Quarterly Energy Newsletter Q1, 2021

A Message from Mashreq's Energy Sector Team

Our thoughts are with all those affected by the Covid-19 pandemic. As we enter a new year, we are reminded that we all have roles to play in helping each other overcome challenges by upholding a true spirit of community strength. Thank you for taking the time to read our quarterly newsletter. We wish you the best of health and wellbeing always.

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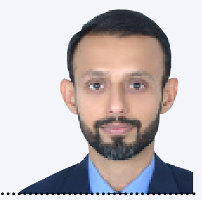
Energy Firms' Digital Focus Pays Off



By Badar Chaudhry,
Senior Vice President, Unit Manager, Energy Sector, Mashreq Bank

$2.6 trillion. This is the staggering sum that can be unlocked via digitalisation in the Middle East and North Africa (MENA) by 2025 – a very short four years away.[1] As market pressures intensify, no energy firm can afford to ignore this potential. The Middle East's interest in digital tools that fall under the umbrella of the 4th Industrial Revolution has been gradually increasing. But now appetite is soaring; energy stakeholders not investing in digitalisation are fast becoming outliers.

This is especially true in times of strain – and have no doubt, this is certainly one of them. Oil prices continue to hover in the $50s/bl range and the International Energy Agency says at least $1 billion must be spent per year in the near-term to create an environmentally friendly energy economy. Meanwhile, the International Monetary Fund warns of a 'long and difficult ascent' out of the global economic plunge that is being spurred by the Covid-19 pandemic. The squeeze on economics, operational norms and talent development is very real, particularly for nations that have had restricted travel and lockdowns over the last year.

Pandemic bounce-back?

These difficulties only emphasise the value of investing in digitalisation. For example, digital tools and technologies thread into each of the three traits that the Boston Consulting Group said the companies best able to rebound from the pandemic have: end-to-end supply chain transparency, agile operations and quickly digitised customer interactions.

The unpredictability wrought by Covid-19 has put many energy companies on a level playing field in the Middle East and beyond. But it has made it clearer than ever that the size of an energy company is not everything – its smarts are. With that, firms' growing appetite to ramp up digital growth together as they rebuild their economic robustness could organically nurture a digital ecosystem in the region. It makes sense to leverage each other's expertise to accelerate progress as the global clock for energy security and decarbonisation ticks on relentlessly. Therein lies the rapid rise of digitally orientated partnerships across the region.

A+ for progress

Many are now vigorously walking what has long been just digital talk in the GCC. In January, Saudi Aramco – the world's biggest oil producer – launched Dammam 7, a new supercomputer which is among the top ten most powerful in the world. This boost for exploration and development marks the next step in Aramco's digital transformation. Plus, Saudi Aramco Development Company, a subsidiary of Aramco, signed a deal with Cognite to establish a new company that will focus on digitalisation in Saudi Arabia and the broader MENA.

In the UAE, energy leader ADNOC has saved $2 billion over the past five years by leveraging advanced technologies and digitalisation to enhance drilling efficiencies and optimise operations. It has also recently awarded a $519 million contract to further expand the world's largest 3D seismic survey. And most recently, ADNOC teamed up with ExxonMobil to jointly identify areas where advanced technologies can further increase operational efficiencies and unlock value.

To the east, Petroleum Development Oman (PDO), the sultanate's largest oil and gas exploration and production company, has wrapped up phase three of its Information Management digital transformation journey with Hexagon. This includes a single platform where all the lifecycle information is centralised for more than 4,100 employees and contractors – bolstering transparency and efficiency in one go.

Keeping pace

The Middle East's push is well-timed, for its progress is key to sustaining global competitiveness on both the energy and digital stage. For example, 50% of oil and gas respondents of a survey by Deloitte said their company is already investing in energy efficiency, cleaner fuels to power field operations, and acquiring businesses outside their core focus. And another 50% of industry respondents said they would invest in digital technologies to boost energy efficiency and in operational technologies, such as carbon capture to reduce future emissions.[2]

Another area that the region needs to keep abreast of? Cyberthreats. Globally, across all industries, a staggering 36 billion records were exposed in data breaches in the first half of 2020, according to a report detailed by Risk Based Security. And last year was already the "worst year on record" by the end of Q2 in terms of the total number of records exposed. Plus, Saudi Aramco was just one of many energy firms that has reported a recent rise in attempted cyberattacks.[3]

Far more digital sheriffs are needed to safeguard operations, especially as cybersecurity is fast being woven into energy companies' competitiveness. Greater transparency and accountability are increasingly coveted by digitally aware investors. What were daily, or even weekly, checks must now be done on a minute-by-minute or second-by-second basis. Especially in these times of both uncertainty and great growth, there is no such thing as excessive diligence.

The same applies to exploring and applying digital solutions. Considering 1 billion people worldwide still lack access to electricity and that we are lagging on the Paris Agreement goals, our exploration of digitalisation to streamline efficiency and bolster scalability should know no bounds.

1/ DHL – https://bit.ly/3assxbK 2/ Deloitte – https://bit.ly/36Gtqwu 3/ Reuters – https://reut.rs/3rfx7Ro

VIDEO ON DEMAND, Q1 2021

Digitalization:
Top 3 Priorities for Oil & Gas Companies to Manage their Climate Impact in 2021?

Speakers:

- **Badar Chaudhry,** SVP, Unit Manager, Energy Sector, Mashreq Bank
- **Peter Zeilinger,** Senior Vice President Exploration, Production & Development, OMV
- **Sara Akbar,** Chairperson & Chief Executive Officer, OiLSERV, Kuwait & Non-Executive Director of Petrofac
- **Walter Simpson,** Managing Director, CCED

Click Here to Watch: https://bit.ly/3sOOPfZ

Global Oil Demand

World oil demand in 2020 showed a contraction of 9.6mn b/d, to stand at 90.4mn b/d. OECD oil demand contracted by 5.6mn b/d, while non-OECD demand declined by 4mn b/d. For 2021, world oil demand is expected at 5.9mn b/d, to stand at 96.3mn b/d. Oil requirements in H1 2021 are adjusted lower, mainly due to extended measures to control Covid-19 in many key parts of Europe. In addition, elevated unemployment rates in the US slowed the recovery process. In contrast, oil demand in H2 2021 is adjusted higher, reflecting expectations for a stronger economic recovery with the positive impact of vaccination rollouts. In regional terms, OECD oil demand is expected to increase by 2.6mn b/d in 2021 to stand at 44.6mn b/d, while non-OECD demand is seen rising by 3.3mn b/d to average 51.6mn b/d.

Sources: IEA, OPEC

Global Oil Supply

Non-OPEC liquids production is estimated to average 62.9mn b/d in 2020, a contraction of 2.6mn b/d, y-o-y. Non-OPEC oil supply in 2020 declined in Canada, Colombia, Kazakhstan, Malaysia, the UK and Azerbaijan, but increased in Norway, Brazil, China and Guyana. Non-OPEC liquids supply for 2021 is forecast to grow by almost 1mn b/d to average 63.8mn b/d. The US liquids supply forecast remains unchanged, with growth of 0.16mn b/d in 2021, although uncertainties persist. The main contributors to supply growth are expected to be Canada, the US, Norway, Brazil and Russia. OPEC NGLs are forecast to grow by 0.08mn b/d in 2021 to average 5.2mn b/d, following a decline by 0.13mn b/d last year. In February, OPEC crude oil production decreased by 0.65mn b/d, m-o-m, to average 24.85mn b/d, according to secondary sources.

Sources: IEA, OPEC

Crude Oil Futures

Crude oil futures prices extended their rally in Q1, 2021 and hit 13-month highs in February. They were supported by optimistic assumptions about tightening supply/demand fundamentals, and bolstered by the weather-related energy crisis in the US that caused a sharp decline in oil production. ICE Brent and NYMEX WTI first month rose respectively by 12.6% and 13.4% on a monthly average in February, settling at their highest monthly average since January 2020.

	JANUARY 2021	FEBRUARY 2021	CHANGE (JAN./FEB.)	YEAR-ON-YEAR (Y-O-Y)	
				2020	2021
WTI	$52.10/bl	$59.06/bl	13.4%	$54.21/bl	$55.58/bl
BRENT	$55.32/bl	$62.28/bl	12.6%	$59.77/bl	$58.80/bl
DME OMAN	$54.95/bl	$61.05/bl	11.1%	$59.61/bl	$58.00/bl
SPREAD					
Brent-WTI	$3.22/bl	$3.22/bl	0.0%	$5.56/bl	$3.22/bl

Note: Totals may not add up due to independent rounding.

Sources: CME, DME, ICE, OPEC

OPEC+ Agrees to Increase Oil Production from May

15th OPEC and non-OPEC Ministerial Meeting, April 1, 2021

The Meeting approved the adjustment production levels for May, June, and July 2021, while continuing to adhere to the mechanism agreed upon in the 12th OPEC and non-OPEC Ministerial Meeting (December 2020) to hold monthly OPEC and non-OPEC Ministerial Meetings to assess market conditions and decide on production level adjustments for the following month, with every adjustment being no more than 0.5mn b/d.

H.R.H. Prince Abdul Aziz Bin Salman, Saudi Arabia's Minister of Energy and Chairman of the OPEC and non-OPEC Ministerial Meeting

"Steering the ship in these current conditions where different scenarios are playing out in various regions of the world requires a steady hand on the tiller, as I said back in February. It also requires flexibility and being responsive to market needs. Our agreement back in December 2020 provided us with a flexible mechanism to hold monthly meetings starting from January 2021, and to decide on whether to adjust output, be it increase, maintain, or decrease production depending on market conditions. Continuing with this flexible approach will serve us best."

Alexander Novak, Deputy Prime Minister of the Russian Federation, Co-Chair of the OPEC and non-OPEC Ministerial Meeting

"The most important decision was to start the general recovery of oil production on May 1 by the OPEC+ countries over three months. Thus, in May the overall increase will be about 350k b/d; in June it will be the same, and in July it will be 441k b/d. The countries will follow the common schedule from the April 2020 agreement. In addition, Saudi Arabia that earlier took on special reduction commitments, decided to increase its output additionally."

H.E. Mohammad Sanusi Barkindo, OPEC Secretary General (April 1, 2021)

"It is exactly one year ago that we were beginning the horrifying month of April 2020. None of us will forget the traumatic impact of the Covid-19 pandemic on people's lives and on the oil industry with demand dropping by more than 20mn b/d and WTI plunging to a negative $37/bl. It was a visceral time for us all, but it was also broken by the historic production adjustments from the group of producers I see before me on the screen today. It has proven to be a prescient decision. The Declaration of Cooperation (DoC) and the steadfastness to conformity and compensation from participants has been central to the recovery of the industry that is such a vital cog in oiling the global economy. We need to continue on this path, be guided by the data and analysis, review the outlook on a regular basis and take things one step at a time."

H.E. Dr Diamantino Pedro Azevedo, Angola's Minister of Mineral Resources

"The pandemic continues to disrupt international travel and traditional ways of doing business, casting a lingering shadow over the prospects for oil demand growth. Our meetings are evidence of this. This is the seventh time in a year that our distinguished group has met on a virtual platform...

Globally, we have seen steady improvements in oil market fundamentals and the demand outlook. Producers, consumers and the global economy all share the benefits of our joint efforts to restore stability, optimism and opportunity."

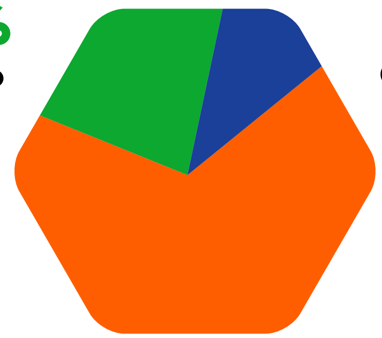
What is a bigger threat to global economic growth in the coming 12 months?

What will be the average price of Brent crude oil in Q2?

Extended lockdowns in Europe are being driven by the threat of a third wave of infections, with a new variant of the virus on the continent. When do you expect Europe to return to post-Covid normal?

In Y1 of the OPEC+ deal, strategy has moved from a transparent roadmap for the return of a 9.7mn b/d cut, to forcing oil markets to second-guess the next supply move. Which approach will be more supportive for prices in Y2?

Oil Production fell from approx. 13mn b/d to 11mn b/d over last year. What will it be at the end of 2021?

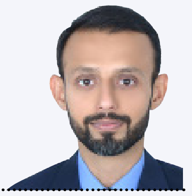


Do you plan to use air travel on your summer holidays in 2021?

Source: GIQ

MASHREQ OPINION EDITORIAL

Middle East's 'Green Money' Push Intensifies



By Badar Chaudhry,
Senior Vice President, Unit Manager, Energy Sector, Mashreq Bank

What are the chances that fossil fuel operators in the historical epicenter of black gold thought five years ago that they'd be financing so much green energy today? The answer is very, very few. Even the optimists thought it'd take longer for this fundamental switch in energy economics.

But already, this 'new normal' is becoming very familiar. Every day, news headlines report on more and more ambitious multi-year, multi-investor renewable energy projects or green financings. This new status quo says it is abnormal not to be proactive in the energy transition, rather than the reverse narrative, which has persisted for nearly four decades.

Financial flows?

Changing attitudes across the board – governments, corporates, academia, and society – reflect a deep-rooted strategic change. For one, solar PV is expected to generate $182bn investment in the renewables market in the Middle East by 2025, according to Frost & Sullivan. This also represents a staggering 18-fold growth in current capacity. And in the short-term, the International Energy Agency suggests the Middle East and North Africa to add 4.12GW of renewables capacity this year, after only 1.86GW in 2020 – more than doubling in just twelve months. Meanwhile, Kuwait is nearing completion of the region's biggest import terminal for liquified natural gas (LNG) – considered the 'cleanest' fossil fuel and a vital bridge in the new energy basket. What does this tell us? Eager investors with deep pockets who are confident that the massive push for a greener energy marketplace is here to stay.

The same mentality applies to hydrogen – coined the 'new oil' of the 21st century – as it experiences a 'real dawn' of increased scalability after a few false starts over the last decade. According to a Platts Analytics' hydrogen project database, the Middle East and Africa have many renewable-based green hydrogen projects set to come online within the next five years. One such mega-development is the $5bn NEOM renewable ammonia project in Saudi Arabia – earmarked as the world's largest green hydrogen project – and Oman's Sohar port's plans to support a large-scale renewable hydrogen project. And ADNOC, Mubadala and ADQ have signed a deal to establish the Hydrogen Alliance, helping the UAE's capital become a lead producer and exporter.

All this financial appetite really pays off, particularly when it comes to improving economies of scale with manufacturing and market price points. For example, high cost has long burdened the growth of the hydrogen market. But investors' growing interest – in large part spurred by broader societal and governmental demand for a greener future – means that low-carbon hydrogen may break even with grey hydrogen as early as 2028, a cost of about $35-50 per ton of carbon dioxide equivalent, according to the Hydrogen Council. This is at least two years earlier than the timeline expectations that many stakeholders voiced this time last year.

Balance sheets bruised – temporarily

Of course, energy stakeholders have not emerged from 2020 unscathed by the economic pressure of the pandemic-triggered recession. The total committed and planned investments in the MENA from 2020-2024 could exceed $792bn – an 18% decline from the $965bn in the five-year outlook in 2019, according to Apicorp. Each country has had to balance their books. For example, Kuwait cancelled its 1.5GW Al-Dabdaba tender and Saudi Arabia has extended project deadlines due to Covid-19. And there are many questions still unanswered – all of which can significantly impact financial flows in energy.

The jury is still out on whether globalization 4.0 – which was accelerating pre-pandemic – will start to reverse, as cost-cutting measures potentially drive a long-term trend for more regional cooperation. If so, what impact will this have on energy supply chains, innovation centers, and import-export dynamics? Question marks also remain over the US-China relationship, Brexit, and instabilities in the Middle East – all of which impact the economic picture for both 'old' and 'new' energy. And the usual and long-running weak spots still need strengthening, including better support for new market entrants, especially entrepreneurs and small and medium-sized enterprises (SMEs), and fully addressing energy subsidy removals.

Yes, there is a lot of work to do – but the market has good reason to be positive. Consider that the aforementioned projects are still progressing despite the impact of the most globally disruptive pandemic in a century and the lowest oil prices ever recorded. Plus, assuming black swans stay clear, oil prices are likely to stay relatively close to the current range of $40-$60/bl, again giving energy stakeholders and investors a general goalpost to plan their finances in the year ahead – a coveted hint of certainty in a year that may be as unpredictable as 2020.

Photo by Julianne Cona/Instagram

MARCH

March 11th
World Marks 1 Year Since Pandemic Declared
A year ago today when the World Health Organization (WHO) declared Covid-19 a pandemic, there were more than 118,000 cases. Today, the global total topped 118 million, with levels rising again in some countries, but retreating in others.

Source: CIDRP

March 24th
Egypt's Suez Canal Blocked by Huge Container Ship
A giant container ship, the length of four football pitches, has become wedged across Egypt's Suez Canal, blocking one of the world's busiest trade routes. Dozens of vessels are stuck, waiting for rescue boats to free the 400m-long (1,312ft) ship, which was knocked off course by strong winds.

Source: BBC

March 29th
Murban Crude Futures Start Trading at New ICE Abu Dhabi Exchange
The Murban crude futures contract launched on Monday, the key contract of the new ICE Futures Abu Dhabi (IFAD) oil exchange, offering a potential rival benchmark for trading Middle East crude.

Source: Bloomberg

APRIL

April 1st
OPEC and Allies to Boost Production
The Organization of the Petroleum Exporting Countries (OPEC) and allied producers have agreed to gradually increase their output over the next three months. The move follows a sharp increase in oil prices, and a call from the United States to keep energy affordable.

Source: CNN

Spotlight

Stuart Williams
President, ICE Futures Europe, Intercontinental Exchange

"We need to think of the ICE Murban oil futures contract in the broader context of what ADNOC is doing – ADNOC has lifted the destination restrictions on Murban and its other grades of crude oil. They have indicated that it is now up to the market to determine what the value of Murban is, and for their other grades as well for they will be priced at an announced differential to Murban. The new contract will enable the whole market to contribute to the price formation process in determining the right value for Murban and indirectly for the other ADNOC crudes as well. From an exchange perspective, markets provide the ability to manage price risk, to create a valuation for a particular asset, and for firms it provides the ability to allocate capital and to be more efficient in the way they operate their business."

Energy Executive of the Month

Feras Jaramani, Executive Vice President – Head of Public Sector, Aviation, Energy, Education & Healthcare

How many 11-year-old boys do you know who ask to read the financial supplement of their father's newspaper? Feras was one of those rare children. He devoured the pages every day, understanding every word and graph by the age of 13. Unsurprisingly then, UAE-born and raised Feras' decision to study engineering at Damascus University in Syria – established nearly a century ago – lasted just two months. Opting to stay in Syria to connect with his heritage, he switched his course at the university to a bachelor's from the Faculty of Business Administration & Finance. A voracious reader, he relished expanding his contextual understanding of global economics, essentially becoming an intellectual explorer. Feras was keen to start work as his studies ended, his teenage ideal to pursue a career in academia quickly fell away. Applying all he'd learned from hundreds of books and lectures into practice took center stage.

Getting started

Feras' return to the UAE in 2001 coincided with the impact of the dot.com bubble and Asia's economic woes; job offers were limited. Ever resourceful and keen to share knowledge, he taught 10th and 11th grade students the Cambridge economics curriculum at a private school in Al Ain for a year. As every talented teacher knows, the more you learn, the better you teach. So Feras diligently fed his knowledge about business and economics, poised for his next opportunity – which soon arrived.

Feras' 18-year career in banking was sparked by a surprise call from the Union National Bank in 2002, asking him to join their Corporate Banking team in Al Ain. To this day, he doesn't know how the bank got his details or who recommended him for a job. But he remains grateful, for this was the opening of the corporate door that he so needed. Now Feras had to prove himself.

Up, up, and up

He started at the bank from the bottom, as Support Staff (now known as an Associate). He had to manually input companies' financial data into a basic model and harvest insights the old-fashioned way, learning a great deal about companies' ins and outs. His patience in building granular knowledge soon paid off.

Significantly supported by his talented colleagues, Feras was tasked in just six months to act as an Assistant Credit Analyst. Then, just 13 months after joining the bank, he became a Credit Analyst. Overall, it was a busy but productive three years; from a fresh graduate with no experience to a young professional who had worked in three departments and had his own clients.

The latter especially appealed to Feras' social personality. His small and medium-sized (SMEs) clients meant he got to see a company's financial beating heart, engaging directly with decision-makers and having first-hand exposure to clients' operations. Working in a small unit in a small city meant Feras fast became known as a friendly and effective financial facilitator – at just 23 years old. His ability to pinpoint the domino effect of geopolitics on the Middle East meant his clients always had the most relevant and timely financial advice.

Building on this professional momentum, Feras gained more international experience in 2005 when he joined United Arab Bank, 20%

of which was owned by Société Générale, as a Relationship Officer. In 2008, he significantly upped his international exposure again by joining HSBC. There, he enhanced his skill sets across several desks over the next 12 years. He started in Sharjah as a Relationship Manager in Corporate Banking with mid to large clients, speaking directly to CEOs and business owners in manufacturing, contractors, government-related entities, and others. In 2010, he moved to Dubai to the Division Head of HSBC's Large Corporate Team. Feras moved to be Head of Public Sectors in 2012, with his last move at HSBC in 2016 as he jumped across from Corporate Banking to Global Banking. Each change triggered a learning curve and enhanced his ability to adapt – a globally coveted skill.

Next adventure

Feras has long respected Mashreq's creative and determined business style, so it was an honour to be appointed the Executive Vice President of Head of Public Sector, Aviation, Energy, Education, and Healthcare in July 2020. The multifaceted nature of the role at the UAE's only privately owned bank suits Feras' desire to learn, learn, and learn some more. He savours being part of the decision-making process with his highly skilled colleagues somewhere that competes with the world's biggest banks and leverages technologies to improve banking norms. It remains to be seen whether Feras' three-year-old son will one day look up at him, asking for the very same financial supplements that sparked his career.

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mashreq المشرق

Middle East Energy Transition

5-Year Outlook for Solar Additions in the Region

2021
1.6 GW

≈590%

2025
11.1 GW

Sources: Wood Mackenzie Ltd., Bloomberg Green

SUSTAINABLE DEVELOPMENT GOALS

To meet **UN Sustainable Development targets** by **2030**, it is estimated that emerging markets need an **annual investment** of **$2.5trn**, with a large portion of this investment focused on the **Middle East**.

Source: World Economic Forum (WEF), Arab Forum for Environment and Development (AFED)

Environmental, Social and Governance (ESG)

What is ESG Data?

ESG data is a **set of standards** used to **measure** a company's **stewardship** and **sustainability**. A socially conscious investor uses ESG data to **screen for potential investments**, especially in the **energy sector**.

Why is ESG Data Important?

Investors have been increasing their **focus** on **sustainable matters** and, as a result, must become more **sustainability-conscious**. Energy products that are shown to **comply with ESG criteria** will have a **large upside** in the **future** for investment.

UAE's Vision 2021

highlights a sustainable environment and infrastructure as a **key pillar** in the **national agenda** for the year ahead. The use of **quality ESG data** can be a **solution to drive** the country's vision forward by building the foundation needed for a **robust ESG investment environment**.

Source: Diligent Corporation, UAE Vision 2021: National Agenda

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