

GME NEWSLETTER – New issue published

Rome 16 November 2020 - The new issue of the Gestore dei Mercati Energetici (Gme) newsletter is online and can be downloaded from the website www.mercatoelettrico.org.

The newsletter opens with a speech by Agata Gugliotta of the RIE on the impact of Covid-19 on the LNG market.

"As with other energy commodities, the liquefied natural gas (LNG) sector has also been affected by the crisis generated by the Covid 19 pandemic. A marked reduction in export volumes due to the inevitable drop in consumption, the vertical collapse of prices (at least until the end of June), a reduction in company budgets, a revision of investment plans and greater propensity for contractual flexibility on the part of importers are the main consequences in the sector of an unprecedented health and economic crisis", the RIE analyst observed. The numbers, instead, are telling. *"On the supply side, from January to September, global LNG exports contracted by approximately 15%, equal to a reduction of around 7 billion cubic meters. The largest cut was recorded in the United States, with approximately -30% exports and almost 170 shipments cancelled",* Gugliotta specified.

In order to try to rebalance supply and demand, many producing countries, in addition to cutting exports, have also been forced to make massive use of offshore storage on ships, a traditionally common practice for oil. *"On the demand side, the blocking of non-essential production activities, combined with the continuation of an exceptionally mild winter and a growing penetration of intermittent renewable sources in electricity generation, led to a drop in natural gas consumption worldwide never before recorded in this market (-4% in the first half of 2020 vs. the same period in 2019). LNG was also inevitably affected, due to the flexibility that distinguishes it: in the first 9 months of 2020, only 35 billion cubic meters were contracted, compared to 74 billion cubic meters*



in 2019 and 95 billion cubic meters in 2018", pointed out the RIE researcher who underlined how the supply/demand imbalance is heavily reflected on prices.

"The demand shock caused by Covid 19, together with widening of the oversupply situation and the collapse of prices, has pushed the O&G companies most affected by the new context to react as they always do on these occasions: postpone or reduce investments and announce lay-offs", Gugliotta explained. Of course, all these factors have also had an impact on the conditions of sale: "The current economic situation, characterised by volumes in excess and difficult to allocate with a consequent collapse of spot prices, has accelerated the process of 'commoditisation' of LNG that has already been underway for some years – observed the RIE analyst -. This has resulted in a progressive transition towards a more liquid market, in which the trading of liquefied gas that takes place on the basis of spot or short-term agreements has progressively grown, going from 19% in 2010 to 34% in 2019".

The problem now is to predict what will happen in the future: the events of the last few months, due to their extent and the effects that are still difficult to quantify, given the protraction of the pandemic, have significantly affected the economic trend of the market and will also affect upcoming scenarios. *"If it is true that, despite a 15% drop in LNG exports, detectable by comparing the values of September with those of January, the first 9 months of 2020 still mark an average increase of 3% compared to the same period last year, there is however no doubt that the rate of increase has suffered a sharp slowdown, if we look at the much higher rates of the past years (e.g. +13 in 2019 and +8% in 2018)", underlined Gugliotta. "In the coming months, an average winter (unlike the very mild 2019) and the need to replenish stocks could fuel demand, provided that the current measures are sufficient to contain the spread of the virus, and if there is not, instead, an imposition of more restrictive measures or even new lockdowns. For 2020 the IEA indicates an annual growth in international LNG trade of 2% vs. 2019, while 3% is expected for 2021: a modest and slow recovery, based on the assumption of an improvement in the economic situation and health", specified the RIE expert.*



And after that? *“The more the forecast period extends, the more uncertain it becomes. Before the outbreak of the crisis, the scenarios developed by the main companies and think tanks converged on the fact that until 2025 the market would remain well supplied and the demand for LNG would in any case continue to grow. An assumption that could be revised both on the supply side and on the demand side: delays in the construction of new plants and a drastic reduction of the new FIDs could help reduce production rates and absorb oversupply before 2025. But conversely, the possible rise in prices, the possible difficulty of importers (especially of the expected new entrants) to equip themselves with adequate reception capacity and an acceleration towards low carbon policies could contribute to a reduction in the consumption of this source”,* 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 trends in the Italian gas market and the analysis section on 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 2020.

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