

NEWSLETTER GME – New issue now online

Rome, 12 October 2017 –The new issue of the newsletter of Gestore dei Mercati Energetici (Gme) is online and can be downloaded from the website www.mercatoelettrico.org.

The newsletter starts with an intervention by Gian Paolo Repetto and Agha Gugliotta of the RIE on the dynamics of the international market for liquefied natural gas (Lng). They point out that, after a few years of substantial stagnation, *“in 2016, the Lng traded on a global-scale LNG recorded a new considerably increase (+7.5%), in line with the growth rates recorded between 2000 and 2011 when, with an average annual increase of 7.5%, had more than doubled the volumes sold from 140 to 300 billion cm. With 325 billion cm traded last year, LNG accounts for 10% of world natural gas consumption”*.

Overall, international gas exchanges between the various macro-regions of production and consumption have increased in the last 25 years by 70% and are expected to grow by an additional 70% by 2040. Repetto and Gugliotta, believing that the growth will be initially driven by Australia (30 billion barrels), although the biggest increase will then come from the United States (85 billion barrels) and followed by Russia (20 billion barrels) and in the long run by new growers in East Africa, point out that *“the total liquefaction capacity is expected to grow by about 135 billion cm by 2020 and another 20 billion cm by 2022. The additional 155 billion cm will be added to the current availability of approximately 435 billion cm for a 36% increase”*.

The RIE experts point out that *“this happens in the face of a demand whose current scenarios can not be easily defined, making it unclear how much of the new production availability will actually be absorbable. In Asia, a growth in demand for LNG is expected mainly from recent or new importers, but also India is expected to increase its use. However, the main doubt is still about the growth rate of Chinese gas consumption and the way they will be covered (domestic production, gas pipelines, LNG). In essence, “the global natural gas market is, and will be even more, affected by the LNG influence due to the size achieved and expected in the industry, to the changes that are beginning to affect*



its contractual arrangements, to its greater flexibility with regard to gas pipeline trade and to the marginal role that it can have on consumption markets". Nevertheless, Repetto and Gugliotta admit that the additional capacity of liquefaction "will fall on a market already well supplied. Most international analyses believe that the overall demand growth, albeit significant, will not be enough to balance the LNG market in the middle term, especially since the consumption of major importers, such as Japan and Korea will not support it. If anything, forecasts show some divergence over the duration or size of the "bubble"". AIE does not predict an end of the oversupply before 2022. According to Bloomberg, the market will become "tight" between 2023 and 2024, risking a supply shortage starting from 2025. However, despite the uncertainty "in an already well-supplied market, the prediction of a LNG oversupply contributes to lowering the price forecasts for the overall gas market" risking "to discourage new upstream investments in the LNG". This is why in the coming years, the priority will be "the pursuit of a balance between consumer and producer needs to ensure, once the oversupply is reabsorbed, the conditions for new investment cycles to meet the growth needs and the renewal of the system in the long run".

The RIE analysts conclude by stating that *"if new projects are to be undertaken, the risk of serious consequences for gas markets can not be ruled out, although the possible expansion of existing structures, especially in the US, is likely to provide the system with a "safety valve" capable of quickly feeding the market again, if needed".*

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 September 2017.

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Press Release