

IMPLICATIONS OF THE COVID-19 CRISIS IN LATIN AMERICAN OIL MARKETS



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April 2020

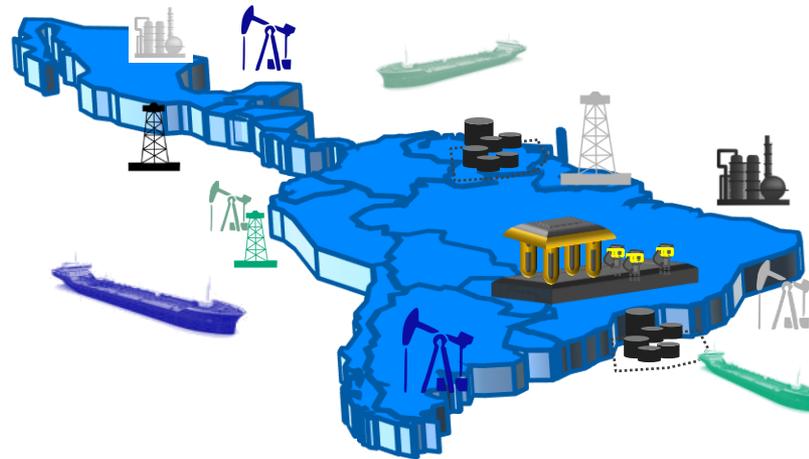
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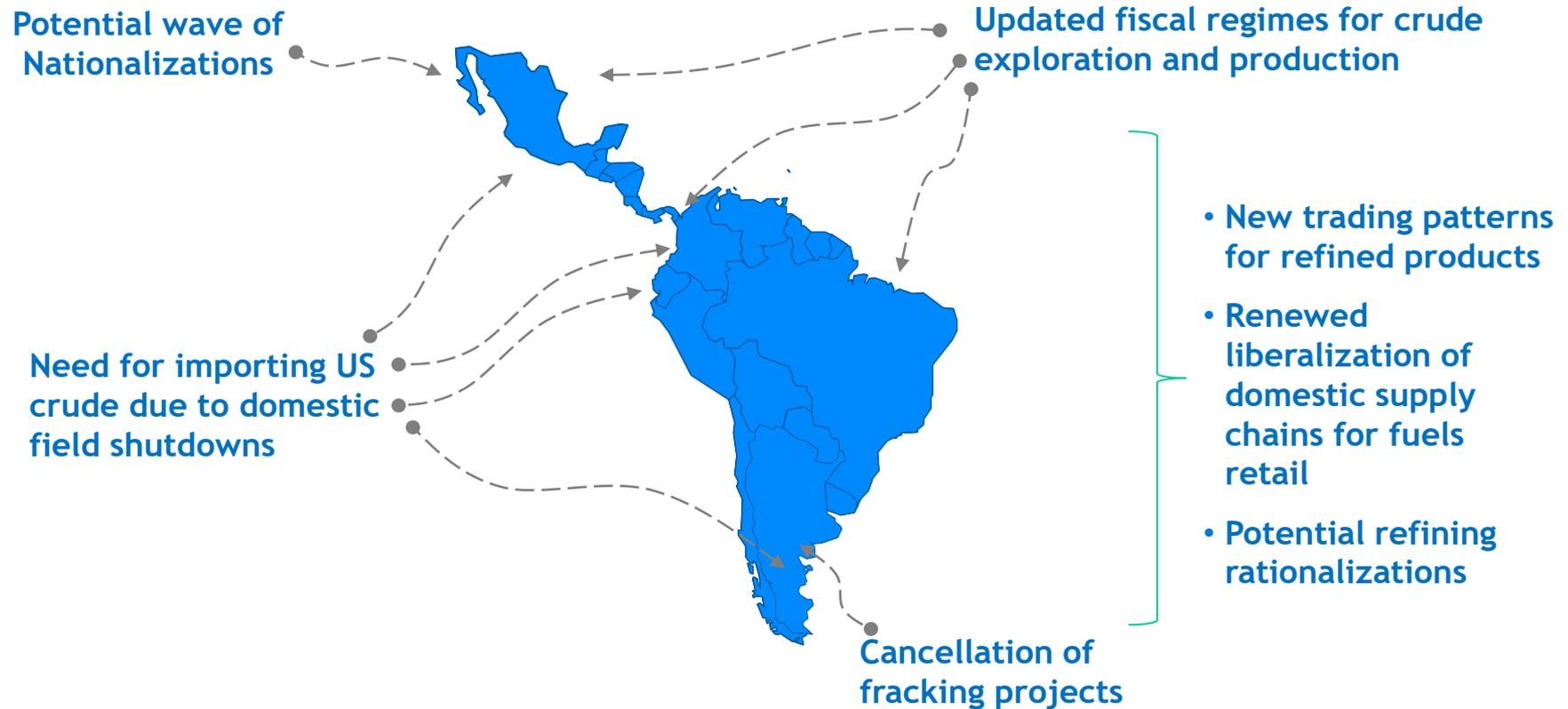
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Implications of the COVID-19 crisis in Latin American Oil Markets



Implications of the crisis in Latin American Oil Markets



The Latin American market will be forced to adjust to the current crisis, by updating commercial strategies, investment priorities and regulatory/fiscal regimes. This could either create opportunities or headaches for IOCs participating in each country, depending upon their portfolios. This deck explores some possibilities, providing insight on some pressure points in the region as a result of this specific crisis.



Even before COVID-19 the picture was tricky for some NOCs

National Oil Companies in the region with tight budgets, and their limited options to continue



- Before COVID-19 the new Administration had just announced an aggressive divestment plan that included selling refineries.
- Incremental 2020 crude production output will come from subsalt projects, which require very large investments
- The Federal government was giving Petrobras preference for the domestic fuels retail market competition, but inviting private companies to participate due to a lack of budget to cover the Brazilian market



- Domestic refineries lack funds for normal maintenance, as Pemex gives monetary priority to the Upstream sector
- The Federal government had to slash budget in several sectors in order to fund the new Dos Bocas Refinery project.
- Pemex crude production in decline without a solution
- Private companies are investing in the fuels retail market, including storage facilities, port and rail infrastructure, besides service stations

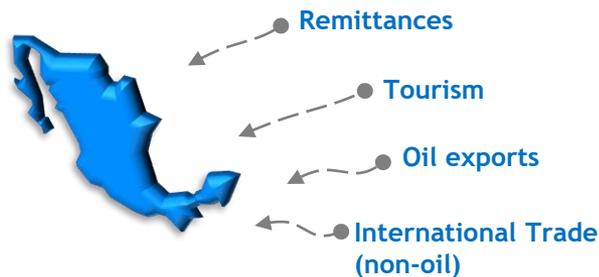
Both Petrobras and Pemex are just two examples showcasing the complexities of the Latin American market even before the current crisis. Both companies lacked budget for all their Upstream, Midstream and Downstream operations, so they had to invite private companies to help by investing in those markets.

But the rules of the game will change significantly due to additional pressure points created during the time of COVID-19. Pemex, Petrobras, as well as Ecopetrol, ENAP, Petroecuador, YPF and others will adjust their business priorities in diverse ways, and this will impact world market participants.



Some pressure points will underpin a change in oil markets: The Mexican case

Mexico's sources of income



1) Pressure Points

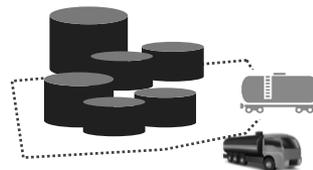
- All these sources of income are poised to decline significantly as of 2Q 2020. Some sources like Tourism or Remittances could decline around 80% to 50% respectively, and international trade does not look better for Mexico
- This will create fiscal and financial pressure points for the Mexican Government.

2) Potential response

- With not enough funds for completing social programs needed, it is likely the Federal government responds with populist decisions, in order to send a message of “control capabilities”, but some of them could be counterintuitive or not market-driven

3) Implications for oil markets in Mexico

- The Federal Government could decide bringing price controls back to retail stations. Retail prices were liberalized in 2017 as part of the energy reform and this attracted private investment. But without market pricing, the margin for the retail supply chain will be negatively impacted
- AMLO's Administration could resource to nationalizing storage facilities, private ports or rail infrastructure, and even retail stations in certain region, as a way to support his image in the midst of a large economic and social crisis and in the run up to the mandate referendum in 2022



Some pressure points will underpin a change in oil markets: The Upstream sector case

Brazil's priority conundrum



Keeping oil production
vs.
Need to divest



1) Pressure Points

- Following on the corruption probe and its restructuring, Petrobras was seeking to sell at least 8 refineries to obtain resources for key Upstream projects
- But lower domestic economic activity, reduce crude exports income and less possibility to sell refineries will force Petrobras to execute alternative options to attract investors, mainly for the Upstream sector



2) Potential response

- Brazil could update its fiscal terms, improving them significantly in order to secure investment that can continue developing sub-salt reserves
- Companies owing blocks could potentially negotiate more advantageous conditions in order to continue their originally investment plans

3) Implications for the Upstream sector in the region



- Mexico, Colombia, Peru, Argentina, Ecuador would need to adjust their Upstream sectors, making them much more attractive for IOCs. This will translate into an investment opportunity for IOCs

Instead of analyzing a specific country it is possible also to outline what potential implications could be expected in the region, for a particular sector, like Upstream. But also the Trading, Midstream and Downstream sectors could see a spate of updated practices as a result of the crisis in the region.

How can Muse, Stancil & Co help?

- We can help you review and validate your business strategies for the new market
- Complete feasibility studies, due diligence for divestments, asset rationalization options, strategies for entering a new market
- Assessment of risks and opportunities on each sector, region or market, fleshing out competitive analysis or geopolitical stakeholders in the region
- Provide potential market scenarios, to help you define mitigation strategies for each one, in order to minimize risks
- We can complete this kind of analysis for all other regions in the world
- Contact Ajey Chandra (achandra@musestancil.com or +1-832-459-4179) for further info.

