

## **GME NEWSLETTER – New issue now online**

Rome, 15 July 2020 - The new issue of the newsletter of Gestore dei Mercati Energetici (Gme) is online and can be downloaded from the website [www.mercatoelettrico.org](http://www.mercatoelettrico.org).

The newsletter begins with a contribution by RIE's Agata Gugliotta and Gian Paolo Repetto on the gas market's "perfect storm". *"In natural gas markets, the effects of the global spread of Covid-19 came in a framework already affected by a number of markedly bearish factors. This has aggravated those factors and has led to historic low spot prices in 2020, at levels that were unthinkable until recently for Europe and Asia. And no signs of an actual turnaround can be seen for now"*, the two RIE researchers stress.

They then detail, *"after seeing prices rise above expectations in 2018, especially in Europe (+30% compared to 2017), in 2019, a growing imbalance between supply and weak demand has triggered a steadily increasing downward trend in prices"*.

In such a context, *"the increase in output outpaced the growth in consumption and led to sharp overstocking in both Europe and the United States in 2019. At the end of December, Europe's plants were 88% full. The highest percentage since 2011 - Gugliotta and Repetto pointed out -. As already mentioned, the increase in output, driven by export projects, translated into a major increase in LNG supply, which accounted for 40% of the overall increase. The industry 'bubble', which has been feared for some years now, has therefore occurred, but no one would have imagined that its effects on the market would be echoed by others of equal or greater importance"*.

Looking at this year, price-wise, *"the first two months of 2020 showed a persisting downward trend in all major market areas - the two RIE analysts remark -. In an increasingly globalised market, largely due to the increase in LNG flows, the pandemic has contributed to the downward shift in spot prices in the main market areas (Asia,*



*America, Europe) in recent months, due to causes and at levels that were unpredictable until recently".*

*For the future, signals are mixed: "In the very short-term, markets are still showing no signs of a turnaround. The uncertainties linked to the pandemic's evolution and the heavy oversupply already existing before the spread of the virus have us expect that the markets will find a new balance the hard and slow way - Gugliotta and Repetto admit -. After an estimated 4% drop in demand in 2020, demand is expected to recover in the medium term at global level in a very uncertain environment. In any case, the effect of the 2020 crisis is likely to have repercussions in the coming years: IEA estimates a 75 billion cubic meters drop by 2025 compared to estimated pre-Covid consumption trends".*

*Supply-wise, instead, "half of the rise in the next five years is expected to come from North America and the Middle East. However, the US shale gas industry is considered particularly vulnerable in the current environment; the industry's ability to rebound in a post-crisis environment will be crucial to provide the incremental gas needed for the domestic market (to replace the shrinking conventional production) and for liquefaction projects under development for export - the two RIE researchers explain -. Output growth in the Middle East is driven by conventional projects in Saudi Arabia, Iran, Israel, Iraq and Qatar, for which oil prices are a risk factor. The Russian output, another major contribution to the additional supply, is almost entirely for export projects, but uncertainty about the rise in demand could negatively affect development plans".*

*In any case, "the investment surge in liquefaction plants in 2018-19 and the decisions taken for new projects offer additional export capacity - Gugliotta and Repetto conclude -. A post-2020 gas demand rise below the new liquefaction capacity and the capacity of export pipelines from Eurasia (TANAP and TAP in Europe and 'Power of Siberia' in China) would lead to overcapacity and possibly oversupply once again. This would further complicate the market rebalancing process, resulting in downward price pressures that could persist for a few more years".*



The new issue also includes the usual technical commentaries on the markets and the national and European electricity and environment exchanges, the section devoted to the analysis of the trends of the Italian gas market and the section with an analysis on European trends, which delves into trends in key European commodities markets.

The GME's new publication also reports, as customary, the summary data of the electricity market for June 2020.

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Press Release