ARABIA MONITOR ENERGY

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QAMAR ENERGY

GEOPOLITICAL OUTLOOK

Country Politics / Geopolitics	
Algeria	The Hirak protest movement in Algeria remains resilient, with daily clashes between security forces and hundreds of young people in impoverished areas who continue to breach the pandemic lockdown. While a drop-off in participation was expected, it has not stopped protests despite President Abdelmadjid Tebboune's announced ban on the marches, dividing Hirak militants. A new report by the International Crisis Group urges both parties to have an economic dialogue, since a political one seems unrealistic in the short-term, to avoid a potential severe economic crisis. The Group also called Algerian authorities accused by rights groups of using lockdown as a pretext to end the Hirak protests, to adopt a lenient approach towards the grass-roots movement.
Egypt	The Egyptian government is criticised for its repression, propaganda and misinformation as CoVid-19 outbreak is rendered a regime security risk rather than a public health crisis, reminiscent of the security apparatus' control over civilian institutions and the zero-tolerance to opposition/ dissent approach. This became more apparent after al-Sisi ratified a host of amendments to Egypt's emergency law which an international rights group says expands "repressive powers". Meanwhile, Egypt and Sudan are suspending tripartite negotiations with Ethiopia over GERD for more internal consultations on a new draft of filling guidelines proposed by Ethiopia. This came after the latter's filling of the GERD's reservoir without a legally binding agreement over the Nile resources allocation, leading Egypt to escalate its call for international community's involvement, with the US already threatening to withhold development aid to Ethiopia if an agreement is not reached. Egypt, backed by Saudi Arabia and the UAE, is readying to intervene in Libya as it received authorization from the Libyan Eastern Parliament, in order to defend its "national security against armed criminal militias and foreign terrorists," which could lead to a re-escalation by end-Q3.
Kuwait	The Kuwaiti Parliament is yet to pass a law raising the debt ceiling and allowing the country to issue debt with longer maturities, if and when they deem it necessary. Kuwait is scheduled to elect a new Parliament in November this year and the new Cabinet will be required to resign in accordance with the Constitution. We do not rule out further questioning of ministers until then, with possible reshuffles in the cards which could slow down reform implementation. Kuwait will continue to funding its fiscal deficit from the state's ample reserves. Unlike other GCC countries that have been actively raising capital from international debt markets, Kuwait has not tapped the market since 2017 when it issued USD 8 B in bonds.
Iran	We are witnessing the expanding role of the Iranian Revolutionary Guard (IRGC) in Iran's politics after a standoff between President Hassan Rouhani and guard, supported by Supreme Leader Ayatollah Ali Khamenei. This has played out through a separate Coronavirus response by the guards supported by the supreme leader, the IRGC's newly released budget which allocates a 22% increase to US$ 4.4 B from about US$ 3.6 B, and the launch of the country's first military satellite, Noor. Iran is likely to continue to push the boundaries on their military developments throughout the year to come as President Rouhani exits office and a likely conservative/hardline president wins a heavily-scripted election in 2021. A series of fires and explosions broke out at military, nuclear and industrial facilities in the country presumed by many sources to be connected to Israeli sabotage to disrupt Iran's re-emerging nuclear program. Significant surge in CoVid-19 cases is also raising concerns, with cases likely under-reported according to Iranian Health Ministry documents obtained by BBC.

GEOPOLITICAL OUTLOOK

Country Politics / Geopolitics	
Iraq	Iraq has reached a quorum to successfully form a government with a new prime minister, Mustafa al-Kadhimi, but the country's fragile politics are far from over. After political parties blocked some of his candidates, al-Kadhimi has managed to get 15 of his ministerial choices through in May, with 7 others only approved beginning-June including Oil Minister Ihsan Ismaael and Foreign Minister Fuad Hussein. Finance Minister Ali Abdul Ameer Allawi was acting oil minister until the portfolio was filled. One of al-Kadhimi's first moves in office was to release anti-government protesters, after protests re-emerged against the new leadership. However, the renewed anti-government protests, Tehran-affiliated factions instigating demonstrations across the country, rocket attacks on military bases and in the vicinity of the International Zone of Baghdad, and a spate of kidnappings and assassinations will likely undermine the Prime Minister's administration and promises. Talks over budget and oil exports with the Kurdistan region appear to have broken down for now over the issue of customs fees.
Lebanon	The explosion at Beirut's port, which left at least 171 dead, 6,000 injured and 300,000 homeless, has caused economic damage of up to $15 B according to Beirut's governor Marwan Abboud, exacerbating the country's economic crisis (33% of the population lived below poverty line end-2019) and placing more pressure on the implementation of the new economic reform plan. The port houses Lebanon's only grain silos and receives 80% of its imports, including medicine and fuel, which urged a number of countries to send tonnes of humanitarian aid. The incident, blamed on highly explosive materials, mainly 2,750 tonnes of ammonium nitrate, stored in a warehouse for more than 6 years, unleashed violent anti-government protests, with more than 700 injured, leading Prime Minister Hassan Diab to announce the government's resignation on August 10. Yet, street demonstrations continue across Beirut, with residents demanding Lebanon's entire political elite dismantled.
Libya	Turkey made territorial gains in favour of the Government of National Accord (GNA) against Field Marshal Haftar's Libya National Army (LNA), which was pushed back to Sirte and Jufra. Subsequently, the political proposal signed by 44 members of the Tobruk-based House of Representatives started to gain traction. However, the military build-up by Russia, Egypt and Turkey shows a potential re-escalation expected by end-Q3. Although Egypt will need up to 24 hours to deploy its forces to the 'red line' (Sirte and Jufra road), Egypt and UAE's joint airpower is likely to strengthen LNA's position against any Tripoli attack. Russia has the upper-hand, enjoying at least 14 jets, a mix of fighters and bombers at Jufra able to intervene against Tripoli forces, while its Wagner Group has split forces between the largest oilfield, Sharara, the largest port, Es Sider, and on the red line. Despite Russia and Turkey's agreement to ceasefire, the sticking point for Eastern and Western administrations will be which side controls the Sirte basin.

OIL PRICE OUTLOOK: PHASE-2 OF THE OPEC+ DEAL IS UNLIKELY TO IMPACT RECENT RALLY IN OIL PRICES

- **OPEC+ started to scale back oil production cuts on August 01, marking the end of Phase-1 of the April 12 agreement**
  - Under Phase-2, OPEC+ member countries, led by Saudi Arabia and Russia, shall target 7.7 Mb/d of cuts between August and December, down from 9.6 Mb/d in July. The 7.7 Mb/d cuts are part of Phase-2 of the historic April 12 deal, but overall cuts could be higher at 8.4 Mb/d, as non-compliers in May, June, and July – namely Iraq, Angola, and Nigeria – implement additional "catch-up" cuts in August and September.
  - Under Phase-2, OPEC+ members should curtail production by ~18%, from a baseline level of 42.1 Mb/d (excluding Mexico, who quit the accord in June). For Saudi Arabia and Russia this means output till end-2020 shall be no higher than 8.9 Mb/d, a 400 kb/d increase from their Phase-1 targets of 8.5 Mb/d each. The UAE and Kuwait shall also witness slight rises in their outputs of 140 kb/d and 127 kb/d, respectively.
- **However, Iraq, Angola, and Nigeria are expected to cut an additional 700 kb/d on average in August and September**
  - Combined, all 3 countries under-complied by 850 kb/d in May and 560 kb/d in June, which they are expected to make up for in August and September, on top of their Phase-2 cuts. Iraq was the largest under-complier, and will implement an additional ~480 kb/d cut through September, following a US$ 500 M financial sweetener from Saudi Arabia to make up for its government liabilities.
  - In July, OPEC+ production discipline slipped as Gulf countries ended their voluntary cuts, while Iraq, Nigeria and Angola, under-complied, increasing collective production by 1.10 Mb/d. Under intense scrutiny from Saudi Arabia, Iraq said it will cut 400 kb/d in August to catch-up.

Table 01: OPEC+ cuts for August/September 2020, kb/d[1]

OPEC+ Member	Reference	Target	New Cut	July Production
Algeria	1057	864	193	808
Angola*	1528	1169	359	1173
Congo	325	266	59	284
Eq. Guinea	127	104	23	110
Gabon	187	153	34	189
Iraq*	4653	3322	1331	3752
Kuwait	2809	2295	514	2158
Nigeria*	1829	1344	484	1488
Saudi Arabia	11000	8988	2012	8406
UAE	3168	2589	579	2430
Azerbaijan	718	587	131	550
Bahrain	205	168	37	150
Brunei	102	83	19	70
Kazakhstan	1709	1396	313	1310
Malaysia	595	486	109	430
Oman	883	722	161	670
Russia	11000	8988	2012	8590
Sudan	75	61	14	50
South Sudan	130	106	24	130
Total	42100	34400	7700	32748

[1] Qamar Energy Research; Argus Media; News Reports; *Angola, Iraq, and Nigeria target outputs based on additional cuts to make up for Phase-1 undercompliance

OIL PRICE OUTLOOK: PHASE-2 OF THE OPEC+ DEAL IS UNLIKELY TO IMPACT RECENT RALLY IN OIL PRICES

- Angola and Nigeria, meanwhile, were threatened with a new oil price war from Saudi Arabia unless they committed to their Phase-1 cuts, a tactic that seemingly worked. Angola will curb output by an additional 80 kb/d and Nigeria by 150 kb/d, through to September, to make up for their Phase-1 target output misses. This brings Angola's target output for August and September to 1.17 Mb/d and Nigeria's to 1.34 Mb/d. Iraq's output shall average 3.32 Mb/d.

- Although listed by many IOCs as a light, sweet crude, Nigeria's oil ministry and OPEC officials aim to reclassify Agbami as a condensate, suggesting that its quality is similar to that of Apko, which is classified by all IOCs as a condensate. The 160 kb/d Agbami production would boost compliance from 65% to 103%.

- Saudi Arabia, on the other hand, still intends to increase its production capacity to 13 Mb/d without a major impact on capital expenditures, which it estimated at $ 20-30 B for 2020.

- **Bearish sentiment surrounding the increase in supplies from the 3 GCC-OPEC is yet to affect oil markets**

- In a bid to allay concerns about oversupply affecting the recent rally in oil prices after historic lows between March and April, Saudi Arabia has clarified that its exports shall remain unchanged from June levels of 5.6 Mb/d. All additional output shall be absorbed domestically, likely for power generation to meet peak demand in the summer season, now that associated gas production has declined to 3.8 Bcf/d under production curbs (from pre-OPEC deal levels of ~5 Bcf/d[2]).

- This could sustain the current oil price environment, while encouraging inventory drawdowns. Separately Alexander Novak, Russia's Minister of Energy confirmed his country would not be exporting additional production, even though loading data for August has indicated that seaborne exports for that month would rise by almost 300 kb/d.

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- **Outside OPEC+, the production outlook remains uncertain**

- While the Brent-WTI spread has narrowed to US$ 2.65/b compared with an average of US$ 9.9/b in April, the contango structure continues to impact drilling activity in the US, where oil rigs have fallen to a historic low of 250 as of July 31. Production is set to contract by ~1.1 Mb/d to average 11.1 Mb/d in 2020, with tight crude output declining the most, by 0.81 Mb/d.

- Canada has been cutting ~0.7 Mb/d of crude oil output since April, in line with announced production curtailment plans, excluding some 0.3 Mb/d of shut-ins at various other conventional tight oil projects due to the protracted oil price and coronavirus crisis. Shutdowns and slower-than-expected recovery in drilling activity in the EU and North Atlantic should also keep non-OPEC supply diminished, supporting a tighter market.

- **Prices remain stable, as upbeat readings on manufacturing activity outweigh jitters over OPEC+ boost**

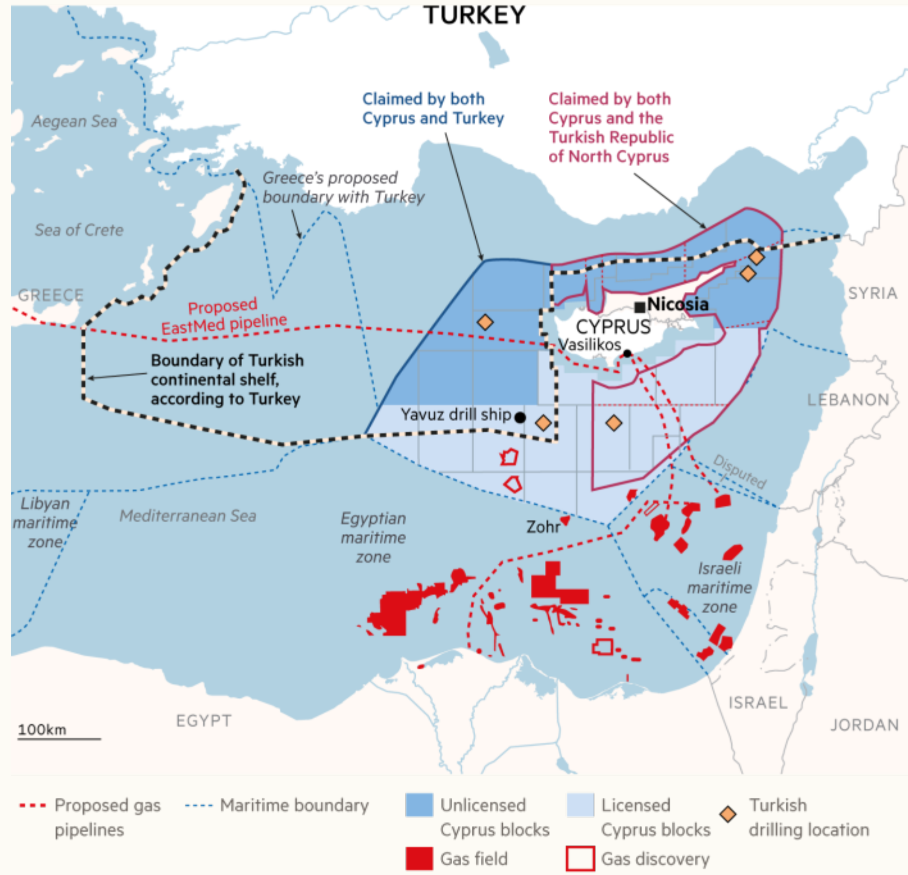
- WTI futures for September delivery settled at US$ 41/b on the NYMEX, while October Brent finished at US$ 44.15/b on ICE Futures Europe, indicating the limited impact of Phase-2 of the OPEC+ pact on oil prices. Moreover, manufacturing indices are improving in key economies, even those hit hard by the coronavirus, such as the US, where PMI is now at 54.2, the highest in 15 months.

[2] Qamar Energy Research

EASTERN MEDITERRANEAN TENSIONS ESCALATE

- **A potential confrontation between Greece, Egypt, Israel and Turkey in the Eastern Mediterranean might be the outcome of a clash between two maritime delimitation agreements**
- After announcing a temporary suspension of its gas exploration in the Eastern Mediterranean, following a Greek-Turkish naval confrontation, Turkey has resumed gas exploration despite deal signed between Egypt and Greece granting them exclusive rights over the same area. The deal clashes with Turkey's maritime delimitation agreement with Libya's Government of National Accord late-2019, condemned by Egypt and Greece as a violation of international law.
- Chevron's purchase of Noble Energy brings another supermajor and more US presence, which could accelerate shared infrastructure between Israel, Cyprus and Egypt. However commerciality of extra-regional exports remains challenging.
  - **Launch of Israel's 3rd bidding round sparks tensions in Lebanon.** Israel's launch of the 3rd bidding round for Alon D/Block 72, situated near Lebanon's Block 9 licensed to Total, Eni and Novatek, sparked tensions in Lebanon. President Aoun considered it an "extremely dangerous step." Noble and Delek, which previously held 47.1% and 52.9% of the block until it expired June 21, demanded to have the block returned to them.
  - While Cyprus and Egypt signed and ratified an intergovernmental agreement for a sub-sea pipeline from Cyprus' 4.1 Tcf Aphrodite field to Egypt, Chevron, Delek and Shell show conflicting interests over development options in the region.
  - On the one hand, Delek (30%) and Shell (35%) prefer a 340 km pipeline to the 7.2 mn t/y ELNG export terminal at Idku on Egypt's Mediterranean coast. On the other hand, Chevron (35%) sees tying in Israel's larger Leviathan field to Egypt's LNG facilities a priority. However, as Delek is strained financially, its aspired pipeline is unlikely.

The dash for gas in the Eastern Mediterranean



Sources: S&P Global; Petroleum Economist; Turkish foreign affairs ministry
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CHINESE OIL COMPANIES' STRONG POSITION IN IRAQ: OPPORTUNITIES FOR GROWTH

- **Despite OPEC+ production cuts and a difficult political and financial situation, Chinese oil companies' predominant role in Iraq is likely to remain and perhaps expand.**
- In 2020, China has overtaken India as Iraq's single largest oil export market. Shipments from Iraq to China have increased by 27.5% y-o-y in H1 2020 to 28.8 million tonnes, from 22.6 million tonnes from the same period in 2019.
- The slate of Chinese firms involved has grown in the 5th bid round, while CNPC remains the dominant player. Sinopec, so far only active in the autonomous Kurdistan region, could grow its role in 'federal' Iraq.
- Although Iraq's production is curtailed to comply with the OPEC+ cuts, with July output estimated at 3.75 Mb/d, production should increase after August or September as the cuts are eased, and gradually increase back towards capacity in 2021.
- The government will target future growth, including major infrastructure projects, associated gas capture, and withdrawals by current Western IOCs, which creates a window of opportunity for Chinese companies as investors/contractors.
- However, due to Iraq's budget deficit, compounded by the fall in oil demand and prices, it will need to find new ways to fund major capacity growth or required infrastructure projects. This could hamper Chinese firms' growth in the country, unless they can bring alternative financing, possibly oil-backed.
- In addition, gas is likely to be a more important focus for Iraq than oil given the need to expand power provision, but Chinese companies' current position in Iraqi gas is quite limited.

Table 01: Current contractual position of Chinese companies

Field / block	Chinese firm	IOC Partners	Current production capacity (kbbl/d)
Ahdab	CNPC		70
Rumaila	CNPC 37.5%	BP	1500
Halfaya	CNPC 45%	Total, Petronas	470
Missan	CNOOC 67.35%	TPAO	280
West Qurna-1	PetroChina (CNPC) 32.7%	ExxonMobil, Pertamina, Itochu	470
East Baghdad	Zhenhua		10
Block 9 (Faihaa)	United Energy Group (UEG) (60%)	Dragon Oil, EGPC	30
Siba	UEG (30%)	TPAO	25 Mcf/d (gas)
Sindbad	UEG		Undeveloped
Naft Khana	Geo-Jade		Undeveloped
Huwaiza	Geo-Jade		Undeveloped

ENERGY INVESTMENTS: MENA PROJECTS FACE DELAYS AMID PANDEMIC UNCERTAINTY

- **Lockdowns and restrictions on worker movement is impacting progress on high-profile projects**
  - Major oil and gas players in the region are seeking to lower their costs in response to the steady drop in prices. ADNOC terminated two EPC contracts worth US$ 1.65 B (awarded initially to a consortium of Petrofac and Malaysia's Sapura Energy for Phase-A, and to Petrofac for Phase-B) for the 440 Mcf/d Dalma sour gas field development project, after Petrofac refused to implement a 30% discount on the contract value.
  - This trend is also seen in green energy investments as Kuwait cancelled plans to build the Al-Dibdibah solar PV project within the Al-Shagaya Renewable Energy Park due to CoVid-19.
  - The need for new oil and gas capacity has also been reduced by the implementation of the OPEC+ cuts, and concerns over economic growth and hence gas for power consumption.
  - Petrofac has also implemented a decision to reduce its workforce in the UAE by 20%. ADNOC might hold new bids for the project, but Petrofac has said it is committed to work with state-firm in the coming weeks "in a way that supports their [ADNOC's] strategic objectives". Also, ADNOC has pushed back the bid deadline for four packages for the US$ 20 B Hail & Ghasha development project until end-May.
  - In Saudi Arabia, several of Aramco's upstream and downstream projects are facing delayed timelines due to a mix of restrictions put in place by the Saudi government to help curb the spread of the coronavirus pandemic, as well as payment delays arising from financial losses due to the oil market collapse.
  - To safeguard its dividend, the Kingdom is advancing its plans to lease a stake in the pipelines to a group of local banks including Al-Ahli NCB, Al Rajhi and Riyad for a period of 25 years. The deal includes a set tariff paid by Aramco for use of the infrastructure, including the East-West Pipeline under expansion from 5 Mb/d to 7 Mb/d. Selling/leasing infrastructure has become a growing trend throughout the industry.
- For instance, the SATORP downstream complex expansion project, Amiral (the first mixed-feed cracker to be fully integrated with a refinery, in the Gulf region), slated for completion by 2024 is now on hold, due to Aramco's JV partner Total cutting its Capex. The firm has also not been making payments related to the project.
- Total announced in March a 20% cut to its Capex, reducing net investments to <US$ 15 B.
- **After months of delays, ADNOC finally awarded the US$ 10 B stake in its gas pipeline assets**
  - The energy assets deal is signed with a consortium comprising Global Infrastructure Partners (GIP), Brookfield Asset Management, Singapore's sovereign wealth fund GIC, Ontario Teachers' Pension Plan Board, NH Investment & Securities and Snam, which will collectively acquire a 49% stake in ADNOC Gas Pipeline Assets, a newly established ADNOC subsidiary, offering lease rights to 38 pipelines with a total length of 982.3 km.
  - Snam in particular brings technical skills in gas networks, but the others are primarily financial players. The investors are a geographically diversified group that creates additional relationships for Abu Dhabi.
  - In addition, Saudi Aramco's planned purchase of a 20% stake in Reliance Industries' refining and petrochemical assets is facing further delays. There is also uncertainty over the planned 1.2 Mb/d refinery and petrochemicals project in Maharashtra, in which ADNOC and Aramco have a 50% share.
  - In Qatar, the start-up of the 1st phase of the North Field Expansion (NFE) Project has been delayed by up to 6 months since April, pushing production to 2025. Meanwhile, tenders for 2 EPC contracts for the NFE project have been delayed, expected by Q3.

ENERGY INVESTMENTS: MENA PROJECTS FACE DELAYS AMID PANDEMIC UNCERTAINTY

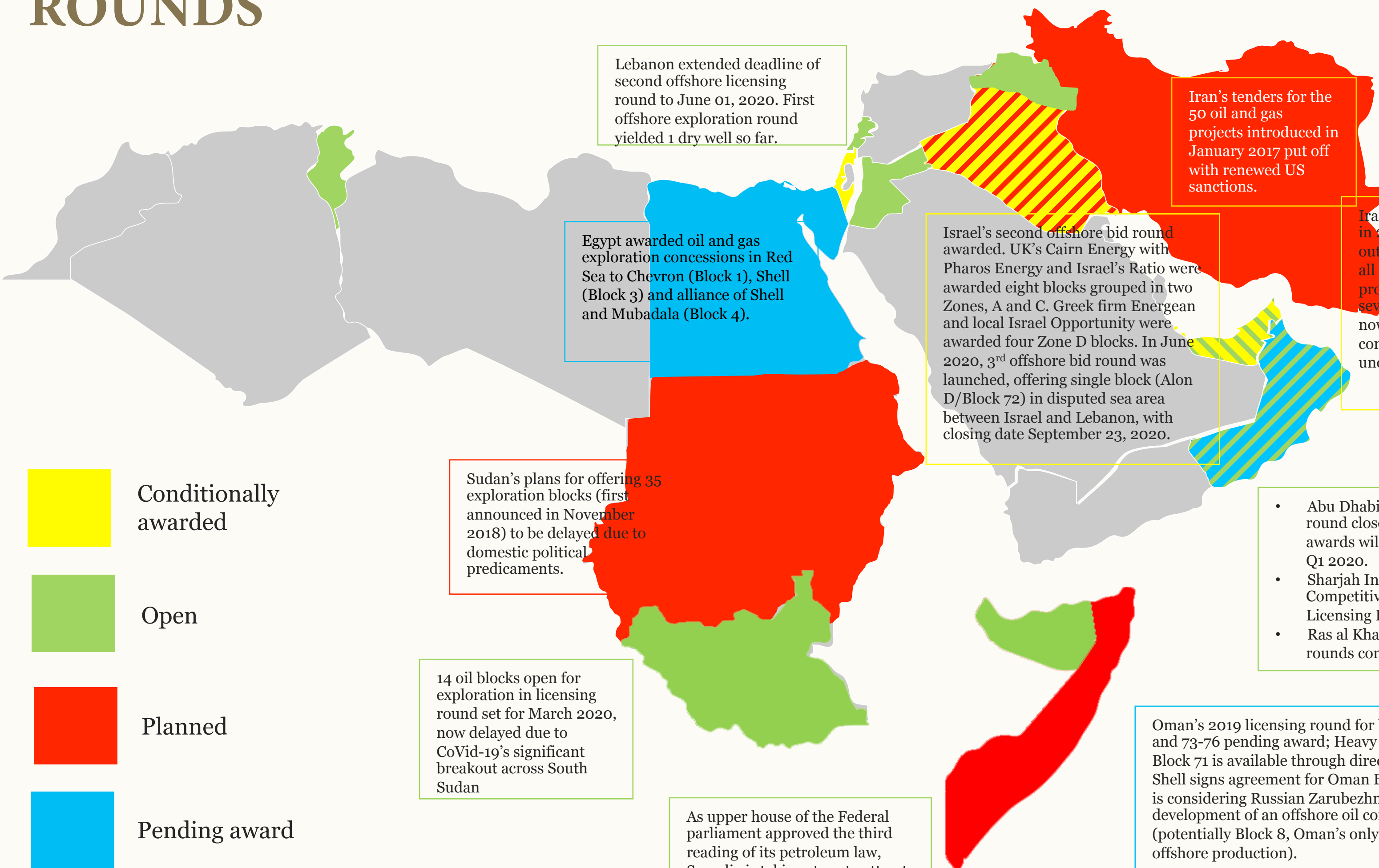
- **Also caught up in delays are the planned gas-oil separation units for Aramco's Berri and Marjan fields**
  - Italy's Saipem has declared force majeure on the Abu Ali gas-oil separation plant (GOSP) expansion for the offshore Berri field that envisages production increasing by 250 kb/d by 2023.
  - Also, South Korea's Hyundai Engineering & Construction has also been facing delays on the GOSP for the Marjan expansion project, awarded to the firm last year and planned for completion within 41 months. Timelines are now pushed back by 6 months.
- **It's not clear whether delays on the GOSPs shall impact the capacity expansion of both fields**
- According to industry sources, the delays should not necessarily slow down the capacity expansion plans of the Berri and Marjan fields. Both combined increase Saudi capacity by 550 kb/d.
- If restrictions related to the coronavirus are lifted, contracting staff would be better mobilised, which could help in recovering time lost for development during current lockdowns.
- **Major IOCs can weather the current storm due to more robust businesses and manageable financial leverage**
  - For instance, IOCs solely reliant on the US shale business are better-placed than their pure-shale rivals, with moderate debt and ongoing cashflow from investments in regions such as the Middle East.
  - These include companies like Total, Shell, Eni, Equinor, and possibly ExxonMobil and Chevron.

Table 02: Company Upstream Impact Scorecard based on short-term impacts of CoVid-19 and oil market collapse[5]

Scorecard	1: Very High	2: High	3: Moderate	4: Low	5: Very Low		
Company	**Cashflow Sensitivity**	**Reliance on pre-FID projects**	**Capex Cuts (2020)**	**Exposure to US Shale**	**Debt/Equity Ratio (2019)**	**RRR (2017-2019)**	**Reserves Life (2019)**
Total	1	3	4	4	4	5	3
Shell	5	4	3	3	4	2	1
Eni	3	4	1	5	3	3	3
Equinor	5	3	3	3	2	5	2
Repsol	3	1	2	2	2	3	2
BP	1	5	3	1	1	5	4

[5] GlobalData Energy; Qamar Energy Research

MENA ENERGY INVESTMENTS: UPSTREAM BIDDING ROUNDS



Lebanon extended deadline of second offshore licensing round to June 01, 2020. First offshore exploration round yielded 1 dry well so far.

Iran's tenders for the 50 oil and gas projects introduced in January 2017 put off with renewed US sanctions.

Egypt awarded oil and gas exploration concessions in Red Sea to Chevron (Block 1), Shell (Block 3) and alliance of Shell and Mubadala (Block 4).

Israel's second offshore bid round awarded. UK's Cairn Energy with Pharos Energy and Israel's Ratio were awarded eight blocks grouped in two Zones, A and C. Greek firm Energean and local Israel Opportunity were awarded four Zone D blocks. In June 2020, 3rd offshore bid round was launched, offering single block (Alon D/Block 72) in disputed sea area between Israel and Lebanon, with closing date September 23, 2020.

Iraq's 5th licensing round in 2018, which awarded 6 out of 11 blocks, including all four development projects and two out of seven exploration blocks, now signed with all 6 companies. 6th round under consideration

Sudan's plans for offering 35 exploration blocks (first announced in November 2018) to be delayed due to domestic political predicaments.

- Abu Dhabi second licensing round closed in November; awards will be announced by Q1 2020.
- Sharjah International Competitive Exploration Licensing Round fully awarded.
- Ras al Khaimah 2018 licensing rounds conditionally awarded.

14 oil blocks open for exploration in licensing round set for March 2020, now delayed due to CoVid-19's significant breakout across South Sudan

Oman's 2019 licensing round for blocks 58, 70 and 73-76 pending award; Heavy oil (Bitumen) Block 71 is available through direct negotiation; Shell signs agreement for Oman Block 55. Oman is considering Russian Zarubezhneft for the development of an offshore oil concession (potentially Block 8, Oman's only source of offshore production).

As upper house of the Federal parliament approved the third reading of its petroleum law, Somalia is taking steps to attract foreign investment from IOCs by opening its first ever licensing round.

OIL PRICE SCORECARD SCENARIOS WITH PROBABILITIES: SUPPLY

BEARISH		BULLISH	
Rising non-OPEC supply, 60%	By end-Q3 2020, a yet to be balanced oil market, is hit by a second wave of CoVid-19 cases, leading to re-imposed lockdowns globally and affecting demand and prices. This is worsened as US and EU companies restarted shut-in production in July and August while OPEC+ eased production cuts for July-December leading to record low prices. Subsequently, inventory draw reaches 3 Mb/d in Q3 and 5 Mb/d in Q4 2020.	**OPEC+ Q3 cuts and rising demand, 20%**	OPEC+ to add more than 2 Mb/d in H2 2020 as the market reaches a rapid V-shaped economic recovery by end Q3-Q4 2020 and as oil demand gradually rebounds with a contained 1st CoVid-19 wave and falling inventories.
Iraq production growth, 10%	Despite OPEC constraints, Iraq allows technical service contract (TSC) governed fields, to expand production, else it will have to pay a fee for curtailments. Production surges from the Lukoil-operated West Qurna-2 field to 480 kb/d, while Kurdish output rises by 59 kb/d.	**Venezuela output falters, 25%**	By end Q2-2020, Venezuela faces severe production losses, with total output declining to 400 kb/d from low oil prices, sanctions, power cuts, and Maduro's refusal to step down. Moreover sanctions have curtailed 95% of its export demand in key markets.
US shale output stabilises, 05%	US production falls only by an overall 190 kb/d in 2020 (as tariffs on imports of foreign oil receive approval), allowing for a resumption in exports to Canada and Asian consumers, mainly South Korea. However with the deteriorating demand outlook expected to continue, this could further strain inventories.	**No end to Libyan blockade, 10%**	Blockade continues even after the GNA reclaimed Tripoli and major export terminals as Russia set foot in the country's largest oilfield, Sharara. Oil infrastructure is damaged from the fighting and some foreign buyers refuse to deal in oil purchases especially as the country is heading towards a three-front war. Exports are effectively cut to nil.
OPEC compliance is low, 25%	The massive supply glut shows little signs of abating in Q3 2020 even as GCC OPEC production goes to domestic demand. However, fears of losing access to crucial markets who have begun re-opening post-CoVid causes little to no compliance from other members. Also, Venezuelan production rebounds under PDVSA's new policy, while in Libya, the GNA retakes control of terminals, causing production to surge by 1 Mb/d.	**High-cost producers cut supply, 55%**	Canadian oil sands will hit the largest annual decline on record, by 175 kb/d in 2020 due to steep losses and thinning capital. Alongside other high-cost producers such as Mexico, US, UK and Russia, overall non-OPEC supply is cut by 6 Mb/d in Q2 2020. Restarted production in US and Canada will help meet recovering demand by end-2020.

[8] Rystad Energy

OIL PRICE SCORECARD SCENARIOS WITH PROBABILITIES: DEMAND

BEARISH		BULLISH	
Oil demand growth slows in China, 40%	Trade relations between the US-China continue worsening, and China does not meet its trade purchase commitments. This exacerbates the massive decline in global oil demand, which falls in Q3 2020 by 20 Mb/d. Low refinery margins continue and fears over a return of the Corona virus in China feed into a dampened demand outlook.	**Rise in feedstock requireme-nts, 50%**	China will lead in refining and petrochemical integration in Q3 2020, with crude distillation capacity increasing by ~1.8 Mtpa from major planned integrated refining complexes, requiring increased feedstock, as economic activity returns post-crisis in its territory.
Deep recession in emerging markets and OECD, 50%	Economic slowdown in OECD and Argentina in 2020 due to strict lockdowns, lower manufacturing and freight demand, massive layoffs, delays in payments, and in some cases strikes by workers (as seen in Brazil), exacerbates the low gasoline, diesel and fuel oil demand.	**MENA demand returns, 40%**	Oil demand grows by 200 kb/d in Q3 2020 on the back of improved demand for air and transportation fuels, petrochemical feedstock, and government stimulus packages as economies lift restrictions after successfully containing the pandemic.
Global recession, 60%	A global recession hits starting in the US from large lay-offs and large-scale backs in production due to tighter spending plans, rising debts and pressure for shareholder returns. Global demand is revised from 99.67 Mb/d to 92.82 Mb/d, as demand in Q2 2020 falls by 12-20 Mb/d.	**Strong NGL and middle distillate demand, 05%**	Steady NGL and middle distillate demand in OECD Americas in response to the IMO 2020 sulphur regulations will result in upward price pressure on fuels such as diesel and jet fuel.
Growth post-CoVid fails to pick up, 40%	Recovery from CoVid-19 in H2 2020 sees resumption of some economic activity in all geographies, with air travel to gradually rebound as travel bans are lifted in a number of countries, although not at pre-pandemic levels. Land transport activity recovers with companies permitted to resume office work at limited capacity after months of remote work.	**Effective Treatment for CoVid-19, 35%**	By Q3 2020, major research centres in China, Russia, the EU, US, and the UAE are able to develop a preliminary vaccine against CoVid-19, which results in a strong recovery in global demand. Large government stimulus spending in China and the US further supports SMEs and other hard-hit industries.

INVESTOR SCENARIOS: BEAR CASE, DOUBLE-DIP CASE, BULL CASE (1/2)

	BEAR CASE	DOUBLE-DIP CASE	BULL CASE
OPEC+	The 7.7 Mb/d decided cuts for July-September 2020 are insufficient to balance global markets that are in an estimated oversupply of 3.6 Mb/d. Short-lived optimism of a return to some stability following rising prices is quickly reversed with a second wave of CoVid-19, widening the oil market deficit even further.	OPEC GCC decide on additional 500 kb/d cuts; US production staggers due to massive bankruptcies and low storage; Venezuela output falls to <400 kb/d; Libya fighting cuts output to 75 kb/d; Iran exports drop to 90 kb/d; high-cost producers shut-in >2 Mb/d of production; prices rise to >US$ 35/b momentarily before shaky demand returns prices to the low 20s.	Venezuela production declines to 385 kb/d; Russian production turns loss-making, necessitating huge cuts; US wells decline by >85%, producers in UK and Norway are bankrupt. Markets begin tightening as storage gradually diminishes, even though GCC OPEC maintain significant spare capacities, as the pandemic is effectively contained.
Geopolitics	China's trade spat with the US re-emerges once the US has managed to contain the pandemic spread and the economy re-opens, causing demand growth to pick up slower than expected. US oil exports to China are stranded, necessitating it to locate alternate buyers in an already saturated market.	Libyan output rises above 100 kb/d as General Haftar's oil blockade is lifted; potential regional war in the country will disrupt oil production; China cuts imports from Iran, and drastically reduces purchases from the US. It already has ample stockpiles available.	The coronavirus spreads through Africa in major fashion, impacting output from large producers such as Nigeria and Angola, already struggling with security issues that continue to shut off production; political instability and the pandemic in Iraq threaten to derail production from southern oilfields; Iranian exports dip to 100 kb/d due to lack of buyers.
Global Demand	Oil demand growth declines to -10 Mb/d in 2020 as US-China trade tensions worsen even after a Phase-1 agreement; the pandemic spreads in South Asia and Africa; confusion over Brexit and slower manufacturing output causes more demand to fall in OECD Europe.	Oil demand rises by 1 Mb/d, as major world economies emerge from the pandemic and reopen borders for travel; IMO boosts refining runs	Oil demand recovers in H2 2020 with total demand reaching 97.3 Mb/d in Q4 2020. Overall demand in 2020 falls by -6.85 Mb/d.
Probability	40%	30%	30%

INVESTOR SCENARIOS: BEAR CASE, DOUBLE-DIP CASE, BULL CASE (2/2)

	BEAR CASE	DOUBLE DIP CASE	BULL CASE
Near term impact on oil price (Brent)	Q2 2020: US$ 40.71/b. Q3 2020: US$ 35/b. Q4 2020: US$ 38/b.	Q2 2020: US$ 40.71/b. Q3 2020: US$ 35/b. Q4 2020: US$ 40/b.	Q2 2020: US$ 40.71/b. Q3 2020: US$ 45/b. Q4 2020: US$ 50/b.
Market reaction	Weakening global economy causes super contango.	Front contango in Brent with a flattening curve as markets return to economic activity in H2 2020.	Brent curve enters temporary backwardation as uncertainty builds over supply.
Demand/Supply Balance	2020 Demand: 89.7 Mb/d, Supply: 91.8 Mb/d	2020 Demand: 90.8 Mb/d, Supply: 90.7 Mb/d	2020 Demand: 92.8 Mb/d, Supply: 92.8 Mb/d
Global Inventories (May-Dec. 2020)	+777 Mbbl	-36.5 Mbbl	±0 Mbbl
Potential positives	US Fed Reserve lowers interest rates below zero.	Stronger equity and bond markets support investor momentum and oil.	Strong oil demand, deeper OPEC cuts, and US shale slowdown.
Potential negatives	OPEC cohesion destroyed as deal proves futile against market forces; members try to gain market share by turning on the taps.	Continued slowdown of global growth and thus oil demand, particularly middle distillates.	Higher oil price promotes return of US shale production and reduced OPEC+ compliance.

ABOUT US

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