Oil & Gas Global Sector Report

The Global Energy Transition and the Impact on Fossil Fuel Demand

December 2020 Edition

Key Takeaways

- Last topside module installed at Coral Sul FLNG
- Exxon and Total in talks over LNG resource-sharing deal
- 2020 Q3 Results Shows Poor Earnings Season For Oil Majors
- Oil prices rally further on the back of vaccine hopes
- Weather remains a formidable challenge for gas prices
- Fossil fuels will still dominate global demand mix
- Global pressure to reduce carbon emissions

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Section 1: Monthly Sector Highlights

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- Highlights on Mozambique’s gas field developments
- 2020 Q3 Results Shows Poor Earnings Season For Oil Majors
- A Challenging Quarter for Oil Field Services

Mozambique LNG project developments

Last topside module installed at Coral Sul FLNG

The last topside processing module has been lifted into place for the Coral Sul FLNG facility. This is the last of 13 topside modules. Construction began on the hull and topsides in September 2019. The hull was launched in January this year and the first topside module was lifted in May. There are 24 modules in total and the vessel is 432 metres long and 66 metres wide. According to Eni, the Coral-Sul FLNG is the world's first newly-built deep water floating liquefaction plant.

US Government reiterates support for Rovuma gas projects

The guarantee was given by the US Ambassador to Mozambique, Dennis Hearne, at the opening of the civil society roundtable on the proposed model for the creation of the Sovereign Wealth Fund in the country. According to Hearne, the Area 4 natural gas terminal is expected to start the first LNG exports in 2022. ''Although we do not yet have the FID for the Area 4 project, I know it is not a matter of if, but of when the project will move forward" stated Hearne.

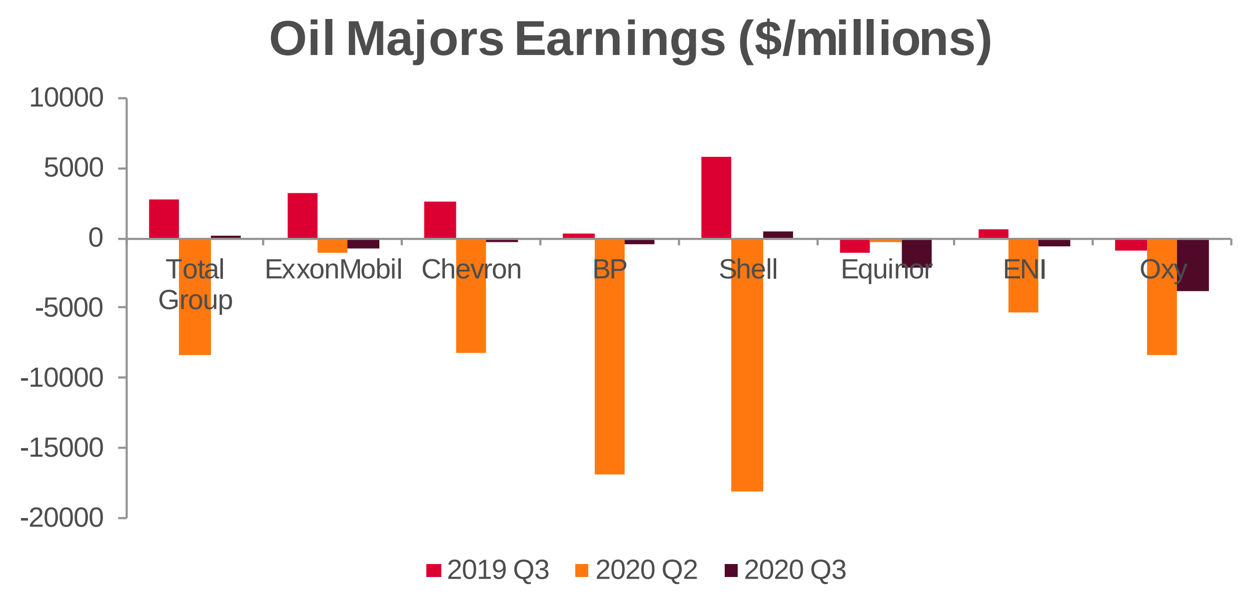
Exxon and Total in talks over LNG resource-sharing deal

ExxonMobil and Total are in negotiations over their massive LNG projects in the country, with each seeking to extract more gas from a shared field that straddles the two developments and cut costs. The volume each project could extract from the shared area was set out in a 2015, however companies are now renegotiating the contract with each other. The 2015 contract stipulates that both Oil Majors extract a total of 24 trillion cubic feet of natural gas from the "straddling" reserves in a 50/50 share in the first phases of their projects.

Cabo Delgado Attacks: Situation Status

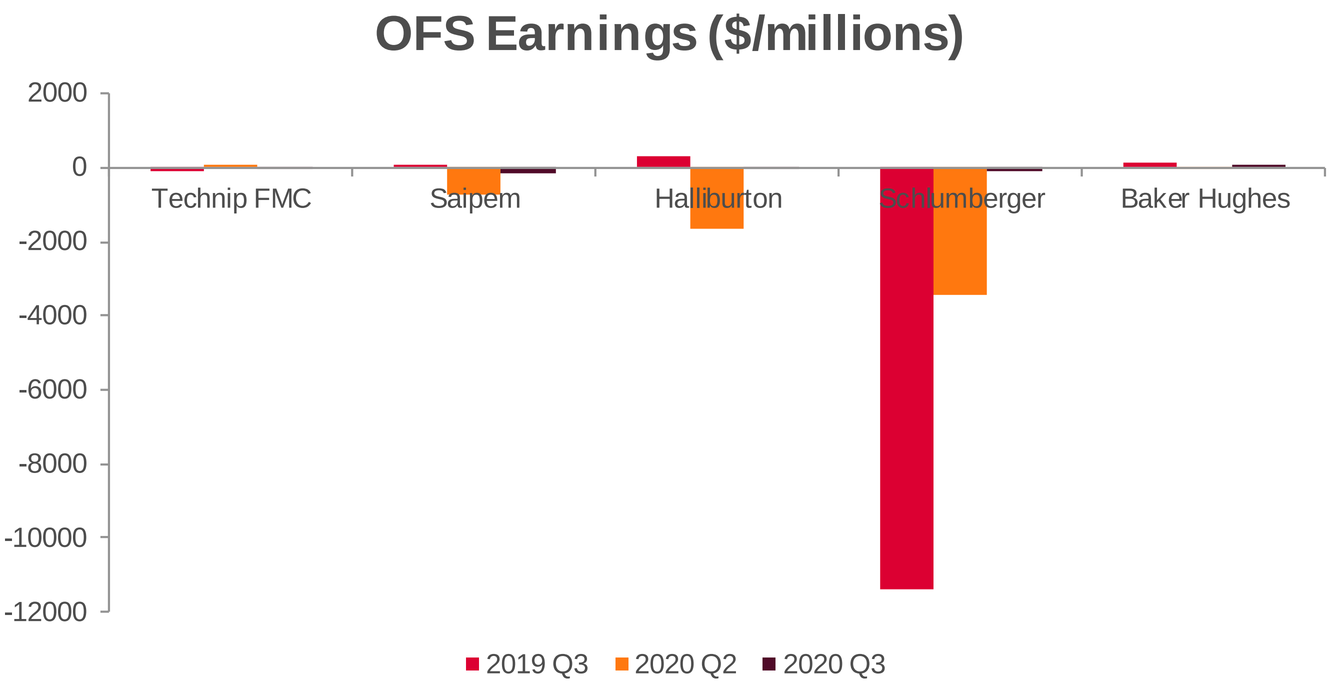
The Southern African Development Community (SADC) has agreed to respond to the Islamist insurgency ravaging areas in northern Mozambique. Five presidents who attended an extraordinary summit in the Botswana capital Gaborone, have "finalized a comprehensive regional response" to the unrest in Mozambique, according to a SADC communiqué. This happens at a time that Mozambique and Tanzania are to launch joint operations to combat the Islamist insurgency, under a recently agreement signed by the two countries.

2020 Q3 Results Shows Poor Earnings Season For Oil Majors



- BP reported a loss of $0.5 billion for 2020 Q3, compared with losses of $16.8 billion for the previous quarter. Results reflect absence of exploration write-offs and impairment charges. Net debt at quarter-end was $40.4 billion, down $0.5 billion
- Total Group closed 2020 Q3 with a net income of $202 million, after reporting $8.4 billion loss in 2020 Q2. LNG sales increased by 9% in the 3rd Quarter compared to same period last year, notably due to an increase in trading activities.
- Royal Dutch Shell announced a net income of $0.5 billion for the 3rd quarter, following a net loss of $18 billion for the previous quarter. Results were partly offset by lower operating expenses, well write-offs, depreciation and strong marketing margins.
- Exxon Mobil results improved by $400 million from the second quarter, reporting a loss of $680 million in Q3. Improve was primarily driven by early stages of demand recovery. 3rd quarter capital and exploration expenditures were $4.1 billion, bringing year-to-date spending to $16.6 billion, more than $6 billion lower that the prior year period.
- Equinor announced a net loss of $2.1 billion for the third quarter of 2020. This compares with a net loss of $251 million reported on the previous quarter. Financial results are impacted by weak prices driven by covid-19 pandemic effects. A capital gain of around $1 billion from the divestment of a 50% non operated interest of an offshore project is expected to be booked in 2021 Q1
- Chevron reported a loss of $209 million for third quarter 2020, compared with earnings of $2.4 billion in 2019 Q3. Included in the current quarter was a charge of $130 million and a non-cash provision of $90 million for remediation of a former mining asset. Sales and other operating revenues in the third quarter were $24 billion, compared to $35 billion in the year-ago period.

A Challenging Quarter for Oil Field Services



- Baker Hughes announced a $27 million profit on 2020 Q3, against a profit of $114 million for the same period on the previous year. Cash flows generated from operating activities were $219 million for the quarter, and orders of $5.1 billion, down 34% year-on-year.
- Saipem posted a loss of $157 million for the third quarter of 2020, after announcing a net loss of $740 million on the previous quarter. Results include a backlog of over $28 billion, strengthened by re-risking initiatives.
- Technip FMC reported a net loss of $3.9 million, compared to a loss of $119 million for the same period of 2019. Financial results include inbound orders for more than $2.2 billion, largely driven by subsea projects in South America and Norway. Total company revenue was $3.4 billion.
- Schlumberger closed 2020 Q3 with a loss of $82 million, following a net loss of $3.4 billion on the previous quarter. Cash flow from operations was $479 million and worldwide revenue hit $5.3 billion. Revenue was boosted by resumption of production in APS projects and increased seasonal summer activity in the North Sea and Russia.
- Halliburton reported a net income loss of $19 million for the third quarter of 2020. This compares to a net income loss of $1.6 billion for the previous quarter. Total company revenue in the third quarter was $3 billion, a 7% decrease from revenue of %3.2 in the second quarter of 2020.

Section 2: Crude Oil and Natural Gas Price Movements

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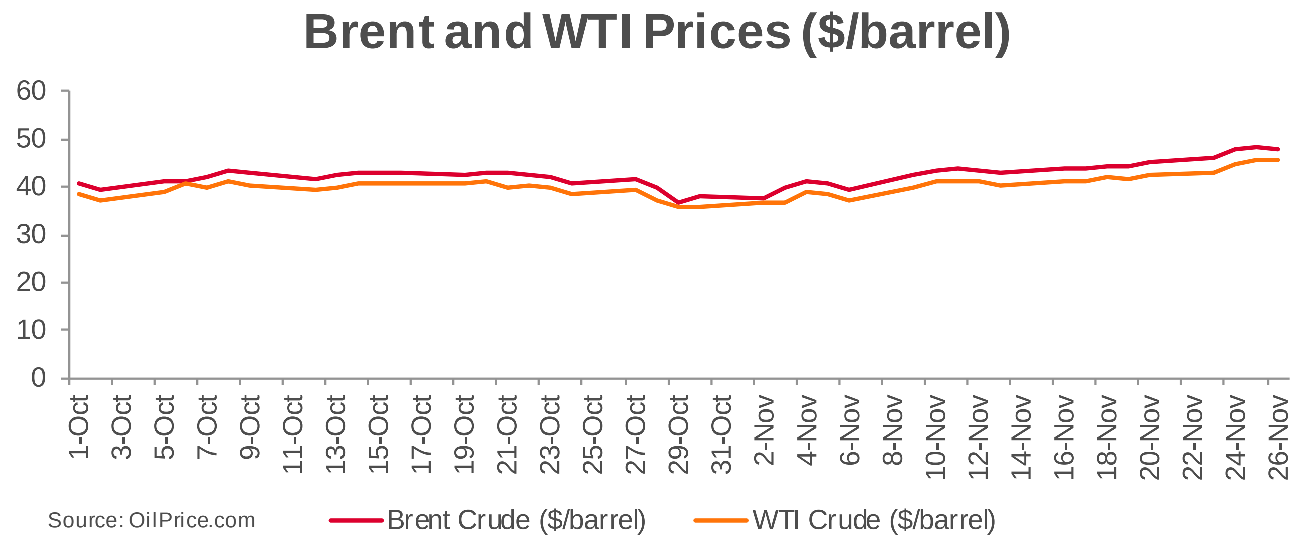
- Oil prices rally further on the back of vaccine hopes
- Weather remains a formidable challenge for gas prices

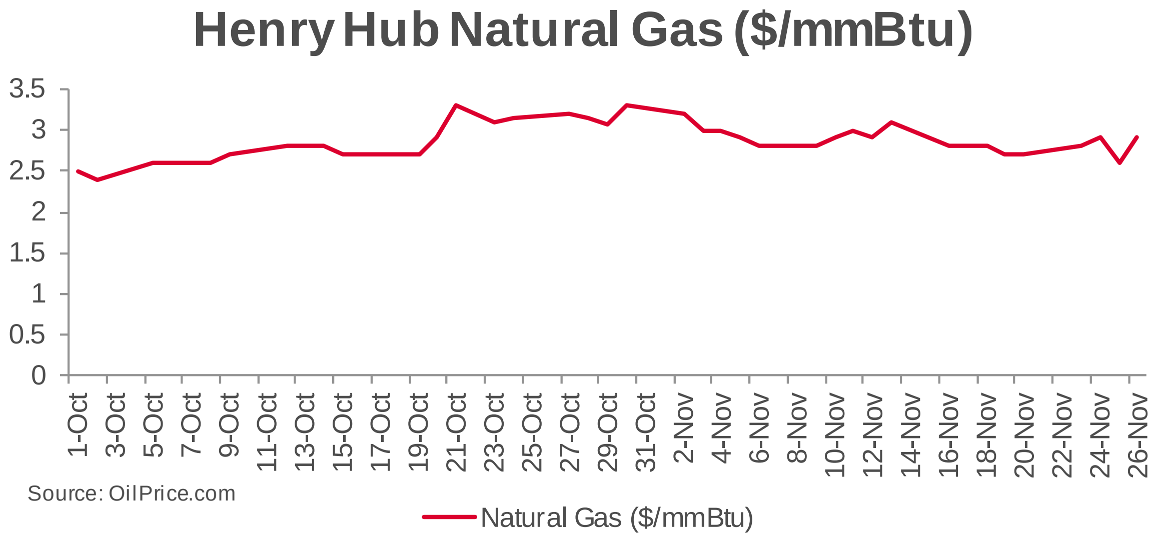
Oil prices rally further on the back of vaccine hopes



Source: OilPrice.com

- Oil prices have edged up to hit the highest level since March as encouraging news about another Covid-19 vaccine created hopes of a swift recovery in oil demand.
- While U.S WTI prices reached $42.6 bbl/d, Brent Crude rose to $45.1 bbl/d. Both the Brent and the WTI benchmarks settled up at 2% on 23 November after rising 5% last week.
- Despite positive news on vaccine developments, some analysts suggest that promising news of vaccine wont have a long lasting effect on oil demand until at least the second half of 2021. What will have an effect on the oil market is the ability of OPEC to maintain balance between supply and demand.
- OPEC is set to meet Nov. 30, to decide what it plans to do with oil output for the next three to six months. Since April OPEC and its allies decided to significantly curb production to ease oversupply concerns. The general sentiment is that ramping up production now, when demand level is still low, could have major consequences on a relatively stable oil market.
- According to the IEA, China has driven global oil demand since the outbreak of Covid-19, and is emerging in the global refining industry shift. China's imports are expected to reach 12 million bpd by 2021. The agency also predicted that as early as next year, China will surpass the USA that has been at the top of the refining pack since the start of the oil age.
- With Biden winning US Elections, crude prices may touch $55 per barrel. Analyst suggest that the increase in crude prices is likely on account of the Biden pledging to end new drilling on public lands and move towards a carbon-free future
- The IEA expects demand to take a hit from the new lockdowns in Europe, especially in major economies such as France, Germany, and the UK. However, the impact on demand will be smaller than in the spring, suggest the agency.

Weather remains a formidable challenge for gas prices



Source: OilPrice.com

- Cooler late-autumn weather and rising gas demand are lifting Henry Hub gas to annual highs during October.
- On the first week of November, trading spot prices at the Henry Hub were about $2.71. But prices remain sharply lower compared to late October when the index traded at over $3/MMBtu. The spot prices are expected to rise to an average of $3.14/MMBtu in 2021, from $2.14/MMBtu in 2020.
- October Higher natural gas spot prices reflected a more robust demand for liquefied natural gas exports as LNG terminals increased liquefaction following hurricane-related disruptions in August and September.

- China recorded 16.3 Bcm (billion cubic meters) of domestic natural gas output in October, its second-highest monthly total as the country continues to boost investment in its upstream sector and cut its dependence on imports, according to official data. China's demand for natural gas is also expected to improve as winter temperatures continue to dip. At its current pace, China will exceed its 2019 gas production volume and hit a new annual record.
- Germany's gas demand, which is currently just above 90 Bcm per year, is set to increase to more than 110 Bcm by 2034. Data from 2019 shows that Germany imported 55.5 Bcm of gas from Russia, 27 Bcm from Norway and 23.4 Bcm from the Netherlands, with the three countries accounting for 92% of German gas imports.
- According to the US EIA (Energy Information Administration) residential natural gas consumption for the 2020–21 winter season will average 21.1 billion cubic feet per day (Bcf/d), 5% more than last winter. EIA expects more residential gas consumption because of forecasts for colder temperatures this winter.

Section 3: Global Energy Transition

(03)

- Global pressure to reduce carbon emissions
- Growing electrical vehicle sector likely to impact hydrocarbon demand in coming decades
- Fossil fuels will still dominate global demand mix
- Petrochemicals to be the main driver of global consumption

Global pressure to reduce carbon emissions

Listed companies and policymakers are facing pressure and actively setting carbon reduction goals

Selected country proposals and targets

Country	Proposal	Year	Status
UK	Net zero emissions by 2050	2050	Approved
France	32% of gross final energy from renewables	2030	Government target
G20	Reduce marine plastic litter to zero	2050	Osaka Blue Ocean Vision
China	Increases non-fossil fuel production to 770GW	2020	Approved in latest 5 year plan
Norway	Aims to become carbon neutral	2030	Approved
USA	California to become carbon free	2045	Approved
Germany	Renewables in primary energy (60%) and in power (80% min)	2050	Policy in force
Japan	24% of energy consumption to be from renewable energy	2030	Policy in force

Source: Wood Mackenzie

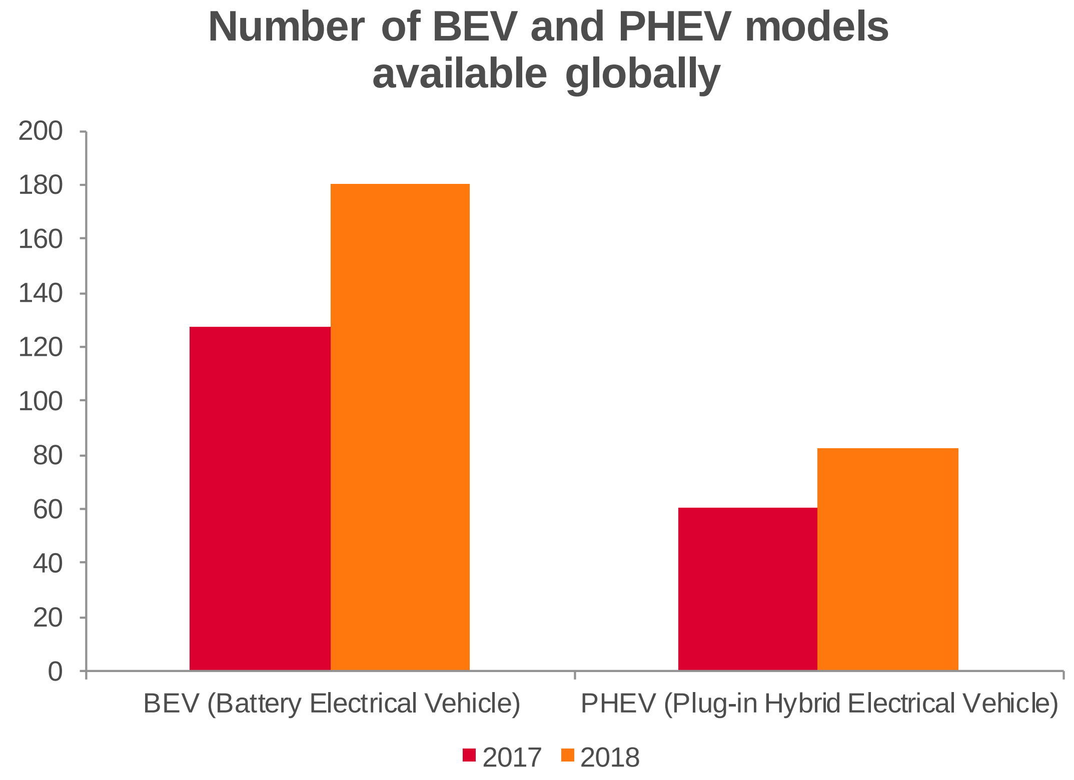
Company proposals and targets

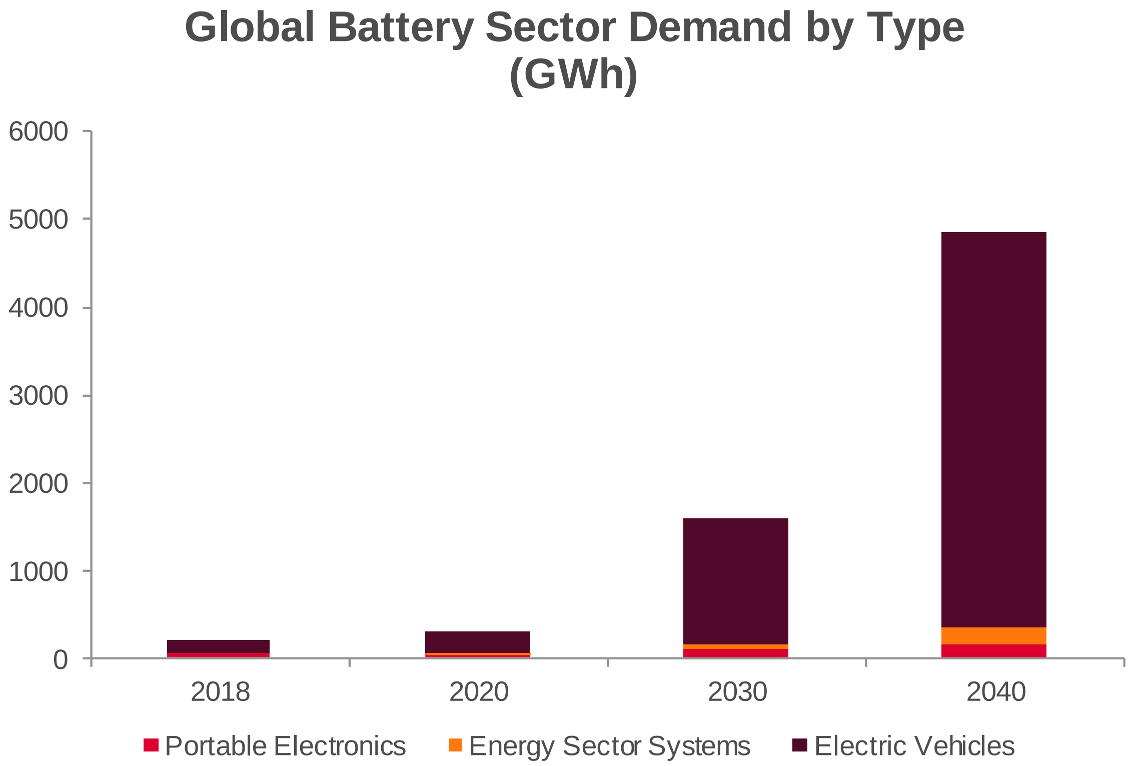
Company	Proposal	Year	Status
Shell	Reduce net carbon footprint by half of energy products	2050	Approved
BP	Zero net growth in operational emissions	2025	Approved
ExxonMobil	Reduce methane emissions from ops by 15%	2020	Approved
Chevron	Reduce methane and flaring by up to 30%	2023	Approved
Equinor	Eliminate flaring in ops	2030	Approved
Rio Tinto	Substantial reduction in GHG footprint. Current target ends in 2020.	2050	To be defined by 2020
BHP Billiton	Maintain total operational emissions (Scope 1&2)	2022	Approved

Source: Wood Mackenzie

Growing electrical vehicle sector likely to impact hydrocarbon demand in coming decades

Listed companies and policymakers are facing pressure and actively setting carbon reduction goals

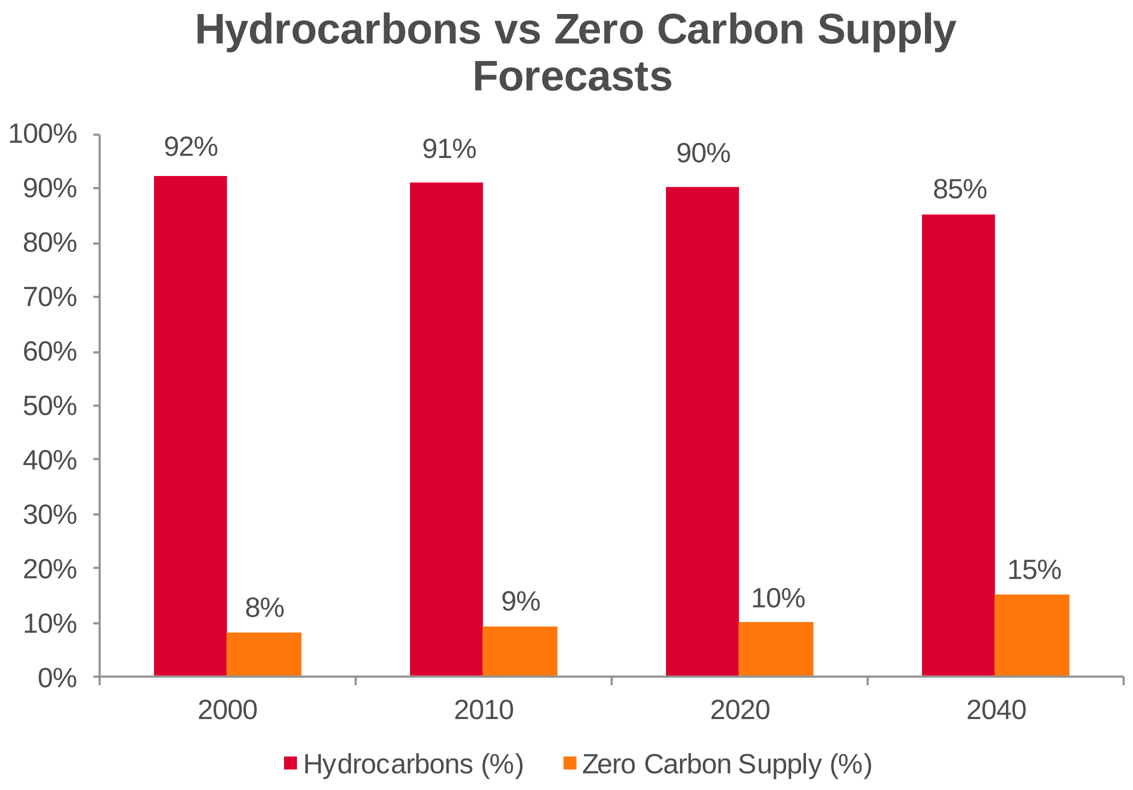




Source: Wood Mackenzie, EV-volumes

Fossil fuels will still dominate global demand mix

Zero carbon energy consumption is expected to increase from 10% of the energy demand mix in 2020 to 15% in 2040



Source: Wood Mackenzie, OSF

Coal

- Coal consumption peaked in 2014, and has since then had a declining trend as the power sector has been pressured to reduce carbon emissions. The European, Chinese and US markets have been the greatest contributors to this trend.

Crude Oil

- Crude oil demand is expected to peak in 2036. The commodity's resilience is due to petrochemical demand despite global plastic crisis concerns.

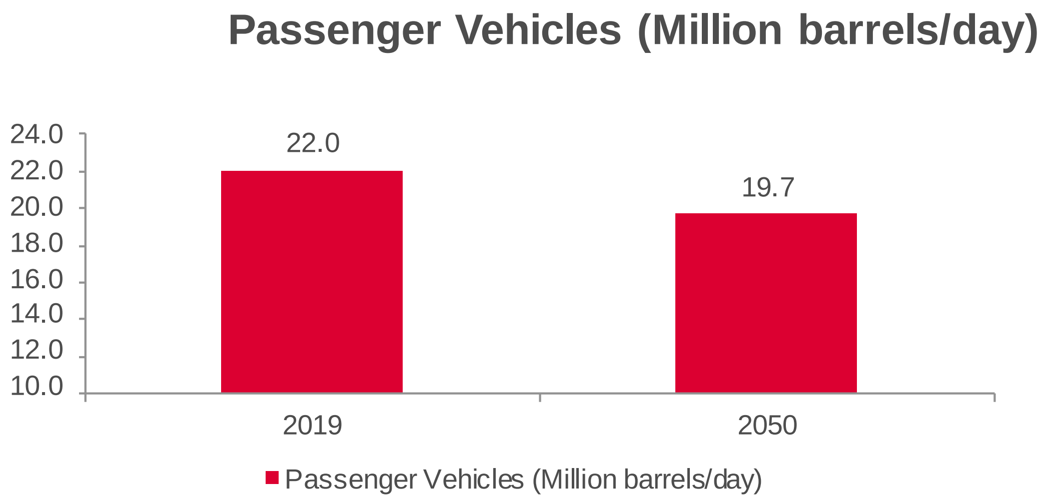
Natural Gas

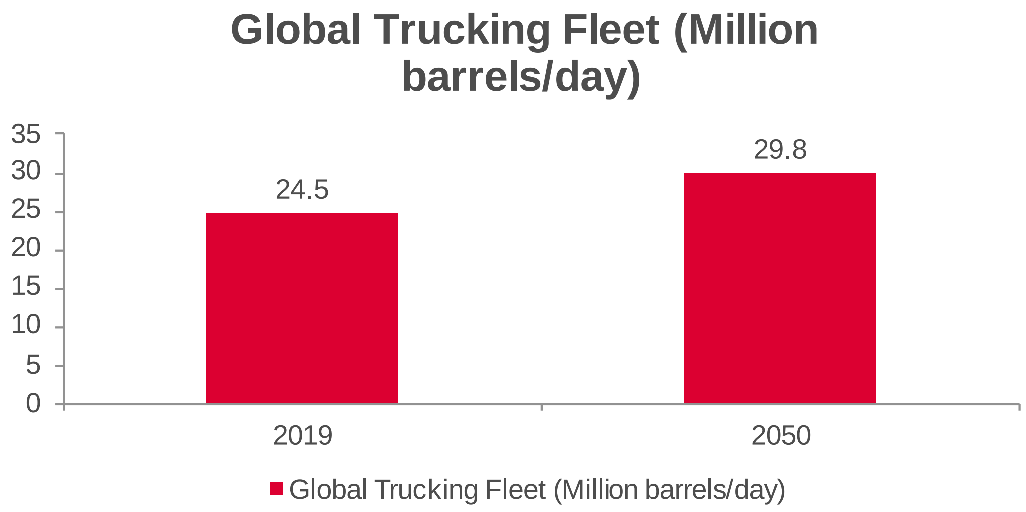
- Natural gas is a key source of energy, given the current global trend. Apart from being a flexible source, it has been key in reaching carbon reduction goals.

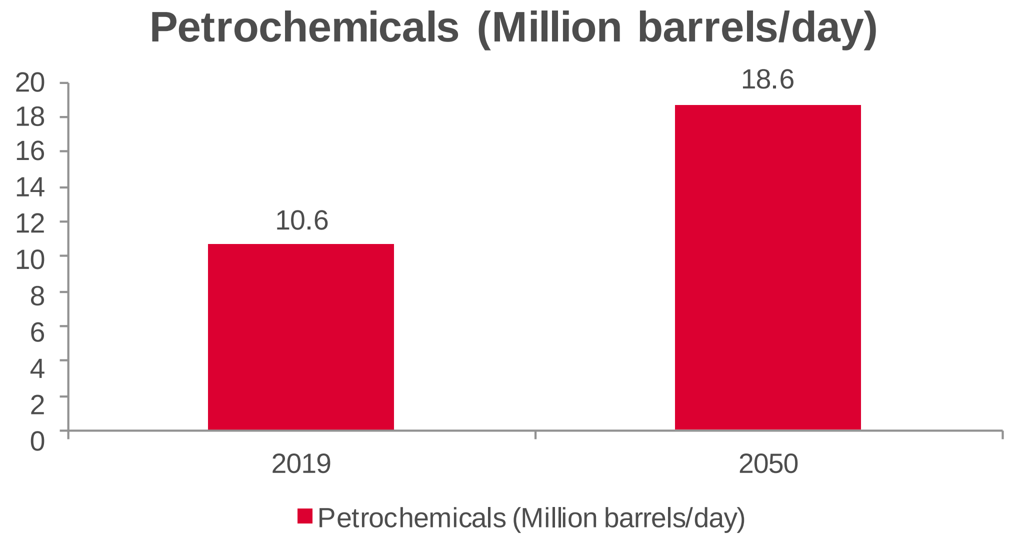
Zero Carbon Energy

- Zero carbon energy is expected to reach 15% of the global demand mix by 2040, while hydrocarbons continue to dominate. The predicted breakdown is i) wind at 3%, ii) solar at 4%, iii) hydro at 3% and iv) nuclear at 5%.

Petrochemicals to be main driver of global oil consumption







Source: Barclays plc

Passenger Vehicles will need less oil

- Improved fuel efficiency is expected to be the greatest driver of demand reduction over electric vehicles. There will be more cars on the road.

Global trucking fleet will increase

- 97% of trucks are expected to be powered by diesel and gasoline despite fuel efficiency improvements.

Petrochemicals sector will continue to grow

- The Petrochemical sector has grown by 50% over the last 10 years, and is expected to overtake the transportation sector to become the biggest oil consumption contributor.

Section 4: Annexures

Reference list and contact details

(04)

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Annexure 2: Contact details

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) Thank you (