

## **GME NEWSLETTER – The new issue has been published**

Rome 15 November 2021 – The new issue of the Gestore dei Mercati Energetici (GME) newsletter is online, downloadable from the website [www.mercatoelettrico.org](http://www.mercatoelettrico.org).

The newsletter opens with a comment by Agata Gugliotta of the RIE on the LNG supply scenario in the short-medium term. *"Overall in 2021 - began the RIE analyst -, there was an increase in liquefaction capacity of approximately 20 billion cubic meters, 24 billion cubic meters less than what had been previously estimated. The concatenation of a series of critical issues resulted in a reduction which, in a context of oversupply such as the one that characterised the two-year period 2019-20, should have had zero or negligible effects, but which, instead, in the current climate of strong growth in demand (especially in Asia), contributed to exacerbating the tightness of the market, slowing the escalation of gas prices"*.

According to Gugliotta, however, *"the shortfall in supply should only be temporary and could be greatly reduced as early as next year, with the resumption of activities in the main liquefaction plants affected by the decline"*. Instead, in the medium term, *"New capacity in operation should come from the many plants currently under construction or already commissioned, thereby guaranteeing, at least until 2025, continuation of that growth trend that has now characterised the market for years"*.

More precisely in the course of 2021, world LNG trade has *"continued in its growth trajectory. The data for the first 8 months of the year, in fact, show us that exports increased by 6%, mainly driven by the United States and Egypt"*, observed the RIE analyst who then recalled the IEA forecasts for 2022 according to which should be evident *"an increase in world LNG trade of 2% due to the disappearance of the tightness situation recorded in 2021: the expectation, in fact, is a lower demand from Asia, a decline in European imports and an improvement of the drought conditions that have afflicted Latin America throughout this year"*. If the horizon is shifted to 2024, however, *"according to the AIE, international LNG trade should grow by 16% when compared with the 2020 figure. The market, in any case, will remain well supplied: the incremental demand for LNG will only slightly exceed the additional liquefaction capacity, but at the same time the liquefier utilisation rate will increase, which limits the risk of a short market, at least for the next*



*three years", Gugliotta specified, adding that Bloomberg actually estimates for 2025 "a growth in LNG output greater than that of demand, even suggesting a situation of oversupply".*

*The new offer "will above all be visible from North America (45%), and in particular from the United States (35%), Russia and Qatar, which will absorb a share of around 20%. Additional volumes are also expected from the entry into operation of capacity in Canada, Indonesia, a number of African countries and Mexico", underlined the RIE researcher who nevertheless warned about the relatively reassuring picture of the sector: "This new liquefaction capacity stems from projects that are the result of investment decisions matured before 2019, when the reference context was much less uncertain than the current one, before the pandemic upset the world balance and before increasingly stringent environmental policies with a zero carbon goal revised the longer-term demand scenarios - highlighted the RIE analyst -. Since 2019, it has become increasingly difficult for producers to invest in such capital-intensive projects, with uncertain returns and poor social acceptability, moreover burdened by the countless difficulties in raising capital that had not been encountered in previous years. [...] However, in recent months, the price crisis has highlighted the centrality of gas in the energy mixes of countries and its role as a source of transition in the decarbonisation process of the economy, as well as how important it is to be able to rely on an offer that is consistent and capable of responding to the increase in demand. All of which explains why, according to WoodMac, buyers have opted again for 'take or pay' contracts, signing long-term agreements for 24 Mtpa (the same volume recorded in 2018/2019). The question, however, is: will these signs of a trend reversal be enough to restore optimism to investors and new impetus to projects to increase liquefaction capacity?" concluded Gugliotta.*

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 October 2021.



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Press Release