QUARTERLY ENERGY NEWSLETTER

Q2, 2023

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. We wish you the best of health and wellbeing always.

Quarterly Energy Newsletter

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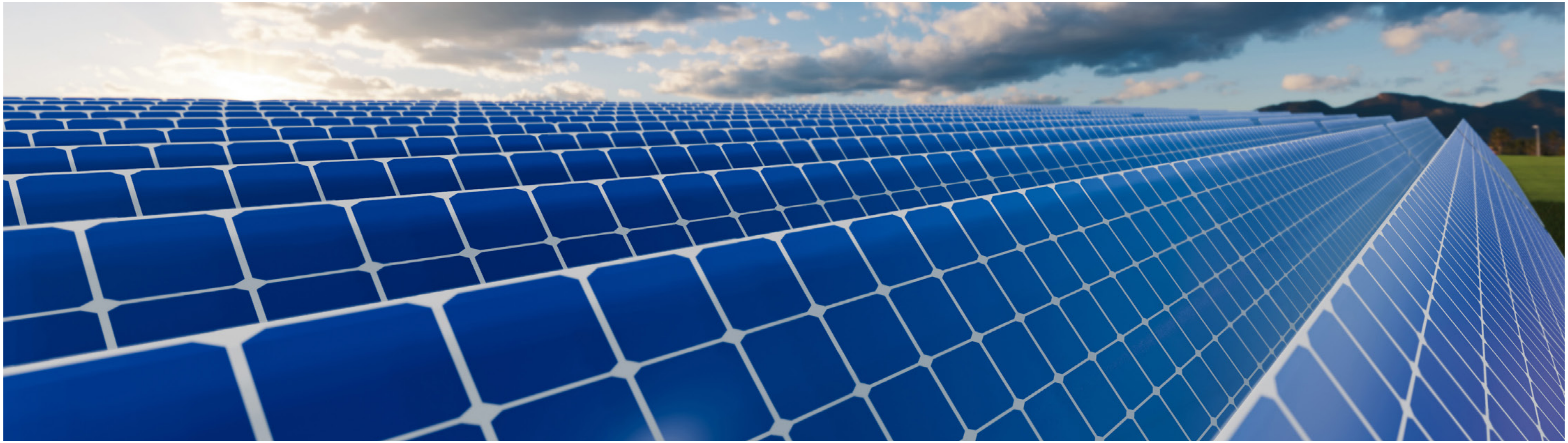


Economic strain can't distract us from the climate change ultimate crisis

By Badar Chaudhry
Head of Energy Sector, Mashreq

We must leverage the unique platform of COP28 in Dubai this November to grab this challenge with both hands and proactively keep turning dialogue around climate finance into quantifiable action.

A greener future costs – a lot. This could be a daunting reality against today's backdrop of global financial instability. However, the natural ebbs and flows of global economics can't steer us off course from Net Zero by 2050 – the biggest financial task in history.

We must leverage the unique platform of COP28 in Dubai this November to grab this challenge with both hands and proactively keep turning dialogue around climate finance into quantifiable action.

Time is not on our side. There is a 66% chance between 2023-2027 that we'll see the global average temperature breach 1.5°C above pre-industrial levels for the first time, the World Meteorological Organisation (WMO) recently revealed. This is a colossal red flag.

Transforming the energy sector into a greener, cleaner machine is a cornerstone of making Net Zero possible. Progress is undeniably being made, but it isn't a linear journey when it comes to speed and scale.

CONFLICTING FORCES

Global investments in energy transition technologies reached a record high of $1.3trn in 2022, for example, but annual investments must more than quadruple to over $5trn to ensure we don't exceed 1.5°C (again) by 2050. Overall, the world needs $35trn of investments by 2030 to have a successful energy transition, according to the Abu Dhabi-based International Renewable Energy Agency (IRENA).

This major call to action comes at the same time as the International Monetary Fund (IMF) shared that advanced economies will likely see a pronounced slowdown in growth, from 2.7% in 2022 to 1.3% in 2023.

In the Middle East and Central Asia, growth rates of 5.3% in 2022 and expected to nearly halve to 2.9% this year. The ongoing effects of Russia's invasion of Ukraine, three years of COVID-19 and concerns over inflation, rising interest and currency rates are all part of the worrisome mix.

EYES ON THE PRIZE

All are valid concerns and are undeniably having an impact. Many we've seen before in previous squeezed economic situations and so there are some tried-and-tested solutions and fiscal measures to calm the turbulence over the next year or so.

The global 2007-2009 recession impacted us all, but we learned key lessons and recovered and moved on. Comparatively, the vastness of the world-altering consequences of failing to stay on track for Net Zero are almost impossible to fathom – and must be avoided at all cost.

We also need to remember that tackling the energy transition under the umbrella of Net Zero is not just doom and gloom. There are many, many financial bright spots too.

For one, a study by Oxford University said a decarbonized energy system by around 2050 could save the world at least $12trn, compared to continuing our current levels of fossil fuel use. Therein lies a triple win: for energy security, helping economic stability and protecting the environment.

WE CAN DO THIS

Achieving this transformation is possible; extraordinarily difficult, but possible. How can we be so sure? Firstly, necessity. Our species and planet face great danger. For one, the Middle East and North Africa (MENA) is set to warm nearly twice as fast as the global average, said Greenpeace Research Laboratories.

Secondly, our confidence is underpinned by the fact we've already dramatically moved the needle. The renewable energy sector now generates seven times more of a return on investment than fossil fuels, shared the International Energy Agency (IEA). Few thought this paradigm shift was possible in our lifetimes.

Plus, renewables contributed to an unprecedented 83% of global power additions in 2022, according to IRENA. Numbers don't lie; this is the sort of real change we must keep striving for.

ESG investing is accelerating the appetite for sustainable finance

Mashreq's Group CEO Ahmed Abdelaal discusses the bank's expansion plans and its digitisation strategy. With a strong focus on expanding its operations in the region, Ahmed Abdelaal shared that Mashreq has applied for banking licenses in Saudi Arabia, Oman, and Pakistan, while also aiming to expand its presence in Egypt.

The MENA region is particularly vulnerable to the adverse effects of climate change due to various geographical factors, making it one of the most severely affected regions. This reality has created a sense of urgency for economic change in most countries across the region, especially as GCC nations make substantial progress in building resilient and sustainable non-oil economies. In this changing paradigm, new opportunities are surfacing for investors and financial institutions across a diverse range of industries, including renewable energy, infrastructure development, digital technologies, e-commerce, and fintech. This may be a vast spectrum of sectors, but what they all have in common is the increasing influence of sustainable finance.

The concept of responsible business has rapidly gained recognition in the public consciousness as an essential corporate requirement. This is evident in the promising outlook for sustainable financing. Moreover, within the framework of addressing climate change, sustainable financing has emerged as a crucial factor in meeting consumer preferences. Supported by regulatory initiatives, this has given rise to a new paradigm where the most viable investments are those aligned with environmental, social, and governance (ESG) principles. Consequently, consumers now possess the power to enact change through their choices.

As a result, the emergence of ESG investing has rapidly changed how investors think and the associated choices they make. In particular, the ESG spotlight has led to an emphasis on the importance of investment decisions that mitigate exposure to climate risk, comply with current and future regulations and limit any potential reputational damage. This is why banks and investment firms are devising green and sustainable strategies, incorporating them into their business strategies, and aligning their funding mechanisms to their sustainable development commitments.

FINANCING THE REGION'S SUSTAINABILITY-FOCUSED LONG-TERM VISION

We are witnessing the positive impact of these mechanisms as they drive successful outcomes, thanks in part to their inclusion of long-term agreements. Mashreq has played a pivotal role in expediting the uptake of sustainable financing opportunities, facilitating a total of $15.5bn in investments in sustainable finance and adaptation across Egypt, India, Bahrain, Qatar, and the UAE over the past two years. Several of these nations are furthering their commitment to sustainability by actively promoting the issuance of green bonds and Sukuk.

Egypt was the first country to issue a sovereign green bond in MENA in 2020, issuing $750mn worth of five-year bonds. The sovereign green bond was seven times oversubscribed, leading to a 50% upsizing of the transaction to its $750mn ultimate issuance level. The investor response presents a glimpse into the opportunity and appetite for green financing in the MENA region, as well as an insight into how seriously investors are focusing on the social and economic threats from climate change.

Additionally, and in a nod to the worsening issue of water security, Mashreq has also facilitated $1.3bn in water-related projects across Egypt, India, Bahrain, Qatar and the UAE that will build resilience to scarcity and water scarcity-related disasters. As part of these efforts, the bank has been heavily involved in financing solutions for projects like the Abu Rawash Wastewater Treatment Plant in Egypt, among many other water-related programs.

This investment is set to have a significant impact, benefiting over 8mn individuals, primarily in the Giza Governorate, the Eastern side of the Nile River and the Cairo-Alexandria Desert Road. Additionally, the project has successfully created 1,600 employment opportunities, with 20% allocated for women, contributing to a broader positive social effect. Mashreq has also played a leading role in facilitating the Sustainability Linked Loan for Nogaholding in Bahrain, an impressive achievement considering its substantial value of $2.2bn, making it the largest SLL in the region. Looking ahead, Mashreq's vision is highly ambitious, aiming to achieve $30bn in sustainable financing by 2030.

COLLABORATION AMONG STAKEHOLDERS TO ACHIEVE COMMON CLIMATE GOALS

However, such financing targets are only part of the picture. To further boost its impact, the banking sector must partner closely with its clients, advising them on transition strategies, managing risk and helping them access appropriate sustainable financing for their needs – across CAPEX, OPEX or even retraining their workforce and raising awareness among employees.

Partnerships with policymakers have also become important, not only regionally but at a global level. This year's COP28 in the UAE – following COP27 in Egypt in 2022 – will provide a new opportunity for governments as well as the public and private sectors to collaborate to streamline details on national and regional finance frameworks, and work together to accelerate adoption of sustainable finance. This will help boost clarity, which is integral to strengthening investors' appetites and confidence.

Looking ahead, all banks have a responsibility to build their sustainable financing solutions within the context of national, regional and international regulations, standards and policies. Across the MENA region, it is crucial for the banking sector to prioritize alignment with national and regional frameworks, including the UAE's climate goals, along with global

environmental initiatives. This imperative goes beyond financial considerations and extends to moral and ethical responsibility.

April 2023 saw Mashreq join the World Green Building Council's Advancing Net Zero Readiness Framework as a Collaborator in the MENA region, following the bank's decision to join the United Nations Global Compact initiative in August 2022. Through its involvement with both institutions, Mashreq looks to further incorporate the principles of social and environmental responsibility, integrity, transparency and robust social and governance practices across its operations and activities.

All corporations in the financial industry have a fundamental responsibility to act as corporate citizens and lead by example. With COP28 on the horizon, now more than ever – and particularly in the UAE – a firm commitment to ESG principles will provide leading banks with a competitive advantage and set them apart from their fellow industry players. This unique positioning becomes pivotal for the banking sector's goal of fostering sustainable business practices and driving the adoption of sustainable financing. By doing so, these leading banks will be at the forefront, facilitating the rapid adoption of sustainable finance and paving the way for its accelerated growth.

Source: Economy Middle East

Mashreq's Global Headquarter has received LEED Zero Energy certification by the U.S. Green Building Council

Mashreq's Global Headquarter (HQ) has received LEED Zero Energy certification by the U.S. Green Building Council. Mashreq has achieved this recognition of net zero energy over a span of 12 months with the certification validity for a period of 3 years.

With COP28 taking place in the UAE later this year, this certification further cements Mashreq's position as a sustainability champion and leader that is at the forefront of shaping, contributing, and supporting the MENA region's strategic direction towards Net Zero.

Mashreq HQ has claimed its rightful spot in the rare league of regional firsts including:

- First financial headquarter in the MENA region to achieve LEED Zero Energy certification
- First financial building in the MENA region to achieve LEED Zero Energy certification
- First high rise building in the MENA region to achieve LEED Zero Energy certification
- Second building in the MENA region to ever achieve LEED Zero Energy certification
- Among the 26 LEED Zero Energy certified projects worldwide

Source: Mashreq Corporate & Investment Banking Group

Henning Gloystein
Director - Energy, Climate & Resources, Eurasia Group

"Balancing Energy Investments the most Challenging for Governments in the next Decades: It is an awkward situation for any government especially in the West that have net-zero targets. The hardest hit here is probably the Europeans because they have net zero commitment by 2050. This means they can't commit to long term oil and gas investments beyond 20 years, even as they still need gas for the next couple of years or even up to three decades. At the same time, on the environmental and policy side, all the money are needed to invest in green solutions. The oil and gas industry says, no, we need money for the next 20 years to make energy affordable. So, this is going to be the among the most challenging aspects of the entire energy transition for the next decades."

Source: GI Energy Transition Intelligence Briefing, April. 4th Issue 80

Global Oil Demand

The world oil demand growth estimate for 2022 remains unchanged from last month's assessment, with y-o-y growth of 2.5mn b/d. For 2023, the forecast for world oil demand growth remains broadly unchanged at 2.3mn b/d. China, Latin America, and the Middle East have been revised up slightly, while OECD Europe, Other Asia and Africa have been adjusted slightly lower. The OECD is expected to grow by about 50K b/d and the non-OECD by about 2.3mn b/d in 2023.

Sources: OPEC Oil Market Report, June 2023

Global Oil Supply

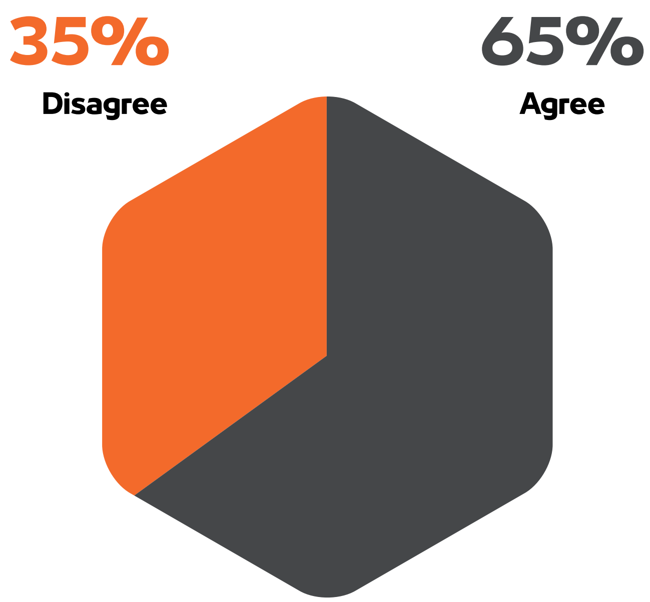
Non-OPEC liquids supply is estimated to have grown by 1.9mn b/d in 2022, broadly unchanged from the previous assessment. Minor downward revisions to OECD Europe and OECD Americas were largely offset by upward revisions to liquids production in the non-OECD. The main drivers of liquids supply growth for 2022 are seen to be the US, Russia, Canada, Guyana, China and Brazil, while the largest declines are expected from Norway and Thailand. For 2023, non-OPEC liquids production growth remains unchanged from last month and is forecast to grow by 1.4mn b/d. The main drivers of liquids supply growth are expected to be the US, Brazil, Norway, Canada, Kazakhstan and Guyana, while the decline is expected primarily in Russia. Nevertheless, large uncertainties remain over the impact of ongoing geopolitical developments, as well as the output potential for US shale in 2023. OPEC NGLs and non-conventional liquids are forecast to grow by 0.1mn b/d in 2022 to average 5.39mn b/d and by 50k b/d to average 5.44mn b/d in 2023. OPEC-13 crude oil production in February increased by 117k b/d m-o-m to average 28.92mn b/d, according to available secondary sources.

Sources: OPEC Oil Market Report, June 2023

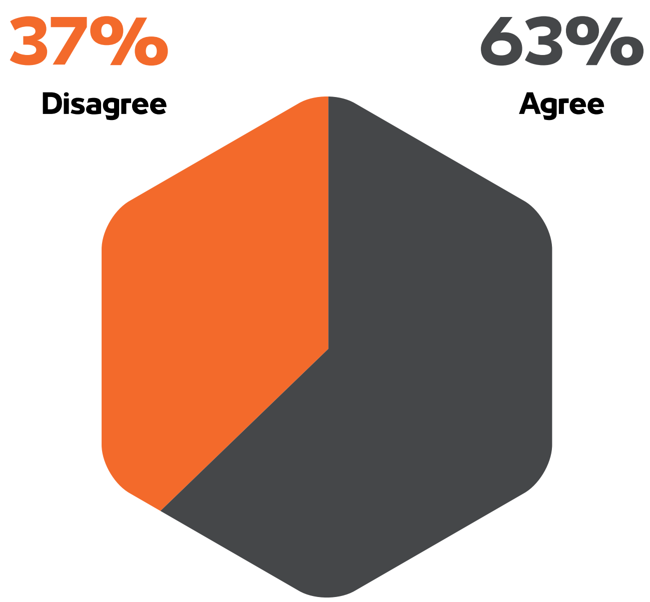
	APRIL 2023	MAY 2023	CHANGE (FEB/JAN)	YEAR-ON-YEAR (Y-O-Y)	
				2022	2023
WTI	$79.44/bl	$71.62/bl	-9.8%	$99.20/bl	$75.69/bl
BRENT	$83.37/bl	$75.69/bl	-9.2%	$102.33/bl	$80.94/bl
DME OMAN	$83.47/bl	$74.78/bl	-10.4%	$99.70/bl	$79.66/bl
SPREAD					
Brent-WTI	$3.93/bl	$4.07/bl	-3.6%	$3.13/bl	$5.25/bl

Sources: IEA, CME, DME and OPEC

With the world awash with crude and a dim outlook for the global economy, there's no chance prices will exceed $80 in 2H 2023?

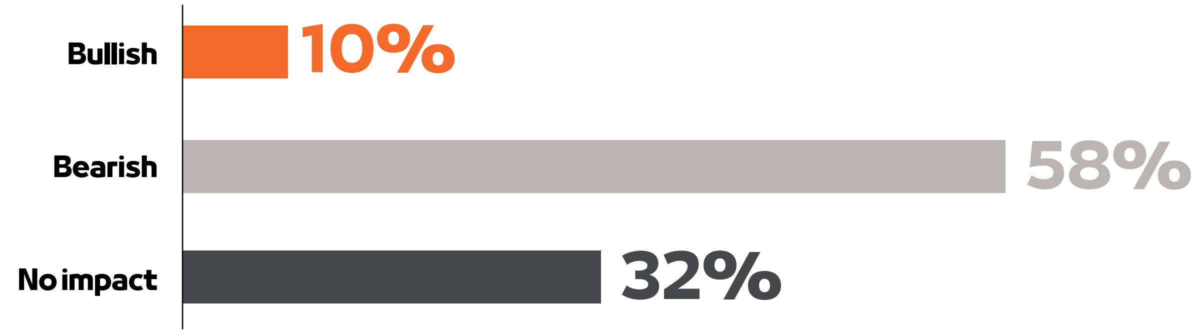


China's too little too late post-covid stimulus won't trigger sufficient oil demand recovery in H2 to absorb growing supply from Russia, US, Iran and others?

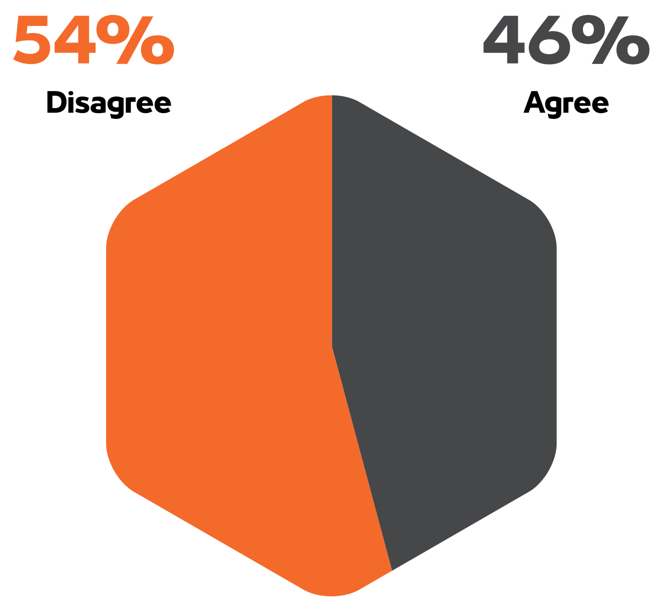


Energy Markets Survey – Q2, 2023

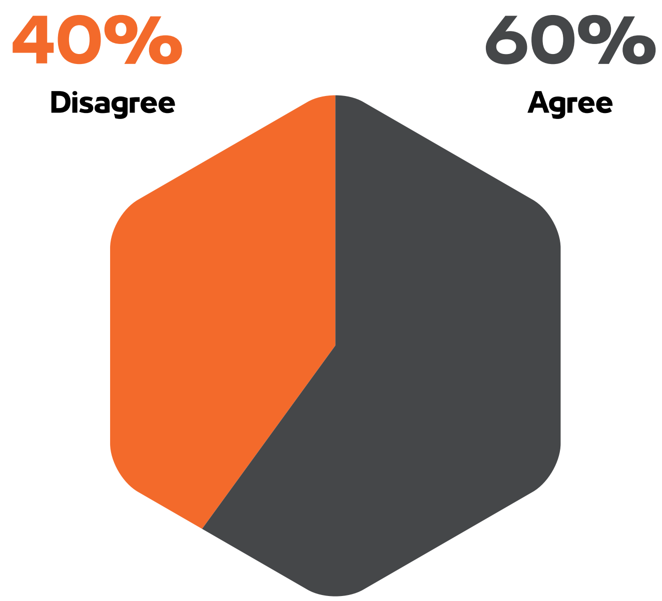
How would Iran-US nuclear agreement impact oil markets:



Oil prices will eventually follow Equities higher to 'irrational exuberance' land as FED ends tightening cycle?



Global Oil Demand will Peak by Decade end, according to IEA's new forecast.



A key gauge of Chinese stocks was on track to enter a bear market – 20% down in 2023 – on a sluggish economic recovery, weakening yuan and tensions with the US: Do you still buy H2 China oil demand will rally?

Source: GIQ

UAE ACHIEVING RAPID PROGRESS IN SOLAR ENERGY PROJECTS, MARCH TOWARDS ZERO GREENHOUSE GAS EMISSIONS

UAE is implementing clean and renewable energy projects as a strategy to combat climate change and has taken early steps towards utilising these types of energy, most notably solar energy, to meet most of its energy needs, to achieve sustainable development and conserve the environment. Hosting the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) in November will enable the UAE to create an interactive global platform for showcasing its efforts towards transitioning to renewable energy, especially solar energy. The UAE plans to harness renewable resources to meet some 50% of its energy needs by 2050.

Source: WAM- The Emirates News Agency https://rb.gy/n8gp7

OPEC+ ADDITIONAL VOLUNTARY CUTS AIMED TO BALANCE OIL MARKET: UAE ENERGY MINISTER

The United Arab Emirates' energy minister Suhail al-Mazrouei said that additional voluntary cuts by the OPEC+ producer group were implemented to balance the oil market. Mazrouei, who briefed reporters on the sidelines of the World Utilities Congress, said he was concerned about future supply shortages due to low investment. In a surprise move in early April, Saudi Arabia, and other OPEC+ members announced further oil output cuts of around 1.2mn b/d.

Source: Alarabiya News https://rb.gy/el0w4

COP28 PRESIDENT-DESIGNATE CALLS FOR CLIMATE FINANCE REFORM TO UNLOCK AFRICA'S CLEAN ENERGY POTENTIAL

Dr. Sultan bin Ahmed Al Jaber, Minister of Industry and Advanced Technology and COP28 President-Delegate, met William Ruto, President of the Republic of Kenya, along with energy ministers and leaders from other African nations, at the Africa Energy Forum in Nairobi, where he emphasised the importance of making climate finance more available, accessible, and affordable to enable countries in the continent to achieve their clean energy potential. In a joint statement with the COP28 President-Designate, President Ruto commended the UAE, its leadership and the COP28 Presidency on their long-standing support for sustainable development and climate action. Kenya and COP28 will jointly champion actions to triple installed renewable energy capacity by 2030, and will cooperate on policy and scaling finance.

Source: WAM- The Emirates News Agency https://rb.gy/o2h4k

MONTFORT ACQUIRES UNIPER'S MARINE FUELS OIL REFINERY IN UAE

Montfort Group and the Private Office of Sheikh Ahmed Dalmook Al Maktoum (the Private Office) have acquired Uniper Energy's oil refinery in the UAE that produces low-sulphur fuel oil for the shipping industry. This makes Montfort one of the top two suppliers of ship fuel, also known as bunker fuel, in the world's third-largest bunkering hub located in the United Arab Emirates' city of Fujairah, rivalling energy trader Vitol. The business will be named Fort Energy Refining Middle East DMCC. Fort Energy is a wholly owned subsidiary of Montfort.

Source: Gulf News https://rb.gy/4dt7m

IRAQ IN FINAL STAGES OF TALKS ON $27 BN TOTALENERGIES DEAL

Talks between French oil major TotalEnergies and Iraq to resolve sticking points in a long-delayed $27bn energy deal "have reached advanced stages", Iraqi oil minister Hayan Abdel-Ghani said. "We will activate the deal very soon," Abdel-Ghani said at an energy event. The proposed deal, which Baghdad hopes will revive foreign investment in the country, was signed in 2021 for TotalEnergies to build four oil, gas and renewables projects with an initial investment of $10bn in southern Iraq over 25 years.

Source: Al Arabiya https://bit.ly/40oKm3Y

TOP SAUDI, UAE OFFICIALS SAY ENERGY STORAGE, CARBON CAPTURE KEY TO ENERGY TRANSITION

Apart from a commitment to carbon capture, being touted as the leading means to decarbonize the world's economy, energy storage has to be a priority globally, a senior official from energy giant Saudi Aramco told the Abu Dhabi Climate Forum. "One of the biggest commitments is carbon capture. There's a lot of technology needed to displace the remaining energy of electricity. Energy storage has to be a priority for the world, at grid scale. That's a big focus for us. Hydrogen is the only real option for carbon capture," Ahmad al-Khowaiter, the Executive Vice President and CTO of Aramco said.

Source: English Al Arabiya https://rb.gy/na6ui

SAUDI, UAE LEAD GCC SWITCH TO RENEWABLE ENERGY SOURCES, STRENGTHEN CLIMATE COMMITMENT

Out of all countries in the Gulf Cooperation Council (GCC), Saudi Arabia and the United Arab Emirates are leading efforts to become more environmentally friendly, according to a report by an analytics firm, which said that the countries' efforts to invest in renewable energy projects will help them reach their climate goals. As of the end of 2021, around 90% of the GCC's renewable energy capacity came from the UAE and the Kingdom, report from S&P Global Ratings said.

Source: Al Arabiya https://bit.ly/3n9FuRO

UAE SIGNS NUCLEAR ENERGY COOPERATION AGREEMENTS WITH CHINA BODIES

Emirates Nuclear Energy Corporation (ENEC), the body responsible for developing the United Arab Emirates' nuclear energy sector, has signed three agreements with Chinese nuclear energy organisations as it looks to boost low-carbon nuclear power. The UAE, which is hosting the COP28 climate summit this year and wants to get 6 per cent of its energy needs from nuclear as part of its 2050 net zero plan, has previously said China would be a key partner in its energy transition plan.

Source: Khaleej Times https://rb.gy/bsytv

DESPERATE NEED FOR CLEAN ENERGY SURGE IN THE GLOBAL SOUTH: IEA

Financing for clean energy in developing and emerging economies, excluding China, must increase seven-fold within a decade if global warming is to be capped at tolerable levels, the International Energy Agency (IEA) says. To keep temperatures from rising to catastrophic levels, annual investments in non-fossil fuel energy in these Global South countries will need to jump from $260bn to nearly $2trn, the intergovernmental agency said.

Source: Al Jazeera https://rb.gy/i2t12

UK'S FIRST DEEP GEOTHERMAL ENERGY PROJECT FOR 37 YEARS SWITCHED ON.

The UK's first deep geothermal energy project in nearly four decades will start operating, a scheme that proponents hope will bolster the case for geothermal energy despite its high costs. Reaching almost 5km below the Earth's surface, the geothermal well at the Eden Project in Cornwall will tap into water of temperatures up to 200°C and provide heating to nearby greenhouses and enclosed rainforest biomes.

Source: Financial Times https://rb.gy/r1nto

US COULD START BUYING OIL FOR RESERVE AFTER JUNE SALE, ENERGY SECRETARY SAYS

U.S. Energy Secretary Jennifer Granholm told lawmakers on Thursday her department could start repurchasing oil for the Strategic Petroleum Reserve (SPR) after completing a congressionally mandated sale next month. "That congressionally mandated sale of 26mn barrels will be completed by June, and it's at that point where we will flip the switch and then seek to purchase," Granholm told lawmakers in a hearing in the U.S. House of Representatives.

Source: Reuters https://rb.gy/28674

Energy Data Has Deteriorated Significantly

Dr. Anas F. Alhajji
Managing Partner, Energy Outlook Advisors LLC

We've had a weak recovery, weak demand, and weak prices in the first half of the year, but it will be completely the opposite in H2, when we expect to see a pickup in oil demand, unless we have a major global recession. But we must pay attention to multiple issues. One of the surprises we got in the first half was an increase in gasoline demand in most of the European countries despite concerns over the cost-of-living crisis. One of the explanations could be that many governments decided to give fuel subsidies, which increased fuel consumption. Today, some of those countries are ending those programs and we will get to see whether that impacts gasoline and diesel consumption meaningfully or not. Another major issue in the last two years has been that energy data has deteriorated significantly, and we see that continuing. That makes it very tough for even the most experienced of analysts to read energy markets. In the US, the EIA publishes weekly data, and we have what we call the adjustment factor which shows any difference between supply and demand that needs to be plugged. However, that difference has become larger and larger, and no one knows where that oil is. And then globally, we have most sanctioned exports from the likes of Russia, Iran or Venezuela going 'dark', with countries trying to hide their imports because they don't want to deal with the legal consequences of defying sanctions rules. Even OPEC depends on other companies for data on its own production; that's why they publish secondary data and that's also why we've seen Saudi Arabia asking the Russians for clarity on their exports because no one knows what's going on.

Gulf Intelligence: Does the recent Saudi voluntary output cut render OPEC+ redundant?
Dr. Anas F. Alhajji: Saudi's objective to cut was literally to control the market narrative, not because of lower demand or because they want higher prices. $75 is good for everyone. If Saudi had not cut, prices would decline by $4-$5, so it has been effective and created a floor in the market. Also, if you look at OPEC+ as a group, they couldn't agree to a cut for several reasons. One is that some countries literally have no option to cut anymore and as OPEC decisions need to be by consensus, they had to show the world that they remained united. The other issue for OPEC is that as a research organization, it also produces monthly reports, and those have been very bullish, so cutting as a group would be seen as contradictory.

Gulf Intelligence: Will Brent average above or below $80 in 2H 2023?
Dr. Anas F. Alhajji: We expect prices to be higher than $80 in the second half, but China is not going to like it. It has built inventories and strategic petroleum reserves in the past few months, as they did in the past, and they are going to try and use it to prevent prices from

rising. Saudi Arabia is going to set the floor and the Chinese are going to set the ceiling, and the range is going to be very tight.

Gulf Intelligence: How much has US Fed policy impacted global demand?
Dr. Anas F. Alhajji: It has wreaked havoc on the world economy, especially for developing countries which have floating currencies. Everyone knows that oil is priced in dollars so even if oil prices stayed flat, the rise in the USD has made oil more expensive for countries already suffering from global inflation. They have no money left for oil. Global demand post COVID should be stronger, but because of the stronger dollar, that growth has been limited.

Gulf Intelligence: Outlook for gas demand and prices?
Dr. Anas F. Alhajji: Gas storage in Europe is in good shape but if there's severe weather anywhere, all bets are off. Hurricane season in the Gulf of Mexico could impact US exports of LNG, so Europe and China could be fighting for every molecule, especially if they also have severe weather. We could see Europe resorting to more coal to generate enough electricity to keep things cool in the summer.

Gulf Intelligence: Is the Saudi Iranian rapprochement concrete and does it impact the market?
Dr. Anas F. Alhajji: The move is purely political and has nothing to do with energy or oil. It has to do with everything going on in Yemen, Syria, and other places, and with the threats to Saudi Arabia and others. There is a conviction among some analysts that the Saudis have major megaprojects they want to focus on, and so they don't want the distraction from Yemen and the Iranians. As far as Iranian production is concerned, it is exporting at its maximum and won't be able to increase that for a while, even if we end up with a new nuclear deal. At the same time, there are certain factions within the Iranian regime that became awfully rich because of the sanctions, and it is not in their interest to normalize relations with the US, with Europe or with its neighboring countries, because all that money would then go to the government instead.

Source: Energy Transition INTELLIGENCE BRIEFING - ISSUE 163

"Oil Prices Struggling Because of Financial Flows, Not Fundamentals! We've built a lot of inventory in Q4 2022 and the early parts of Q1 2023. But that shouldn't be confused with China's recovery, which is phenomenal right now. The March data that came in for demand was about 600k b/d higher than what we had expected, and we had already forecast a decent uptake. Outright demand was over 16mn b/d, so China isn't the problem. The problem is the West, which has slowed down, but the real reason why oil prices are struggling is much more to do with financial flows than fundamentals. If you look at physical grades around the world, be it in the Middle East, or dated Brent, they are much, much higher than the paper prices. That's one of the big issues right now with the market – traders want to see bigger stock draws; they want to see that tightening happening first before they come back in. So, prices will be going up, but not in Q2. There are just too many macro headwinds so it's going to be from the second half of the year. On demand, we see 1.5mn b/d of year-on-year growth. We may not be in an overall technical recession, but we are in an industrial recession, at least in the US and parts of Europe. The expectations that we would have 2mn b/d of growth this year would require miracles out of Asia. That's not going to happen, but we will see tightness in supply in the second half of the year. From a macro point of view, the fear right now is we could get a hard landing, but our forecasts are calling for a mild recession in the US and Europe. If the market gets clarity of that and that the banking system isn't going to fall over, it then allows risk assets to perform. The oil market has probably priced in a bit more towards the hard landing, so if that doesn't materialise, prices can still rally."

Amrita Sen, Co-Founder and Director of Research, Energy Aspects

Source: Gulf Intelligence - 22/6/2023

"Industry, business models and regulation proved to be fit for purpose in responding to the biggest disruption we've had in the energy system since the Second World War. Tens of thousands of gigawatts were rerouted from traditional import and transport routes and EU gas stocks were filled at almost full capacity, much earlier and well above targets. To diversify supplies, new LNG regasification capacities were developed in no time at locations where they could serve the wider EU market. LNG terminals regasified 75% more gas in 2022 compared to 2021. Some LNG terminals were extended with new regasification capacities and a lot of FSRUs were also brought to EU shores. We also saw new pipeline interconnectors, such as those in the Baltics, being built to allow supplies to reach landlocked countries and reach markets with no import terminals. The current trend certainly illustrates the flexibility and optionality of LNG in substituting missing Russian gas. LNG terminals have clearly proven to be enhancers of security of supply through source and route diversification, securing access to global and competitive energy and qualifying as reliable storage providers that enable development for hubs and trading. LNG has also become viable as a baseload supply for Europe, a role that was previously limited mostly to other parts of the world, such as Asia. The US will also remain a stable and long-term gas partner for the EU. This relationship has only been reinforced by Russia's invasion of Ukraine, and has not been limited to energy, but also included other aspects such as technology."

Roxana Caliminte, Deputy Secretary General, Gas Infrastructure Europe

Source: Gulf Intelligence - 18/5/2023

Energy Transition Q2 Review

"OPEC+ Is Leaning Against the Wind! It's quite an interesting market. If you look at the last few months and in fact, pretty much the whole year, Brent has been in a broad $70 to $90 range and has spent more time around $75 than it has above $80. It briefly got up close to $90 and almost got below $70 but didn't. So, you're looking at a narrow range, and what has happened to keep it that way is OPEC+, and lately the Saudis acting unilaterally. They've been working very hard to keep it above $70, so you could argue that all this cutting in production, all that has achieved is to keep the price above $70. My own feeling is that if the world is heading towards a recession - and certainly economic indicators like purchasing managers indices suggest things are going to get worse before they get any better - is $75 oil an appropriate level? I would argue probably not. So, I think OPEC+ is leaning against the wind. The big hope is that somehow, we have a huge demand explosion in the second half. That's what the IEA and OPEC is forecasting and others, and they're basing that on a strong recovery in China, on India remaining pretty solid, and on the rest of the world having a very shallow slowdown, and certainly avoiding the worst of a recession. Those are things that could happen, but would I think it's a central case right now? I'm not so optimistic. When you start to tighten monetary policy as much as it has been tightened globally, then you make a recession much more likely, and that's not going to be positive for oil. And I don't think China can ride to the rescue."

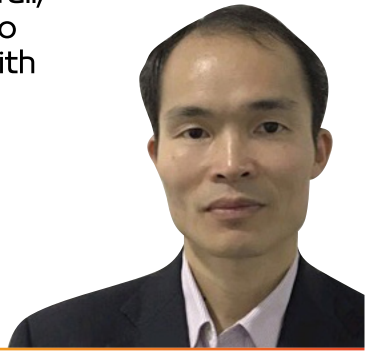
Clyde Russell, Asia Commodities & Energy Columnist Thomson Reuters

Source: Gulf Intelligence - 15/6/2023

"China Crude Oil Imports Will Get a Boost After Refinery Maintenance Season in June: "China just came back from a five-day public holiday and there were traffic jams everywhere and tourism spots packed everywhere. People couldn't get reservations at hotels! It was actually busier than before the pandemic. People are spending more, and tourism is driving local economies faster now in the second quarter than during the first three months of the year, so we are seeing more oil consumption. There's been a large increase in gasoline and jet fuel consumption, particularly in early May. Diesel consumption grew faster than gasoline and jet in the first quarter, but now gasoline and jet fuel are catching up. Fuel demand overall in Q2 will exceed Q1, but also now that the holiday is over, we do not expect the jump during the holiday season to necessarily last into the coming months. Crude imports in Q1 grew modestly. SINOPEC's crude runs increased by about 3% and PetroChina by over 8%. The country's crude throughput as a whole rose by about 3.9% in Q1. In the second quarter, there is a lot of refinery maintenance, particularly for April and May, so we expect crude imports to drop significantly, probably to about 11.2mn b/d for April; that compares to 12.8mn b/d in March, which was the second highest rate recorded since June 2021. We should start to see a jump in crude imports in June after most refining maintenance comes to an end, and also because some buyers placed more orders because of concerns about tightening supply and rising prices in the coming months after OPEC announced more production cuts in early April. So, all in all, we do not expect consumption and imports to recover before June. We also expect the economy to recover faster in the second half of the year and with that, oil consumption and imports too."

Victor Yang, Senior Analyst, JLC Network Technology

Source: Gulf Intelligence - 4/5/2023



Middle East Energy Transition
Getting on Track in 2023

Picking up the pace

At COP28, there will be a monumental push to ramp up financial support for developing countries. It is fundamental to making Net Zero a reality worldwide.

66%
In a business-as-usual scenario, middle and low-income countries are expected to account for two thirds of global CO_2 emissions by 2030, up from 44% in 1990.

25-50%
cut in global CO_2 emissions is needed by 2030 on pre-2019 levels to stop the worst effects of climate change - with developing nations taking most of the impact.

11%
is what today's global climate targets can achieve - less than half of the minimum reduction needed.

Source: International Monetary Fund (IMF).

With the UAE taking the lead on COP28 in just eight months, the number of opportunities can outweigh the challenges - if we're smart and move quickly."

Badar Chaudhry
Head of Energy Sector, Mashreq

With the UAE hosting COP28 this year, boosting support for developing countries' journey in the global energy transition will be in sharp focus.

$100bn
annual pledge for developing nations amid climate change, made in 2009 by developed nations, will be met in 2023.

2030
is when the adaptation needs of vulnerable countries reaches $300bn, so developed nations must start ramping up their support.

$31.7bn
from the World Bank in 2022 to help countries tackle climate change is a record high, setting an ambitious tone this year.

Sources: Euractiv, Adaption Fund, World Bank.

Expect greater momentum for renewables than ever, as the world tries to stabilise energy security as the war between Russia – a world-leading oil and gas producer – and Ukraine continues.

20
The world is set to add as much renewable power in the next five years as it did in the last two decades.

30yrs
This year will reveal more of the UAE's plans to spend the $160bn it has allocated to clean and renewable energy up to 2052.

50%
of new global renewable power capacity additions in 2022-2027 will come from China, so watch out for more Sino-Middle Eastern alliances in 2023.

Sources: International Energy Agency (IEA), Trade Arabia, IEA.

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