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Quarterly Energy Newsletter Q3, 2021

A Message from Mashreq's Energy Sector Team

The success of our team is built on consistent knowledge exchange with our stakeholders, partners, and customers. We hope you find the insights inside valuable and useful.

Thank you for taking the time to read our quarterly newsletter.

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MASHREQ OPINION EDITORIAL

Oil Still Key in Energy Security Game

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

A storm is brewing – one we all cannot allow to gain too much momentum. A pullback in financing for traditional energy platforms, notably oil, has emerged at a time when the volume of greener energy resources are not sizeable enough to plug the gap. Essentially, the "sunrise" aspect of lower carbon energy and the "sunset" aspect of oil markets risk becoming misaligned – and we do not want to be left in the dark. Worst case, this could jeopardize energy security: a throw of the dice that no public, company, nor country can afford.

This is especially true considering rising population rates and their subsequent energy demand. Unicef expects the population in the Middle East and North Africa (MENA) to double during the first half of the 21st century, while the UN said the global population will expand by nearly 25% to 9.8bn people by 2050. Ensuring everyone can reliably flick on the light switch and power their vehicles is paramount, especially as we are still lagging; 1bn people worldwide still lack reliable access to power.

Intensifying pressure points

Multifaceted drivers are propelling the pullback on oil markets, a commodity market at the core of a modern-day civilization that billions of people have benefitted from for nearly 100 years. The primary drivers are the surge in global momentum for decarbonization – greener energy markets are a linchpin to success – and the reduction in demand amid the Covid-19 pandemic. Overall, oil and gas companies cut their capex by 34% in 2020, slightly more than the initial 28% reduction following plummeting oil prices in 2014, according to BCG.

We are also seeing a contraction in the Middle East, the world's historical epicentre of fossil fuels. Gulf Cooperation Council (GCC) countries have been selling energy assets, with Saudi Arabia and the UAE spearheading the charge. Aramco sold 49% of its pipeline network to a US-led consortium in a $12.4bn deal in April, for example, while ADNOC raised $10bn by selling gas pipeline leasing rights. Such moves are partly geared at sustainably pursuing their energy transitions without generating debt bundles, especially amid lower oil prices – a smart move.

This is also timely considering the risk of stranded assets. Around $900bn would evaporate if governments more aggressively attempted to restrict the rise in temperatures to 1.5C above pre-industrial levels for the rest of this century, according to the Financial Times' Lex. The recent landmark Net Zero report from the International Energy Agency (IEA) is also expected to feed sentiment to pullback, saying sales of new internal combustion engine passenger cars must be halted by 2035 and all unabated coal and oil power plants must be phased out by 2040.

This is not just another blip in this boom-and-bust industry. After decades of analysts placing varying bets, peak oil is very much upon us. BP, Total and others have suggested that oil demand could peak this decade and OPEC expects world crude demand to peak somewhere around 2040; a major statement from black gold's prime organizer and cheerleader. But don't write off oil just yet.

Timing is everything

That greener energy will dominate in time, instead of black gold, is rightly inevitable. But pinning down the right pace of transition is both hard and critical – and some may be acting too soon. Of course, oil dynamics have taken a hit amid the aforementioned drivers. Global oil demand is unlikely to catch up with its pre-Covid trajectory. In 2020, the start of the IEA's forecast period, oil demand was nearly 9 mb/d below the 100mn b/d level seen in 2019, and it is not expected to return to that level before 2023. But unless there are rapid policy interventions and behavioural changes – this is viable considering today's change of pace – then the longer-term growth drivers will push oil demand to 104.1mn b/d by 2026, which equates to a 14.2% climb.

Without a crystal ball, we can't determine the speed of oil recovery in different countries and regions. But there is no doubt that it will recover to some degree, helping soak up some of the glut from 2020 and further support prices – more good news for oil-centric economies in the Middle East. Energy forecasts up to 2050 are valuable in giving investors goalposts, but we can't lose sight of sustaining energy security in the near-term; we cannot forget the here and now. So, when it comes to reallocating oil-related investments and divestments, a lighter touch may not be a bad idea – until the pandemic-triggered dust settles at least.

Energy Markets Q3 Review

H.E. Mohammad Sanusi Barkindo,
Secretary General, OPEC

"I am sure you must have noticed in the market today, the prices that we are seeing are not entirely dictated by supply and demand conditions because a transition premium is added to the prices of hydrocarbons. Unfortunately, this global conversation has been thoroughly misrepresented. And the narrative is being distorted because emotions have taken over industry facts."

Global Oil Demand

World oil demand growth in 2021 remains unchanged, showing growth of 6.0mn b/d despite some offsetting revisions. Oil demand in Q3 2021 has proved to be resilient, supported by rising mobility and travelling activities, particularly in the OECD. At the same time, the increased risk of Covid-19 cases primarily fuelled by the Delta variant is clouding oil demand prospects going into the final quarter of the year, resulting in downward adjustments to Q4 2021 estimates. As a result, oil demand in the second half of 2021 has been adjusted slightly lower, partially delaying the oil demand recovery into H1 2022. Global oil demand in 2021 is now estimated to average 96.7mn b/d. In 2022, oil demand is expected to robustly grow by around 4.2mn b/d. Oil demand in 2022 is now projected to reach 100.8mn b/d, exceeding pre-pandemic levels.

Source: OPEC

Global Oil Supply

Non-OPEC liquids supply growth in 2021 is revised. The revisions are mainly due to outages in North America from a fire on a Mexico's offshore platform and the disruptions caused by Hurricane Ida. The estimate for North Sea production has also been revised down due to lower-than-expected output in Q3 2021, resulting in an annual growth forecast of 0.9mn b/d to average 63.8mn b/d. The main drivers for 2021 supply growth remain to be Canada, Russia, China, the US, Brazil and Norway, with the US expected to see y-o-y growth of only 0.08mn b/d. OPEC crude oil production in August increased by 0.15mn b/d m-o-m, to average 26.76mn b/d, according to available secondary sources.

Source: OPEC

	JULY 2021	AUGUST 2021	CHANGE (AUGUST/JULY)	YEAR-ON-YEAR (Y-O-Y)	
				2020	2021
WTI	$72.43/bl	$61.71/bl	-6.5%	$38.03/bl	$64.23/bl
BRENT	$74.29/bl	$70.51/bl	-5.1%	$42.61/bl	$67.08/bl
DME OMAN	$72.73/bl	$69.31/bl	-4.7%	$42.43/bl	$65.71/bl
SPREAD					
Brent-WTI	$1.86/bl	$2.80/bl	-50.5%	$4.58/bl	$2.85/bl

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

Sources: IEA, OPEC

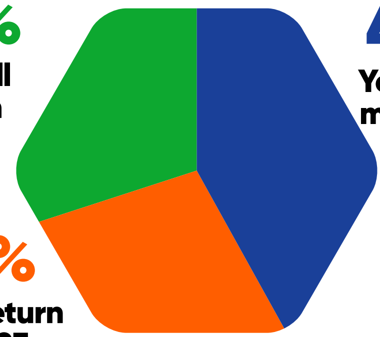
Energy Markets Q3 Survey

In Q4 Brent Crude Oil will break out of $65/bl - $75/bl range of Q3, and move into $75/bl -$85/bl Range:

31% Disagree

69% Agree

Global oil demand will return to pre-Covid levels by Q3 2022?



30% No, it will happen sooner

42% Yes, that is most likely

28% Won't return till 2023

Is it time to include a Climate Change premium in Oil price as energy infrastructure is no longer fit for purpose to recover quickly from new scale of weather events?

25% No

75% Yes

In a tug of war for the direction of oil price, who wins:

37% China Slowdown

63% Stock Draws

Do you expect China's oil imports to recover close to 2020 highs (11mn b/d avg) before end of this year?

42% No

58% Yes

The Covid-19 Delta variant has now passed by as far as being a real threat to demand destruction and oil prices?

46% Disagree

54% Agree

Source: GIQ

Energy News Highlights Q3

JULY

July 14th
ADNOC Invests Over $750mn in Drilling-Related Services to Support Production Capacity Growth

The Abu Dhabi National Oil Company (ADNOC) announced an investment of $763.7mn in integrated rigless services across six of its artificial islands in the Upper Zakum and Satah Al Razboot (SARB) fields to support its production capacity expansion to 5mn b/d by 2030. The investment is in the form of three contracts awarded by ADNOC Offshore to Schlumberger, ADNOC Drilling, and Halliburton after a competitive tender process.

Source: ADNOC

July 28th
Global Gasoline Demand Could Flatten as Delta Variant Spreads

Resurging Covid-19 infections in many major oil-consuming markets, including the United States, Europe, and Southeast Asia, could stagnate the recovery in road fuel consumption globally in the coming weeks. Estimates from the United States point to record gasoline consumption for 2021 this past week, but analysts fear that the rising number of Delta variant infections could put the brakes on the demand rebound well before the summer travel season ends.

Source: OilPrice

SEPTEMBER

September 22nd
Powell Says US Fed Taper Could Start 'Soon' and End Around Mid-2022

The US central bank could begin scaling back asset purchases in November and complete the process by mid-2022, after officials revealed a growing inclination to raise interest rates next year. Powell, explaining the US central bank's first steps toward withdrawing emergency pandemic support for the economy, told reporters that tapering "could come as soon as the next meeting."

Sources: US Federal Reserve, Bloomberg

Spotlight

Jerome Powell
Chair of the US Federal Reserve

"Inflation is elevated and will likely remain so in coming months before moderating. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly because supply bottlenecks in some sectors have limited how quickly production can respond in the near term."

Sources: US Federal Reserve, Bloomberg

September 23rd
OPEC Warns Natural Gas Crisis May Create Oil Market Turbulence

As the global natural gas crunch hits suppliers and consumers alike, OPEC nations are warning of the knock-on impact for oil markets. Iraq expects higher demand for crude as the shortfall of gas forces consumers to look for alternative fuels. The head of Nigeria's state oil firm predicted that petroleum demand could be boosted by 1mnb/d, with prices potentially gaining $10/bl over the next six months. While the two exporters are hardly neutral observers of the situation, their views echo thinking that's increasingly widespread in the market.

Source: Bloomberg

Meet the Team

Energy Executive of the Month

Qasim Ali Karamat
Vice President, Senior Relationship Manager, Energy Sector

A teacher who was a magician with kids transformed Qasim's professional fortune. Since Grade 8, Qasim has been fascinated by the logic of maths. His father was in the merchant navy and was particularly good with numbers. But Qasim hit a hurdle: he kept flunking math exams. But it was the guidance of his excellent teacher, that enabled him to do a 180-degree turn. By college, finance was his strongest subject.

This teacher also taught him something that extends far beyond his teenage classroom: the value of giving back. For Qasim, this meant sharing what he knew. A 19-year-old Qasim started mentoring a young teenager nearly two decades ago. Today, that young teenager is a successful business owner in the US who still calls Qasim for advice, to which he replies: "Now I'm the one who should be asking you!" Paying it forward truly works.

After teaching informally for more than a decade while working full-time, he and two friends established and ran Theo Institute of Professional Skills between 2016-2018. Teachings focused on Chartered Financial Analyst (CFA) studies, as well as those of Financial Risk Manager (FRM), Energy Risk Professional (ERP), and Association of Chartered Certified Accountants (ACCA) coaching.

Qasim's passion for helping others means that anyone joining his team at Mashreq today spends a few months under his wing. The biggest lesson he can share with them? The world of banking is evolving faster than ever before, so hone your intellectual agility – you're going to need it!

Karachi, Pakistan

Getting started

Finance was the best option Qasim had to satisfy his fascination with math, with him eyeing options in the treasury and investment banking. The latter won – and he's never looked back. First, he gained his BA (Hons) in Finance from the Institute of Business Administration in Karachi between 2002-2006. Thereafter, he dived into the working world at United Bank Limited as the Manager of Project & Structured Finance in Karachi.

During these years, Qasim had one of his career highlights; the TransAsia Refinery Limited advisory project in 2007. He developed a complex financial model for the relocation of a brownfield refinery to be set up in Pakistan after the dismantling of the refinery in Naples, Italy. It was a tricky but fascinating project that very literally crossed national borders. The role also opened his national eyes, in that he spoke with Pakistanis from all walks of life: from owners of sizeable farms to white collar city workers who were impacted by various projects financed by the bank.

It was during this time, while getting to grips with his first job, that Qasim was teaching informally, as well as achieving his IBP Superior Qualification in Banking from the Institute of Bankers in 2007-2009. In 2009, he was relocated to set up the Investment Banking desk for the bank in Middle East through a two-man team. Here, he ramped up his exposure in cross-border finance, enabling multi-million-dollar deals in Sri Lanka, Turkey, Yemen, and Pakistan.

A new chapter

A steep learning curve welcomed Qasim when he joined Mashreq as a Relationship Manager for Large Corporates in November 2013 in Dubai. The move to Mashreq was one he'd been seeking for some time. It was here that he had a career highlight with a deal for the Emirates National Oil Company (ENOC) for a $1,500mn syndicated loan facility to acquire Dragon Oil. This state-owned company has since thrived, positioning itself as an innovative energy leader in the MENA region.

Under the able guidance of his manager, Badar Munir Chaudhry, the Vice President and Unit Manager of the Energy Sector, enabled him to thrive. He was promoted in 2017 to Director of the Energy Sector at Mashreq's Corporate and Investment Banking Group. The young boy who got red crosses across his math exams was now a Director in the finance world. Today, Qasim's interests are primarily in commercial and investment banking in the Middle East region.

Digitalization: *The Future Landscape of Commodities Trading?*

A wide-ranging rally in commodity prices this year has sparked talk that markets may be on the cusp of a new super cycle. At the same time, the digital transition is rapidly changing the status quo across commodities' entire business matrix. Traders, financial institutions, regulatory bodies, and many others in the ecosystem must quickly adapt. Amid this plethora of opportunity, how can market players use digital tools as a springboard for more speed and accuracy – and lock in even greater returns this year?

SOURCE

These exclusive insights are some of the key takeaways harvested from a webinar hosted by Mashreq Bank in June 2021. The esteemed participants have more than a century of knowledge of regional trading markets between them:

- Badar Chaudhry, Senior Vice President Sector Head – Energy, Mashreq Bank
- Peter McGuire, Chief Executive Officer, XM Australia
- Dr.-Ing. Stephan van Aaken, SVP Digital Trading Development & Operations, Uniper Global Commodities SE
- Morgan Eldred, Managing Partner, Digital Energy
- Moderator: Dyala Sabbagh, Partner, Gulf Intelligence

Please click HERE for free access to the webinar recording.

Mashreq Insights

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Digitalization is not a silver bullet for success in commodities – but it will become a non-negotiable tool as tradeable volumes and complexities intensify. The forerunners in commodity trading who are already leveraging artificial intelligence (AI), big data, and complex predictive algorithms are benefiting from real-time analyses that give them a coveted head start. Those on the front line of this positive digital disruption – and perhaps a commodity super cycle – are better able to manage costs, efficiency, and capture more opportunistic business, speakers pointed out. This does not mean digitalization should rewrite the entire rulebook of commodity trading, but instead it modernizes the business for 21st century dynamics.

"The commodity super cycle never went away – it just went on a bit of a vacation. This decade will be beyond our imagination in terms of base metals and overall demand. Then if you throw an extra one billion people on the planet in the next 12-15 years into the mix, it adds even more demand."

Peter McGuire, Chief Executive Officer, XM Australia

"Financial institutions are trying to map out customers' experience and requirements end-to-end. This is where the value of digital tools is being witnessed, as these are making it possible to create real-time solutions – be it account opening or facilitating the activities carried out with counterparties"

Badar Chaudhry, SVP Sector Head – Energy, Mashreq Bank

And the domino effect of modernization – notably greater speed and accuracy – is urgently needed as commodity markets face major change. One is the need to become increasingly diverse amid the global push for greener markets in support of the Paris Agreement. Pinning down the digitally proven carbon footprint of a commodity product will become a normal part of businesses and consumers' wish-list over the next decade. Plus, the globalization of commodity markets is also heightening. The same applies to overall demand forecasts as the planet will be home to 25% more people by mid-century.

These drivers are triggering both opportunities and complications, as well as more "mind-blowing" market volatility, speakers agreed. The unprecedented volatility in oil prices serves as a stark reminder of how sharply trends in commodity markets can turn. For example, US crude oil futures fell to -$37.63/bl in April last year – a "monstrously big move" that saw the oil price plummet into negative territory for the first time in history. Arguably, better utilization of digital tools going forward can help market players identify potential chokepoints in supply and demand sooner, with this increased visibility then easing turbulent pricing trends.

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POTENTIAL ABOUNDS

The gap between digital adopters and laggards in commodity markets has dramatically narrowed in the last year, as the economic turbulence spurred by the Covid-19 pandemic has market players eagerly seeking ways to maximize efficiency and profit. Plus, regulators increasingly and publicly saying they want to create an entirely seamless banking system spurs commodity players' confidence that the market can build into a super cycle. This would be the first time since the early 2000s, amid the rise of BRIC – Brazil, Russia, India, and most powerfully, China. Today's very strong demand for commodities is also being propelled by substantial government-led and pandemic-related stimulus packages, as the world recovers from what the International Monetary Fund (IMF) calls the worst economic squeeze in 90 years. This is working: tens of trillions of dollars being spent globally, speakers said.

TRADERS' PERSPECTIVE

Greater efficiency than ever lies at the heart of maximizing the potential of these growing market volumes. Symbiotic AI, quantum computing and machine-learning are the three tools that speakers highlighted as priorities out of the broader basket of the 4th Industrial Revolution (4IR) in the commodity markets. All give traders a far more focused eye, enabling them to better navigate the "the nuts and bolts" of trades, especially amid volatility.

Previously, traders using such tools were considered ahead of the curve. But it must be the norm going forward, with those more reluctant likely to find themselves overrun by the tsunami of data and accelerated speed of trading demands. This means all traders will likely need to reskill or upskill; they will become smart choreographers of algorithms while technology handles the details. Humans can simply not process the gargantuan volumes of data that digitalization in commodity markets will generate. For example, the amount of data created over the next three years will be more than the data created over the past 30 years, the International Data Corporation (IDC) flagged. Unsurprisingly, this paradigm shift is driving the appetite of trading firms, financial institutions, commodity companies, and others to lock in rare talent – those with knowledge of both digital and commodity markets. Another route companies are exploring is hiring clever, knowledge-hungry individuals who have a penchant for creativity, and training them to support other digitally enabled commodity traders of the future. Whatever the route, the need to embrace digitalization is unavoidably clear and the clock to lock in maximum economic potential will only tick faster if a super cycle is realized later this year.

"Traders are increasingly in a position where failing to use technologies of the future puts them at risk of falling behind or being overrun. There is so much data and so much information now, that traders, as humans, simply can't digest it all on their own."

Dr.-Ing. Stephan van Aaken, SVP Digital Trading Development & Operations, Uniper Global Commodities SE

Big vs small

Established players are typically slower digital adopters and will be challenged by faster-moving upstarts who are not burdened by legacy infrastructure or bureaucratic hurdles. The advantage of bigger companies is that they have large data stores – not necessarily all high quality or organized – but certainly voluminous. Some of this intel is also "hidden" in the minds of experts, rather than stored numerically on machines. Still, the market should expect a rise in skilled individuals equipped with just laptops who are able to conjure innovative and profitable ideas for commodity markets. This will likely become easier as well as the push to open up data systems gains pace, such as the energy market's Open Subsurface Data Universe (OSDU) Data Platform. Free from compliance oversight, these individuals can achieve true transformation – or at least templates for true transformation – far quicker. Eventually, some of this independent talent will be soaked up by big entities via mergers and acquisitions, but that will take time. So, in the meantime, it makes sense for both camps to collaborate and accelerate overall market progress.

25%

growth in the global population is anticipated by 2050, from 7.9bn today to 9.9bn people, according to the UN. The demands of each person feeds into driving the commodity cycle.

32%

of data available to enterprises worldwide is put to work, according to Seagate. The remaining 68% goes unleveraged – a significant waste when businesses urgently need intel to sharpen their competitiveness.

15%

annual growth in global cybercrime costs over the next five years could cost $10.5trn per year by 2025, warned Cybersecurity Ventures – potentially the greatest transfer of economic wealth in history. Commodity players must be alert.

1/ www.zawya.com/mena/en/wealth/story/Why_investors_in_the_Middle_East_may_have_a_head_start_in_ESG_investments-ZAWYA20201022154429/

Underinvestment in the Oil & Gas Sector

$250bn

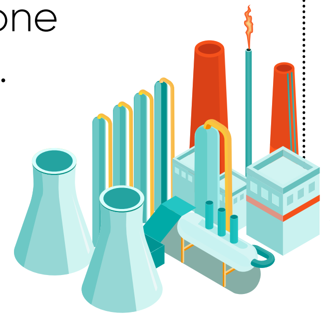
of underinvestment in the oil and gas sector was recorded in 2020 alone - 30% lower than five years ago.

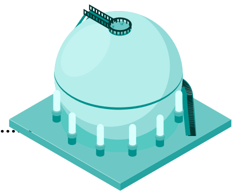
Source: KPMG

20

large-scale oil and gas projects are expected to be sanctioned in 2021 - up from only 10 in 2020.

Source: Wood McKenzie





$300bn

is the amount the industry will invest in upstream oil and gas in 2021, flat compared to 2020 – close to a 15-year low.

Source: Wood McKenzie

$600bn

is the estimated shortfall of upstream investment needed between 2021 and 2030 to meet global oil demand.

Source: JP Morgan, S&P Global Platts

Oil Still Key in Energy Security Game

"A pullback in financing for traditional energy platforms, notably oil, has emerged at a time when the volume of greener energy resources are not sizeable enough to plug the gap."

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