

GME NEWSLETTER – The new issue has been published

Rome 15 December 2022 – The new issue of the Gestore dei Mercati Energetici (GME) newsletter is online, downloadable from the www.mercatoelettrico.org.

The newsletter opens with the brief speech of Francesco Sassi, a member of RIE, on global investment scenarios in the LNG market. *"With the continuation of the global energy crisis and the return of governments to an overbearing initiative of a political and strategic nature in order to affect national and European energy security, the liquefied natural gas (LNG) sector is experiencing a strong development growth - underlined the RIE researcher -. The persistence of the conflict between Ukraine and Russia and the state of Russian-European relations, at their lower level, led to a drop of more than 50% of Russian supplies to Europe in the first 10 months of the year. A difficult change that, according to the European Commission, will require a diversification in natural gas purchases through an increase in LNG volumes, up to 50 bcm (billion cubic metres), while 10 bcm of additional gas is required via gas pipelines, and approximately 10 billion euros of infrastructure investments (both LNG and gas pipelines) within 2030".* Meanwhile, already in the first 10 months of the year, *"Europe imported about 137 bcm of LNG, equal to an increase of about 40% on annual basis. Furthermore, the rates of use of LNG infrastructures globally decreased in 2022 compared to the average for the 2018-2021 period - says Sassi -. A signal that problems of a more structural nature, such as the inability to produce natural gas in the upstream sector, technical difficulties and complications due to plant maintenance have weakened the performance of the LNG sector".*

In any case if in the near future, *"the markets that will drive the demand for natural gas will be those of North America and Asia, while those of Europe and Latin America will definitely decrease",* says the RIE analyst, from January to August of this year, *"world LNG trade grew by 6%".* According to Sassi, the explanation is mainly due to strong European pressure related to *"the import of larger volumes than in the past, with a 65% increase in demand compared to 2021" which has led "to a global realignment of trade flows. In the Asia Pacific region, high natural gas prices and the recrudescence of the pandemic have indeed caused a drop in demand of 7%, equal to 18 bcm, a dynamic that has proved to be critical for ensuring growing quantities of LNG imported in Europe".* From these sudden movements within the industry, important signals are now clear to the operators. *"If in 2020 an amount equal to approximately 2 billion dollars was invested in new projects, in 2021 investments rose to 28 billion, while Rystad Energy estimates speak of 27 billion in 2022 and 32 in 2023, to then reach the final peak of around 42 billion in 2024. After this date, investments should start decreasing again,*



reaching again a figure similar to 2020 by the end of the current decade", explained the RIE analyst.

In short, if we look to the near future, "a new phase of uncertainty marks the future of the LNG market - highlighted Sassi -. If on the one hand the relation between Europe and Russia has led to the ever more evident detachment of the interdependence in the gas market between the EU and the Russian Federation, with an energy crisis even bigger than before, on the other hand the European countries today are called to face a complex reconciliation between short-term (energy security) and long-term (energy transition) objectives. A situation that creates many doubts for investors, attracted by the high prices of natural gas and by the lack of physical availability of resources. At the same time, the uncertainty related to massive investments necessary for the development of the infrastructure required by the sector, to be combined with the decarbonisation objectives of European energy systems and the political risks that invariably derive from the creation of new energy interdependencies in a deeply changing global framework". "In this context, the space that private sector will be able to have - concluded the RIE researcher - will become a function of social, economic and political variables that were generated during 2022 and which, also as a result of the state of health of European security at the end of this stormy winter, will create the key conditions on the LNG markets in the next and essential three-year 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 November 2022.

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