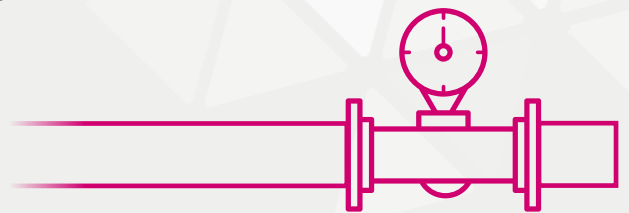


Global Energy Perspectives

Gas Supply Security Outlook

Three must-knows: #3

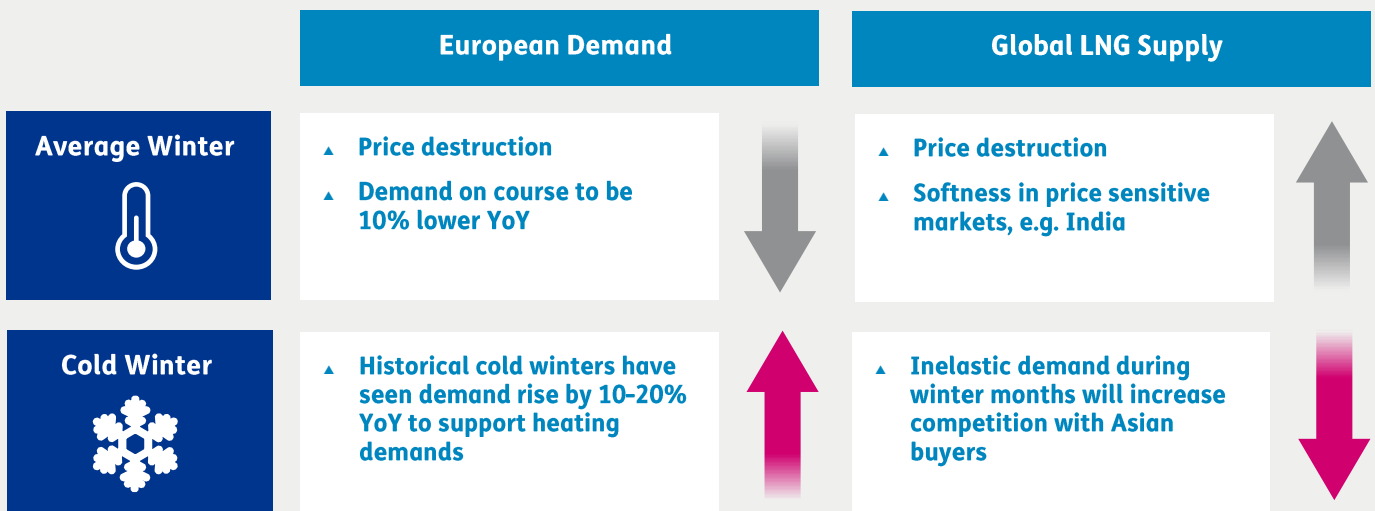
Gas demand in both Europe and Asia is a key security variable this winter. A 10% demand reduction in Europe is expected this year if conditions remain mild. A colder winter, however, could generate greater demand in Europe and fiercer competition with Asian markets for LNG, leading to a much more severe demand curtailment measures.



Demand management contingent on winter weather variable

Weather conditions in Europe and Asia are likely to significantly impact gas security in Europe

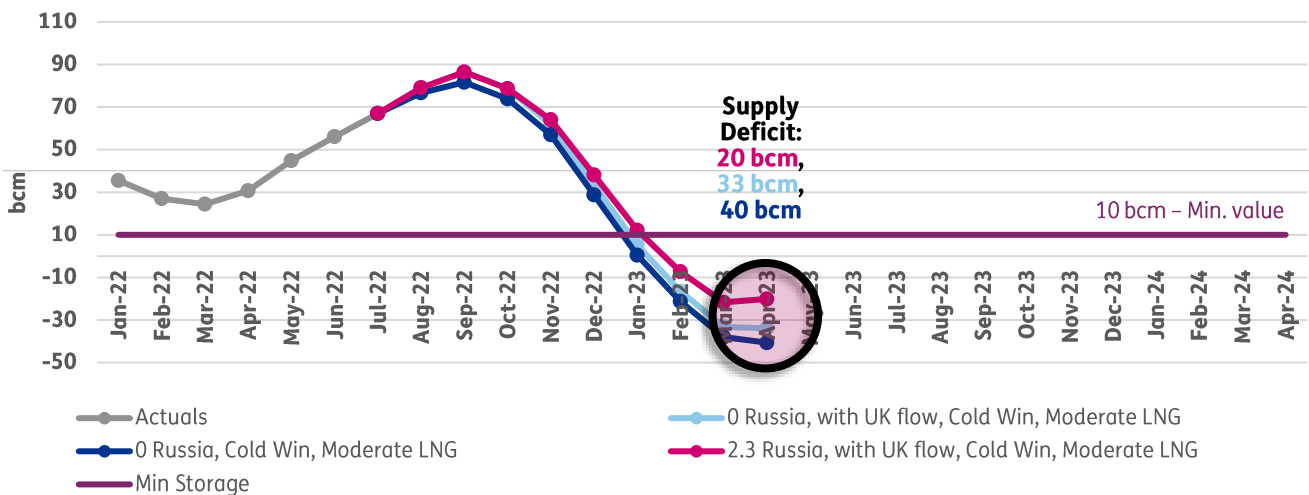
- ▲ Weather conditions this winter represent a significant demand variable in the winter supply security outlook. In an average winter it is expected that a 10% demand reduction in Europe could be achieved owing to efficiency measures and demand destruction as a result of high prices this year. Simultaneously, the availability of LNG for Europe has benefited from some demand destruction in price sensitive markets like India, and reduced demand in other key markets like China and Brazil.
- ▲ In a cold winter (defined by ENTSO-G as a 1 in 20 year event), however, demand in European markets is generally 10-20% higher than average owing to greater demand for heating. Should the cold weather also be experienced in North Asia, demand for LNG would increase there risking lower availability of volumes for Europe.



A cold winter represents a significant security of supply risk

A colder than average winter would lead to mandatory demand curtailment in all scenarios considered.

Graph showing EU Storage levels in scenarios where there is a cold winter with demand c.10% higher than average. (LNG and UK interconnector flow vary as stated)



Source: Baringa Modelling

Winter weather is expected to worsen the winter outlook considerably in European markets.

In our modelled scenarios a 1-in 20 year cold winter would mean inadequate supply availability to meet demand including those with High LNG flow and the continuation of Russian gas flows at 2.3 bcm.

These scenarios would require major demand curtailment to a degree likely to have significant economic impact especially on high energy consumers such as industrial and manufacturing sectors.

As a consequence the most significant variable this winter is the one which is the least controllable, the climate.

If you are interested in hearing more, please get in touch with our experts.



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