Press Release

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Rome, 17 January 2024 – Issue no. 177 of the newsletter of *Gestore dei Mercati Energetici* (GME) is now downloadable from www.mercatoelettrico.org.

This issue opens with an article by Lisa Orlandi from RIE *(Ricerche Industriali Energetiche)* about the current stage of the oil market. Orlandi stresses that, *amidst embargoes, geopolitical tensions, banking crises, uncertainties about the state of health of the Chinese economy, and changing real fundamentals (especially in terms of expectations), 2023 proved to be a complex and multifaceted year, in which some trends arising in the past three years became consolidated, and new dynamics of crucial importance for market equilibrium emerged.* The last part of the year *experienced a progressively bearish trend, in spite of widespread critical situations in key countries of the Middle East and Africa. Prominent among them were the attacks that Hamas – the Iran-backed Palestinian militant group that is active in the Gaza Strip – perpetrated against Israel. Initially, assumptions about the evolution of the crisis and the more or less extensive involvement of neighbouring producing countries led most people to dread the repetition of a crisis similar to the 1973–1974 one. This fact drove up prices, which were again close to 90 $/bbl. Nevertheless, already at the end of the month, the market started realising that those events had no immediate effect on production. Consequently, the oil barrel started to lose ground, returning to its 70–80 $/bbl range.* This was due to *a lower weight of demand and to a lesser interference of the Middle East with worldwide production,* which are regarded *as factors of mitigation of the crisis, or rather of its direct impact on prices. However, there are still matters of concern and we cannot take for granted that the market will continue to accommodate the ongoing crisis without showing more long-lasting price spikes.* In the near future*, world oil demand is expected to halve its growth in 2024 as compared to 2023, and to go back to its historical yearly growth levels of about 1 million b/d*. Orlandi clarified that *this "normalisation" results from recovery from the countershock following the end of the pandemic, but that it also reflects a deterioration of the worldwide macroeconomic scenario and the expected slow-down of China, i.e. the main engine of global consumption. Expected demand-side dynamics and increased non-OPEC oil production are among the key elements underlying the price projections made by the leading analysis centres for 2024. Most of these projections converge on the 75–85 $/bbl range, supposing a generally well-supplied market, in spite of* *the extension of the oil cuts decided by OPEC Plus.* It is only the Bank of America that *estimates a possible yearly average of 90 $/bbl, supported by geopolitical tensions and the assumption of interest rate cuts by the Federal Reserve of such an extent as to impact the US economy.* The analyst from RIE pointed out that *projections – uncertain by definition – underlie a subjective interpretation of current dynamics and are suggestive of a market that is undergoing stability tests, in spite of a context with blurred boundaries and of forces acting in opposite directions even in response to the same variable.* Orlandi concluded that *optimism or pessimism about the Chinese demand, the trend of US shale oil, and the evolution of ongoing political crises may abruptly change the course of prices, emphasising the uncertain equilibrium of a market that is at the mercy of expectations and with persistent structural weaknesses.*

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 in January, the publication also reports the **yearly data on trades in the electricity market in 2023.**

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