

The challenges of
the gas market

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Agenda

01 **The radical change of the natural gas market** after February 2022

02 **Price volatility is expected to stay** until the 2nd LNG wave will rebalance the global market

03 **Why were prices so dislocated between North-West Europe and Spain** ... will this continue?

04 **Key take-aways for the future**

05 **Q&A**



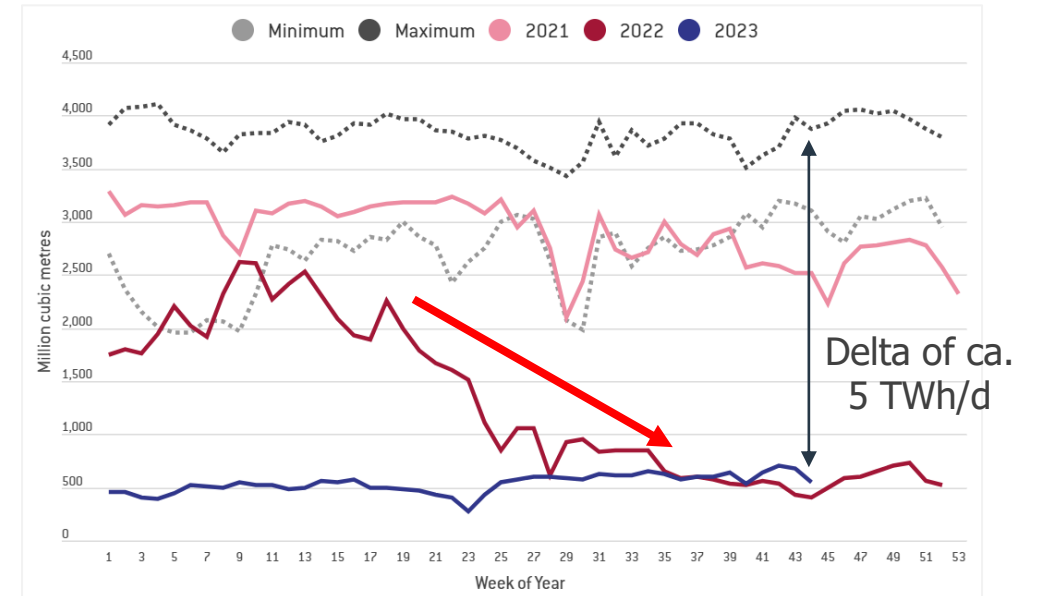
20 min

10 min

01. The radical change of the natural gas market after February 2022



Russian flows to NWE



How has European gas infrastructure changed...

- European gas system **was designed to flow gas from East to West and from North to South.**
- Historically, abundant Russian gas was flowing to Western Europe. **Poorly connected countries** (e.g., Spain & Italy) **were premium markets in Europe.**
- **Now**, with limited Russian gas, the physical **flow is in the opposite direction.** Gas price in the countries with abundant LNG import capacity are typically lower than countries with limited regasification capacity.

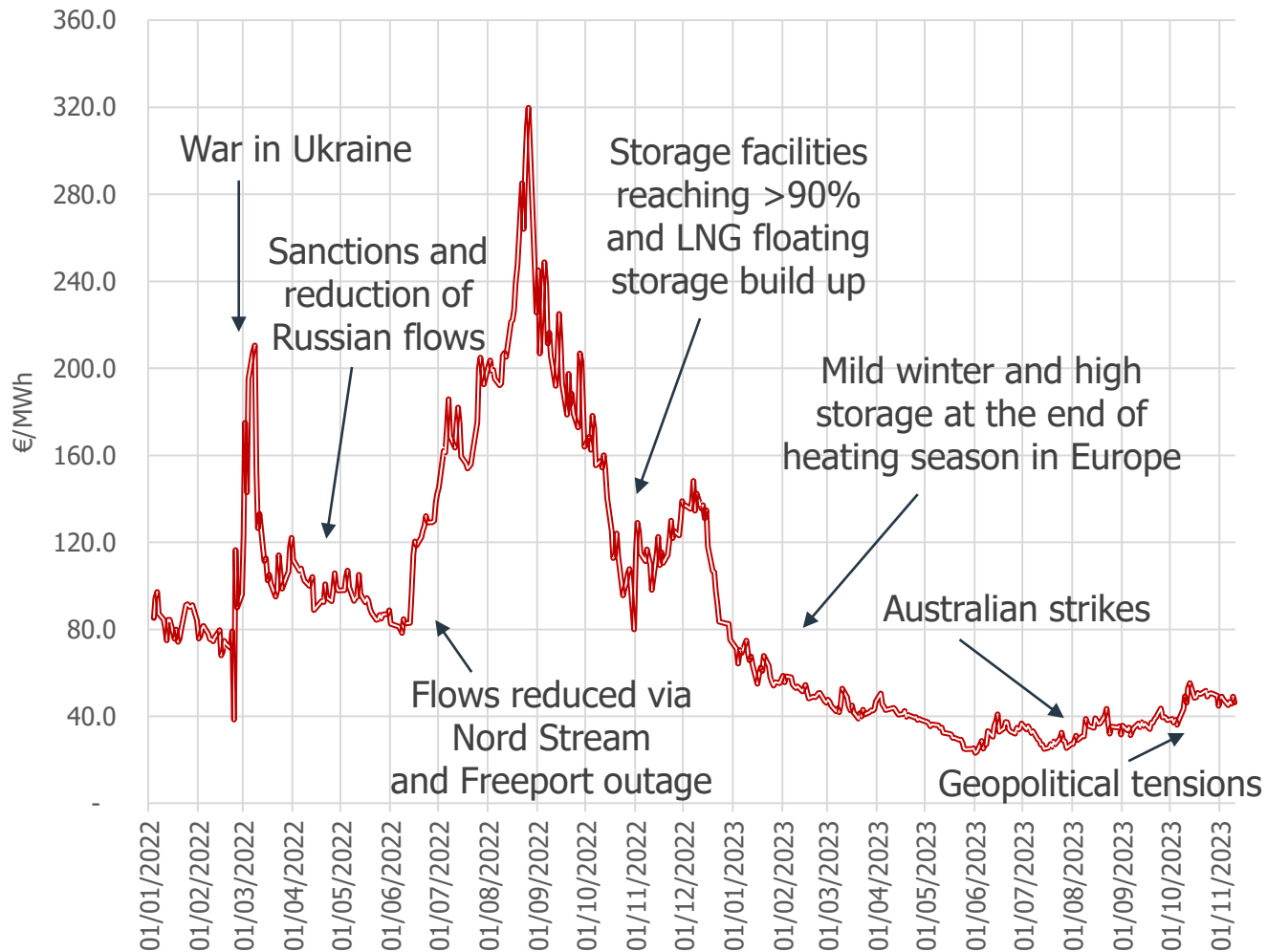
... and how has the market changed.

- Historically, **Asian market was the premium market** at a global level (attracting marginal LNG cargoes). Europe was competing with Asia only during cold winters.
- With reduced flows of Russian gas, now **Europe must outbid Asian demand** to attract LNG.

- **Underground storage** (and the regulated filling targets) is now representing a **firm demand during summers.**

02. Price volatility is here to stay until the 2nd LNG wave will rebalance the global market

TTF month-ahead price evolution since January 2022



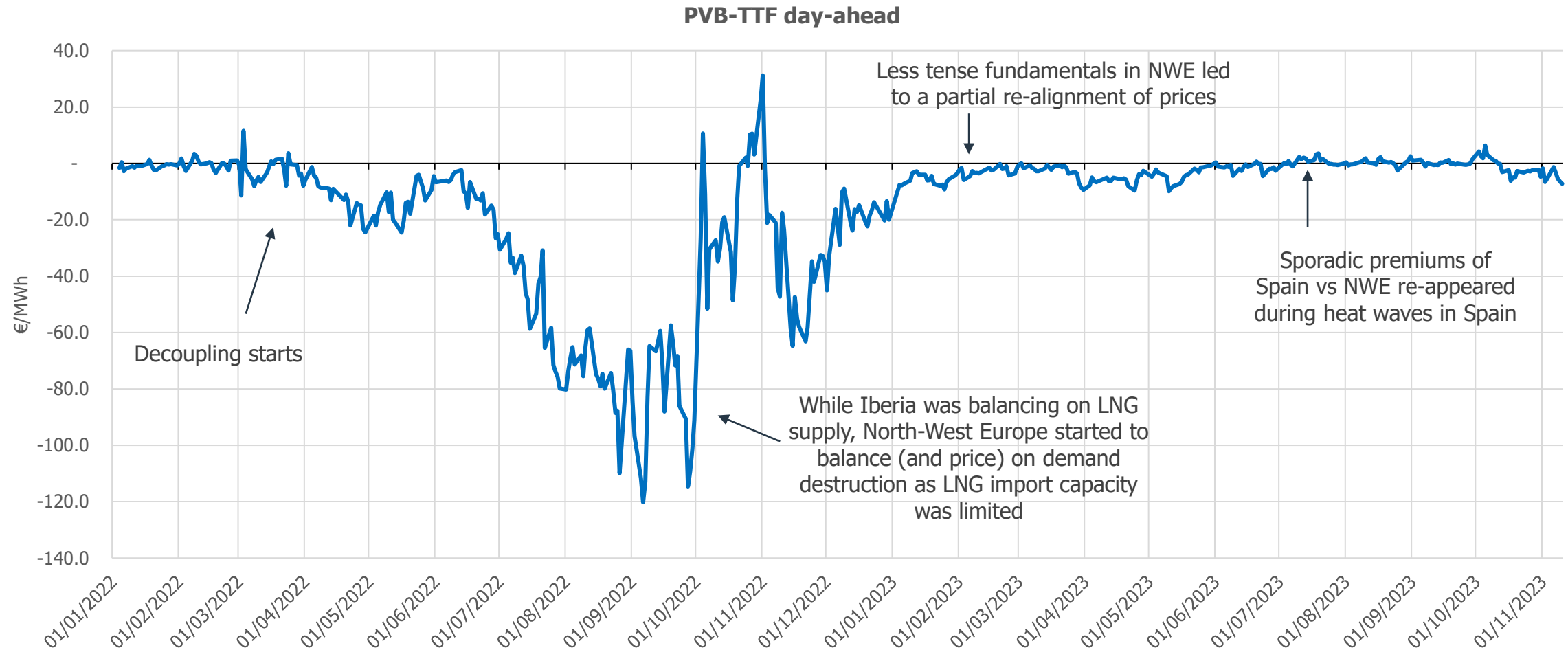
Why are gas prices so volatile?

- With reduced Russian gas, the European gas system has **lower available flexibility** to manage demand spikes or supply disruptions. This keeps market players concerned and it is reflected in volatile prices.
- **New gas supply** (2nd LNG wave from US and Qatar) will **reduce the tension in the global market** (less competition for cargoes). Unfortunately, relevant volumes are not expected until 2025-26.
- This means **gas prices will likely remain volatile** (and highly influenced by Europe's need to re-fill storage facilities at the end of winters) **for the next 2-3 years**.

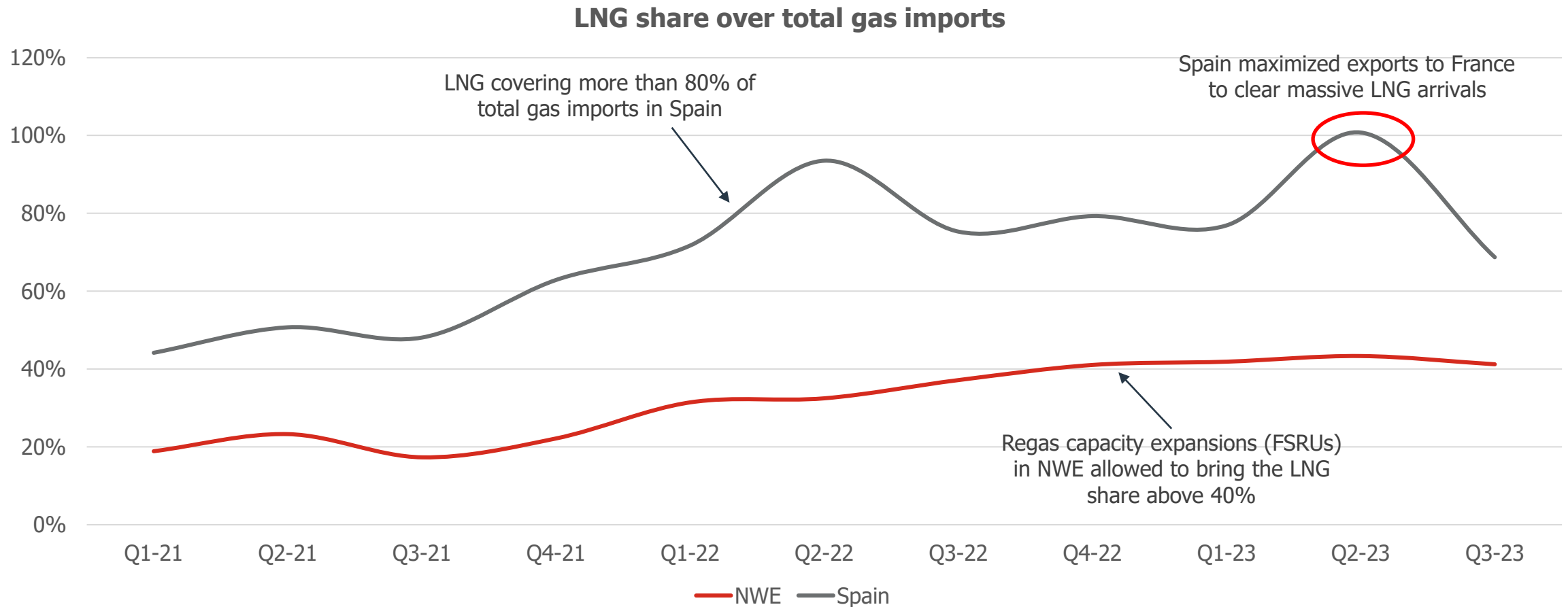
What's the impact of high and volatile gas prices?

- High EU gas prices **attracted LNG** and **reduced consumption** (in 2022 gas consumption was 12% lower than its 2019-2021 average).
- More LNG supply and less gas demand allowed to re-fill storage facilities during summer 2022.
- Even if gas prices are now ca. 8 times lower than the peaks of summer 2022, **consumption remains weak**. This, and **full storage** situation, is contributing to **keep prices lower but still volatile**.

03 (1/2). Why were prices so dislocated between North-West Europe and Spain... will this continue?



03 (2/2). Why were prices so dislocated between North-West Europe and Spain... will this continue?



Source: based on data taken from Bruegel & S&P Platts

04. Key take-aways for the future...

Short-term (next winter and summer 2024):

- **Permanent demand destruction and gas price volatility** are keeping **gas consumers** (especially industrial players) **on the side-line**.
- Asian LNG demand remains weak, but **first signs of recovery** are coming **from China** (Y-t-D growth: +8%).
- **LNG** is now the **key supply source** and **Europe** cannot afford to lose it. Thus, **competition** for cargoes is expected **to remain strong** (especially if winter will be cold and/or supply disruptions will occur).
- Current **high level of storage** is providing a **healthy supply buffer in the short-term**, but **cold weather** or **reduced supply** could jeopardize European security of supply and **trigger price insensitive demand** to re-fill storage during summer.

Medium-term (next 2-3 years):

- High prices revitalized industrial interest in LNG supply projects but time to market of key projects implies **next 2-3 years will be characterized by limited new supply**.
- **Price sensitive buyers** will remain key to allow the global market to balance. Asian emerging economies will face energy affordability issues and could be relevant contributors to demand destruction.
- **Flexible** LNG suppliers (US) will keep taking advantage of high price environment but could face challenges after 2025-26 as global gas prices could converge (again) toward Henry Hub.

05. Q&A

