the newsletter of *Gestore dei Mercati Energetici* (GME) is now downloadable from www.mercatoelettrico.org. The new issue opens with an article by Lisa Orlandi from RIE *(Ricerche Industriali Energetiche)* about the quiet chaos of the oil market.

Orlandi started out by saying that, *as regards oil, we have become accustomed to anything. Its long history has taught us that the dynamics of this market have never had a linear path. The main flaw of this commodity is perhaps its interpretative difficulty, which prevents us from drawing lessons from the past, from understanding the evolutionary factors that are present in any historical cycle, and from clearly identifying the point where we are and the one that we will reach.* For instance, in the past decade, *we passed from prices steadily above 100 $/bbl during the Arab Spring (until 2014) to subsequent collapses in the 50–70 range, in response to an abundant supply of unconventional oil from the United States (2015–2016). We witnessed the worst crisis in the oil history in 2020, with a plunge in demand that caused prices to plummet to about 10 $/bbl and, two years later, to have an opposite trend. Indeed, from the end of 2021 to the start of 2022, Brent prices went back to the 80–90 $/bbl range, showing a trend with a certainly predictable direction, but whose extent was altogether unpredictable.*

Orlandi stressed that from 2023 to date, *we have seen price fluctuations between 70 and 95 $/bbl: a range that remains fairly stable against an extremely critical background: continuing Moscow–Kiev war, clashes in the Gaza strip, and Houthis' attacks.*

Elements of uncertainty are instead related to the *war scenario that is involving sensitive areas in terms of energy production and trade. This represents an imponderable variable, which has so far been contained by the current state of supply, but which should not be ignored. In practice, we cannot rule out future escalations just because the market has held until now. Moreover, we should consider that areas at risk are many: Libya, whose chronic instability generates repeated oil production stops, which may affect significant volumes, even above 1 million bbl/d; Iraq, whose obsolete infrastructure often hinders exports from Basra and where frictions persist between the federal government and the*

*Kurdish one. Some experts even suppose a Russian interference in the oil flows through the Caspian Pipeline Consortium in Kazakhstan.*

Another variable that might challenge the stability of supply is *climate*. *The US Energy Information Administration (EIA) predicts that the hurricane season will be particularly intense in 2024, with 25–30 storms that so far cannot be classified. Their more or less lasting and more or less severe impact on the production and refining infrastructure will obviously depend on their intensity and duration.*

Hence, forecasting difficulties are a topical issue and 2024 estimations *are emblematic in this regard: while OPEC estimates a yearly increase in consumption of 2.25 million bbl/d, the International Energy Agency (IEA) envisages a growth of 1.2 million bbl/d, and the US EIA indicates as little as +0.92 million bbl/d. Apart from the discrepancy among absolute levels of consumption that has always featured the data reported by the relevant agencies, what stands out is the gap between the expected increases: 1.15 million bbl/d between OPEC and IEA and about 1.3 million bbl/d between OPEC and EIA. All this reflects the different assumptions that have been made about the growth of Chinese demand and, more generally, the decarbonisation trajectory of emerging economies.*

*At this time, everything “holds” but anything can happen. We might have an accelerated global decarbonisation, as indicated by IEA, or a slow decarbonisation, as assumed by OPEC. However, strong differences of views have repercussions on those who have to decide whether and how much to invest today. In other terms, in 2045, we might have a demand perfectly capable of absorbing supply and sustained prices, or – at the other extreme – a radically declining demand as early as in 2028, which would cause unrecoverable investments and stranded assets.*

*Gaining insight into the direction of demand has always been a painstaking, if not impossible, task. In my opinion, with an increase still above 1 million bbl/d, as hypothesised by IEA for 2024 (in line with the pre-Covid long-term trend), it is hard to think that zero growth will be reached in just four years. Nevertheless, as reiterated here and on other occasions, in the oil market, we have become accustomed to anything, even to what we would have never expected.*

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This issue of the newsletter comes with the usual technical commentaries about European and national power exchanges and environmental markets, a section focused on the analysis of Italian gas market trends, and a section with insights into the trends of the main European commodity markets. As has become customary, it also reports the summary data for the electricity market for May 2024.

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