A Message from Mashreq’s Energy Sector Team

Our thoughts are with all those affected by the Covid-19 pandemic. As we enter a new year, we are reminded that we all have roles to play in helping each other overcome challenges by upholding a true spirit of community strength. Thank you for taking the time to read our quarterly newsletter. We wish you the best of health and wellbeing always.

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Energy Markets Q1 Review

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

$2.6 trillion. This is the staggering sum that can be unlocked via digitalisation in the Middle East and North Africa (MENA) by 2035 – a very short four years away! As market pressures intensify, no energy firm can afford to ignore this potential. The Middle East’s interest in digital tools that fall under the umbrella of the 4th Industrial Revolution has been gradually increasing. But now appetite is soaring; energy stakeholders not investing in digitalisation are fast becoming outliers.

This is especially true in times of strain – and have no doubt, this is certainly one of them. Oil prices continue to hover in the $50s, the range and the International Energy Agency says at least $1 trillion must be spent per year in the near-term to create an environmentally friendly energy economy. Meanwhile, the International Monetary Fund warns of a long and difficult ascent out of the global economic plunge that is being spurred by the Covid-19 pandemic. The squeeze on economics, operational norms and talent development is very real, particularly for nations that have had restricted travel and lockdowns over the last year.

Pandemic bounce-back?

These difficulties only emphasise the value of investing in digitalisation. For example, digital tools and technologies thread into each of the three traits that the Boston Consulting Group said the companies best able to rebound from the Covid-19 pandemic. The squeeze on economics, operational norms and talent development is very real, particularly for nations that have had restricted travel and lockdowns over the last year.

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Global Oil Demand

World oil demand in 2020 showed a contraction of 9.6mn b/d, to stand at 90.6mn b/d. OECD oil demand contracted by 5.6mn b/d, while non-OECD demand declined by 4mn b/d. For 2021, world oil demand is expected at 95.9mn b/d, to stand at 96.3mn b/d. Oil requirements in H1 2021 are adjusted lower, mainly due to extended measures to control Covid-19 in many key parts of Europe. In addition, elevated unemployment rates in the US slowed the recovery process. In contrast, oil demand in H2 2021 is adjusted higher, reflecting expectations for a stronger economic recovery with the positive impact of vaccination rollouts. In regional terms, OECD oil demand is expected to increase by 2.6mn b/d in 2021 to stand at 44.6mn b/d, while non-OECD demand is seen rising by 3.3mn b/d to average 51.6mn b/d.

Sources: IEA, OPEC

Global Oil Supply

Non-OPEC liquids production is estimated to average 62.9mn b/d in 2020, a contraction of 2.6mn b/d, y-o-y. Non-OPEC oil supply in 2020 declined in Canada, Colombia, Kazakhstan, Malaysia, the UK and Azerbaijan, but increased in Norway, Brazil, China and Guyana. Non-OPEC liquids supply for 2021 is forecast to grow by almost 1mn b/d to average 63.8mn b/d. The US liquids supply forecast remains unchanged, with growth of 0.16mn b/d in 2021, although uncertainties persist. The main contributors to supply growth are expected to be Canada, the US, Norway, Brazil and Russia. OPEC NGLs are forecast to grow by 0.08mn b/d in 2021 to average 5.2mn b/d, following a decline by 0.13mn b/d last year. In February, OPEC crude oil production decreased by 0.65mn b/d, m-o-m, to average 24.85mn b/d, according to secondary sources.

Sources: IEA, OPEC

Crude Oil Futures

Crude oil futures extended their rally in Q1, 2021 and hit 13-month highs in February. They were supported by optimistic assumptions about tightening supply/demand fundamentals, and bolstered by the weather-related energy crisis in the US that caused a sharp decline in oil production. ICE Brent and NYMEX WTI first month rose respectively by 12.6% and 13.4% on a monthly average in February, settling at their highest monthly average since January 2020.

<table>
<thead>
<tr>
<th></th>
<th>JANUARY 2021</th>
<th>FEBRUARY 2021</th>
<th>CHANGE (JAN./FEB.)</th>
<th>YEAR-ON-YEAR (Y-O-Y)</th>
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<tr>
<td>WTI</td>
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<tr>
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<td>DME OMAN</td>
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<td>$5.56/bl</td>
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Note: Totals may not add up due to independent rounding.

Sources: CME, DME, ICE, OPEC
### Energy Markets Q1 Review

**OPEC+ Agrees to Increase Oil Production from May**

15th OPEC and non-OPEC Ministerial Meeting, April 1, 2021

The Meeting approved the adjustment production levels for May, June, and July 2021, while continuing to adhere to the mechanism agreed upon in the 12th OPEC and non-OPEC Ministerial Meeting (December 2020) to hold monthly OPEC and non-OPEC Ministerial Meetings to assess market conditions and decide on production level adjustments for the following month, with every adjustment being no more than 0.5mn b/d.

H.R.H. Prince Abdul Aziz Bin Salman, Saudi Arabia’s Minister of Energy and Chairman of the OPEC and non-OPEC Ministerial Meeting

“Steering the ship in these current conditions where different scenarios are playing out in various regions of the world requires a steady hand on the tiller, as I said back in February. It also requires flexibility and being responsive to market needs. Our agreement back in December 2020 provided us with a flexible mechanism to hold monthly meetings starting from January 2021, and to decide on whether to adjust output, be it increase, maintain, or decrease production depending on market conditions. Continuing with this flexible approach will serve us best.”

Alexander Novak, Deputy Prime Minister of the Russian Federation, Co-Chair of the OPEC and non-OPEC Ministerial Meeting

“The most important decision was to start the general recovery of oil production on May 1 by the OPEC+ countries over three months. Thus, in May the overall increase will be about 350k b/d, in June it will be the same, and in July it will be 441k b/d. The countries will follow the common schedule from the April 2020 agreement. In addition, Saudi Arabia that earlier took on special reduction commitments, decided to increase its output additionally.”

H.E. Mohammad Sanusi Barkindo, OPEC Secretary General (April 1, 2021)

“It is exactly one year ago that we were beginning the horrifying month of April 2020. None of us will forget the traumatic impact of the Covid-19 pandemic on people’s lives and on the oil industry with demand dropping by more than 20mn b/d and WTI plunging to a negative $37/bl. It was a visceral time for us all, but it was also broken by the historic production adjustments from the group of producers I see before me on the screen today. It has proven to be a prescient decision. The Declaration of Cooperation (DoC) and the steadfastness to conformity and compensation from participants has been central to the recovery of the industry that is such a vital cog in oiling the global economy. We need to continue on this path, be guided by the data and analysis, review the outlook on a regular basis and take things one step at a time.”

H.E. Dr Diamantino Pedro Azevedo, Angola’s Minister of Mineral Resources

“The pandemic continues to disrupt international travel and traditional ways of doing business, casting a lingering shadow over the prospects for oil demand growth. Our meetings are evidence of this. This is the seventh time in a year that our distinguished group has met on a virtual platform. Globally, we have seen steady improvements in oil market fundamentals and the demand outlook. Producers, consumers and the global economy all share the benefits of our joint efforts to restore stability, optimism and opportunity.”

### Energy Markets Q1 Survey

What is a bigger threat to global economic growth in the coming 12 months?

- Covid-19 Pandemic: 45%
- End of Stimulus: 22%
- Inflation: 19%
- Geopolitics: 14%
- Other: 4%

What will be the average price of Brent crude oil in Q2?

- Closer to $60/bl: 43%
- Closer to $70/bl: 32%
- Closer to $80/bl: 25%
- Other: 10%

In Q1 of the OPEC+ deal, strategy has moved from a transparent roadmap for the return of a 9.7mn b/d cut, to forcing oil markets to second-guess the next supply move. Which approach will be more supportive for prices in Y2?

- Transparent Roadmap: 44%
- Silence & Guessing: 56%

Extended lockdowns in Europe are being driven by the threat of a third wave of infections, with a new variant of the virus on the continent. When do you expect Europe to return to post-Covid normal?

- 2022: 58%
- Q3: 31%
- Q4: 11%

Oil Production fell from approx. 13mn b/d to 11mn b/d over last year. What will it be at the end of 2021?

- Closer to $60/bl: 22%
- Closer to $40/bl: 11%
- Closer to $50/bl: 67%

Do you plan to use air travel on your summer holidays in 2021?

- Yes: 62%
- No: 38%

Source: GQ
Middle East’s ‘Green Money’ Push Intensifies

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

What are the chances that fossil fuel operators in the historical epicenter of black gold thought five years ago that they’d be financing so much green energy today? The answer is very, very few. Even the optimists thought it’d take longer for this fundamental switch to happen. Even the optimists thought it’d only happen in the renewable energy projects of the future, but not in the ones of today.

It’s time to recognize the new normal. By the end of 2022, a greener energy marketplace is here, and it is happening at a much faster pace than anyone would have believed not long ago. While it was always expected to take longer for this fundamental switch to happen, the speed at which it has been happening is remarkable. Even the optimists thought it would only happen in the renewable energy projects of the future, but not in the ones of today.

Financial flows

Changing attitudes across the board – governments, corporates, academia, and society – reflect a deep-rooted shift in how we view our relationship with the planet. This shift is not just about being more sustainable, but also about creating a more resilient and equitable future.

Operators in the historical epicenter of black gold are not immune to this change. Many have already started investing in green energy projects, and this trend is expected to continue. The Middle East and Africa have many renewable and green hydrogen projects set to come online within the next five years. One such development is the $6bn NEOM renewable ammonia project in Saudi Arabia, earmarked as the world’s largest green hydrogen project – and Oman’s $1bn Sohar port’s plans to support a large-scale renewable hydrogen project. And ADNOC, Mubadala and Abu Dhabi government have signed a deal to establish the Hydrogen Alliance, helping the UAE’s capital become a lead producer and exporter.

All this financial appetite really pays off, particularly when it comes to improving economies of scale with manufacturing and market price points. For example, high cost has long burdened the growth of the hydrogen market. But investors’ growing interest in large port supported by broader societal and governmental demand for a greener future means that low-carbon hydrogen may break even with grey hydrogen as early as 2028, a cost of about $35–50 per ton of carbon dioxide equivalent, according to the Hydrogen Council. This is at least two years earlier than the timeline expectations that many stakeholders voiced this time last year.

Balance sheets braced – temporarily

Of course, energy stakeholders have not emerged from 2020 unscathed by the economic pressure of the pandemic-triggered recession. The total committed and planned investments in the MENA from 2020–2024 could exceed $792bn – an 18% decline from the $965bn in the five-year outlook in 2019, according to Apicorp. Each country has had to balance their books. For example, Kuwait cancelled its 15GW Al-Dabobaba tender and Saudi Arabia has extended project deadlines due to Covid-19. And there are many questions still unanswered – all of which can significantly impact financial flows in energy.

The jury is still out on whether globalization 4.0 – which was accelerating pre-pandemic – will start to reverse, as cost-cutting measures potentially drive a long-term trend for more regional cooperation. If so, what impact will this have on energy supply chains, innovation centers, and import-export dynamics? Question marks also remain over the US-China relationship, Brexit, and instabilities in the Middle East – all of which impact the economic picture for both ‘old’ and ‘new’ energy. And the usual and long-running weak spots still need strengthening, including better support for new market entrants, especially entrepreneurs and small and medium-sized enterprises (SMEs), and fully realizing energy subsidy removals.

Yes, there is a lot of work to do – but the market has good reason to be positive. Consider that the aforementioned projects are still progressing despite the impact of the most globally disruptive pandemic in a century and the lowest oil prices ever recorded. Plus, assuming black swans stay clear, oil prices are likely to stay relatively close to the current range of $40–$60/bl, again giving energy stakeholders and investors a general goahead to plan their finances in the year ahead – a coveted hint of certainty in a year that may be as unpredictable as 2020.
How many 11-year-old boys do you know who ask to read the financial supplement of their father’s newspaper? Feras was one of those rare children. He devoured the pages every day, understanding every word and graph by the age of 13. Unsurprisingly then, UAE-born and raised Feras’ decision to study engineering at Damascus University in Syria – established nearly a century ago – lasted just two months. Opting to stay in Syria to connect with his heritage, he switched his course at the university to a bachelor’s from the Faculty of Business Administration & Finance. A voracious reader, he relished expanding his contextual understanding of global economics, essentially becoming an intellectual explorer. Feras was keen to start work as his studies ended, his teenage ideal to pursue a career in academia quickly fell away. Applying all he’d learned from hundreds of books and lectures into practice took center stage.

Getting started
Feras’ return to the UAE in 2001 coincided with the impact of the dot.com bubble and Asia’s economic woes; job offers were limited. Ever resourceful and keen to share knowledge, he taught 10th and 11th grade students the Cambridge economics curriculum at a private school in Al Ain for a year. As every talented teacher knows, the more you learn, the better you teach. So Feras diligently fed his knowledge about business and economics, poised for his next opportunity – which soon arrived.

Feras’ 18-year career in banking was sparked by a surprise call from the Union National Bank in 2002, asking him to join their Corporate Banking team in Al Ain. To this day, he doesn’t know how the bank got his details or who recommended him for a job. But he remains grateful, for this was the opening of the corporate door that he so needed. Now Feras had to prove himself.

Up, up, and up
He started at the bank from the bottom, as Support Staff (now known as an Associate). He had to manually input companies’ financial data into a basic model and harvest insights the old-fashioned way, learning a great deal about companies’ ins and outs. His patience in building granular knowledge soon paid off. Significantly supported by his talented colleagues, Feras was tasked in just six months to act as an Assistant Credit Analyst. Then, just 13 months after joining the bank, he became a Credit Analyst. Overall, it was a busy but productive three years, from a fresh graduate with no experience to a young professional who had worked in three departments and had his own clients.

The latter especially appealed to Feras’ social personality. His small and medium-sized (SMEs) clients meant he got to see a company’s financial beating heart, engaging directly with decision-makers and having first-hand exposure to clients’ operations. Working in a small unit in a small city meant Feras fast became known as a friendly and effective financial facilitator – at just 23 years old. His ability to pinpoint the domino effect of geopolitics on the Middle East meant his clients always had the most relevant and timely financial advice.

Building on this professional momentum, Feras gained more international experience in 2005 when he joined United Arab Bank, 20% of which was owned by Société Générale, as a Relationship Officer. In 2008, he significantly upped his international exposure again by joining HSBC. There, he enhanced his skill sets across several desks over the next 12 years. He started in Sharjah as a Relationship Manager in Corporate Banking with mid to large clients, speaking directly to CEOs and business owners in manufacturing, contractors, government-related entities, and others. In 2010, he moved to Dubai to the Division Head of HSBC’s Large Corporate Team. Feras moved to be Head of Public Sectors in 2012, with his last move at HSBC in 2016 as he jumped across from Corporate Banking to Global Banking. Each change triggered a learning curve and enhanced his ability to adapt – a globally coveted skill.

Next adventure
Feras has long respected Mashreq’s creative and determined business style, so it was an honour to be appointed the Executive Vice President of Head of Public Sector, Aviation, Energy, Education & Healthcare in July 2020. The multifaceted nature of the role at the UAE’s only privately owned bank suits Feras’ desire to learn, learn, and learn some more. He savours being part of the decision-making process with his highly skilled colleagues somewhere that competes with the world’s biggest banks and leverages technologies to improve banking norms. It remains to be seen whether Feras’ three-year-old son will one day look up at him, asking for the very same financial supplements that sparked his career.

What is ESG Data?
ESG data is a set of standards used to measure a company's stewardship and sustainability. A socially conscious investor uses ESG data to screen for potential investments, especially in the energy sector.

Why is ESG Data Important?
Investors have been increasing their focus on sustainable matters and, as a result, must become more sustainability-conscious. Energy products that are shown to comply with ESG criteria will have a large upside in the future for investment.

UAE's Vision 2021 highlights a sustainable environment and infrastructure as a key pillar in the national agenda for the year ahead. The use of quality ESG data can be a solution to drive the country's vision forward by building the foundation needed for a robust ESG investment environment.

Middle East Energy Transition
5-Year Outlook for Solar Additions in the Region

2021
1.6 GW
≈590%
2025
11.1 GW

To meet UN Sustainable Development targets by 2030, it is estimated that emerging markets need an annual investment of $2.5trn, with a large portion of this investment focused on the Middle East.

Sources: World Economic Forum (WEF), Arab Forum for Environment and Development (AFED)

Environmental, Social and Governance (ESG)

Source: Diligent Corporation, UAE Vision 2021 National Agenda