

GME NEWSLETTER – The new issue has been published

Rome 15 June 2022 – 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 Agata Gugliotta of the RIE, communicating a snapshot of the LNG sector of 2021 and of the first trends of 2022. *"After the modest increase in 2020 (+0.4% vs. 2019), international LNG trade recorded more significant growth in 2021: 4.5% according to the annual report drawn up by GIIGNL (association that groups the main liquefied natural gas importers) and 6% for the International Energy Agency (IEA) - underlined the RIE analyst -. Like all other energy commodities, liquefied natural gas was also positively affected by the economic recovery that followed the terrible year of the pandemic, even if the growth rate of 2021 was still lower than the +13% of 2019 and the +8% annual average for the period 2015-2019"*.

The factor that most characterised last year, however, *"is not so much the growth in demand (which is widely predicted by all the main reference scenarios) but a supply that has struggled to keep up with the demand for energy coming not only from Asian countries, traditional LNG buyers, but also from South America - observed Gugliotta -. A supply/demand imbalance which has been reflected in prices, which have reached record levels, and which has highlighted the strong interdependence of the markets and their vulnerability, which has dramatically worsened following the delicate crisis situation following the invasion of Ukraine by Russia. A game changer that is redefining market equilibrium, in which GNL is destined to play an increasingly pivotal role"*.

For the future, however, *"following the indications of the IEA for 2022, despite the dramatic nature of the reference context, the LNG sector should once again prove resilient and capable of responding to the needs of the market - admitted the RIE researcher -. However, several research institutes, from Bruegel to IEEFA to Rystad, have doubts as to whether a market rebalancing is possible quickly given that it is not an automatic process to simply redirect loads from Asia to Europe. A situation that would become even more critical if Russian gas were to be removed from the equation. And not only in terms of evident infrastructural and logistic complexities, but for three other reasons of primary importance"*. According to Gugliotta, in fact, *"supply will continue to struggle to keep up with fast-paced demand. For Rystad, in 2022, against a demand for*



LNG equal to 436 Mt, the supply will only be 410 Mt. Even today, part of the liquefaction capacity is still unavailable due to maintenance, faults or the lack of raw material. It seems unrealistic to think that it will soon be possible to compensate for this with new projects. Although, in fact, the surge in demand has revived projects that long seemed forgotten, creating infrastructures of this magnitude inevitably takes a long time (the first are not expected any time before 2024). Furthermore - added the RIE analyst - costs have risen in the last two years by at least 25% due to the high prices that are affecting each type of raw material (e.g. the cost of the steel used to produce the storage tankers of an LNG plant has increased by over 10%, while that of nickel has grown by over 40% since February 2022)". The second reason "refers to the contractual structures of the global LNG market, which, as mentioned, remain mainly linked to long-term multi-year contracts (on average 20 years), thus reducing the flexibility margins in diverting loads from one point to another. Ultimately - concluded Gugliotta -, the market will have to deal with prices that are likely to remain very high in the long term. More doubts than certainties, therefore, characterise the next few months, which risk being difficult, especially if the conflict between Russia and Ukraine were to continue for an excessively long period".

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 May 2022.

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