AL MAJAL

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AL MAJAL OIL & GAS ROUNDUP

IN COLLABORATION WITH QAMAR ENERGY

Latest in the Iraqi & Global Energy Markets

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Oil Demand in the Middle East

Iraq's December oil demand increased an increase of 5% m-o-m from November 2023, in line with seasonal patterns, but still 10% lighter than November 2022, mainly due to lower industrial consumption. Demand remains robust, but is now primarily gasoline and diesel, as well as power generation needs (natural gas fuel oil, some crude oil and diesel for power). The start-up of the 140-kbd Karbala Refinery raise this year has contributed to reduced oil products imports, although "technical" challenges continue to mean the refinery runs below design capacity.

December demand clocked in at just under 0.9 Mbd, 17% lower than August's record demand of 1.1 Mbd, which was due to an extremely hot summer necessitating crude burn. For the other major Middle East economies, oil demand increased by 115 kbd in December, despite cooler weather eliminating Saudi Arabia and Kuwait's need for crude burn to meet power demand. The start-up of the Al Zour LNG Terminal in Kuwait, which will free up more crude for export, was a factor in the country's lower year-on-year demand. The overall increase in oil demand was due to the start of holidays and tourists during the winter months, boosting jet fuel and road transport fuels demand.

Positive economic activity, led by higher manufacturing and construction activity, indicated by strong purchasing manager indices (PMIs) for the major Middle East economies, is likely to lift oil demand in the region's annual demand revision due in March 2024. We expect 2023 demand for the region to average 4.5 Mbd, 4% higher than 2022 figures, and 27% higher than 2021. Transportation fuels will also contribute to demand growth.

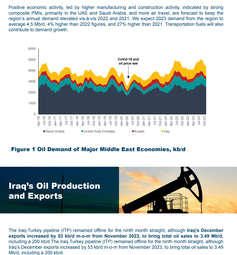

Figure 1 Oil Demand of Major Middle East Economies, kb/d

Iraq's Oil Production and Exports

The Iraq Turkey pipeline (ITP) remained offline for the ninth month straight, although **Iraq's December exports increased by 53 kbd m-o-m from November 2023, to bring total oil sales to 3.49 Mbd,** including a 250 kbd The Iraq Turkey pipeline (ITP) remained offline for the ninth month straight, although Iraq's December exports increased by 53 kbd m-o-m from November 2023, to bring total oil sales to 3.49 Mbd, including 250 kbd to Turkey.

The relatively unchanged exports from November are due to stable production from southern fields, as well as a slight uptick in KRI controlled fields, which more than offsetting the loss of the Kirkuk export pipeline, which was routed to domestic market sales. 3.49 Mbd in exports, the highest monthly average for federal Iraq since March 2020, underpinned by the ongoing ban on new upstream oil and gas concessions awards. Southern export volumes have not been this high since September 2019, with the most recent high being recorded in October 2020, when exports reached 3.55 Mbd, just 10 kbd shy of the Basra Oil Export Terminal maximum capacity of 3.65 Mbd.

Production in December averaged 4.3 Mbd. ~1.0 Mbd higher than its OPEC quota, mainly due to KRI production recovering. Turkey, the only offtaker of Kirkuk oil, has been importing approximately 250 kbd, due to lower consumption requirements overall that allowed for older federally controlled fields to enter maintenance. Most of the KRI's 14 producing fields are now operational again, although the reduced output is being sold in the domestic market at substantial discounts. Current production is just above 82 kbd, well below the February average of 0.43 Mbd, the last full month of operations before the ITP's closure.

The continued shutdown of half of the KRI's production capacity has allowed Federal Iraq to sustain higher output levels to adhere to Iraq's overall 4.22 Mbpd quota, although the inclusion of KRI production means that Baghdad is still pumping above its own OPEC production quota. Iraq's adherence has improved significantly over the last few months. Current compliance is about 97%, but could change, with Iraq now contributing to a voluntary 223 kbd cut which brings its quota down to 3.99 Mbd in March 2024. The move could further diminish the amount of crude entering the issues that are keeping northern exports offline, with the quote now appearing to reduce the sense of urgency in Baghdad to remediate problems flows via Turkey. Some offline volumes will also be used to maintain a high compliance without compromising on output from its strategic southern fields.

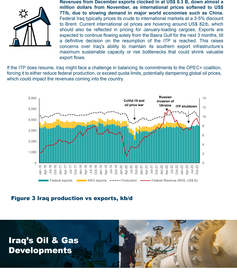

Figure 2 Federal Iraq production vs capacity, kb/d

Revenues from December exports could reach in excess of US $ 8.3 B, down almost a million dollars from November, as international prices softened to US$ 79.5/bbl, due to lingering concerns about global world economic growth as China. Federal Iraq typically prices its crudes to international markets at a 30% discount to the Dubai benchmark, although it has been offering more than that in the short term, which will also be reflected in pricing for January loadings. Exports are expected to continue flowing solely from the Basra Gulf for the next 3 months, in a definite change from the composition of the ITP is reached. This raises concerns over Iraq's ability to maintain its southern export infrastructure's operational capacity in a situation where crude could stink valuable exports for months.

If the ITP does resume, Iraq might face a challenge in balancing its commitments to the OPEC+ coalition, forcing it to either reduce federal production, or exceed quota limits, potentially dampening global oil prices, which could impact the revenues coming into the budget.

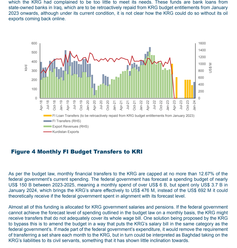

Figure 3 Iraq production vs exports, kb/d

Iraq's Oil & Gas Developments

Temporary Funding Deal Marks Breakthrough in Kurdistan Budget Social Negotiations, but Significant Hurdles Remain

Although recent visits to Erbil by Iraqi PM Mohammed al Sudani and talks by Oil Minister Hayan Abdulghani around "mechanisms to resume production and export operations" from the KRI have done little to overcome the impasse between the federal government and the KRG, a "breakthrough" was achieved in mid-January when the Iraqi Cabinet approved a new transfer of US$ 478 M to Kurdistan to provide temporary financial relief for the cash-strapped region.

This is despite disagreements still remaining over the amount owed to Kurdistan under the national budget, which the KRG claims is the tune of US$ 1.2 B, and the fact that the payment is a temporary measure appealing to the KRG to resume its oil flows to the federal grid for production costs, which are significantly higher than in southern Iraq. There is also the question of whether the federal government will acquiesce fulfilling the KRG's debts to oil-backed lenders.

Nonetheless, we see this decision as a positive for progress on the budget deal negotiations. One, the new transfer will cover Kurdistan's salaries for the next month, including salaries and pensions. If the federal government cannot achieve the forecast level of spending outlined in the budget law on a monthly basis, the KRG might consider this a breach of the budget law, which would be a major setback for the budget deal. Two, it shows that it is possible for the parties to reach a compromise, even if it is only a temporary one. Three, it shows that the KRG is willing to be flexible on its demands and allows the KRG's oil sector to resume. This might also better align with the February 2022 decision of the Federal Supreme Court, which gave the legal foundation of the KRG's oil sector, meaning that KRG contracts would have to be signed with the federal Ministry of Oil. That could mean long, difficult negotiations, but it would also mean the KRG would have more leverage, as it would be negotiating commercial and political objectives separately.

Partners in high-profile oil projects in Kurdistan have also begun feeling the squeeze from the upended exports from the Kurdistan region, which are now in their tenth month of outage. UAE integrated utility company Mubadala Energy, which has a 10% stake in the Bazian Block, has sold its stake in the block to Malaysian Petronas. Hunting is said from the sale of the share with Petronas has said to US energy company HKN Energy, although this transaction is yet to be approved by the KRG. Although this development should not impact the overall operations and output from the field (if exports are resumed), given that Bazian was non-core to Taqa for quite some time now making the sale a no-surprise, it casts a negative light on the investment climate in the KRI, and the future of the region's oil sector, which typically has had a diverse set of international operators.

PetroChina Officially Takes over from ExxonMobil as West Qurna-1's New Operator

In the metal of ExxonMobil exiting its West Qurna-1 project, PetroChina has officially taken over as the new operator since January 31, which both plans to increase production capacity from the field from 400 kbd to 1 Mbd, and has begun preparations for new development projects (to 2028, for which it will need to spend under new processing facility, as well as 100 new wells and projects to support water injection. The first phase of the project will be carried out by a consortium of companies, made up of Abu Dhabi-listed Dana Gas and Bangladesh-Crescent Petroleum.

Also Mbr has also been instrumental in negotiations with local officials attributing at-lack mostly to pro-Iranian groups, iran-backed militias have been the opportunity to challenge the US security presence in Iraq and across the Middle East as the US supports Israel's ongoing war on Palestine, and have stepped up attacks on US forces in Iraq, which have led to a proxy standoff between Washington and Tehran, prompting US and Iraqi defence officials to reconsider the future of the US military mission in Iraq.

Such attacks highlight the continuing vulnerability of the Kurdistan region and its energy infrastructure to security threats. Two weeks prior to this attack, an Iranian missile strike on Erbil killed four people, including a prominent businessman connected to the ruling KDP. In June and July 2022, the field was targeted four times by drones, which forced Exxon to evacuate its staff. Although Baghdad and Erbil have been conducting negotiations, in 2023, a drone struck the facility in January, and in August, two rockets were fired at the field amidst negotiations between the KRG and federal governments to resolve oil and budget issues, also causing no damage.

Investigations of past attacks have identified a paramilitary group based near Tuz Khurmatu as the primary suspect, but the federal government has so far been unwilling to arrest them. There is also speculation that entities within the KRI might have supported the attack against a backdrop of growing hostility between the KDP and PUK in recent years. Such antagonism can adversely impact the development of Kurdistan's gas resources, which are crucial not just to meet own demand and support economic development, but also foster greater relations and cooperation with the federal government at a time when the KRI needs its support the most.

Dana Gas Resumes Operations at Khor Mor After Drone Attack

A liquid storage tank at the Pearl Petroleum-operated 500 kbbl/d Khor Mor gas field was hit on January 25, temporarily suspending production to put out a fire, and no casualties caused. Gas deliveries to power plants in Kurdistan were halted as a precaution, although Dana Gas has since said that its operations in the region resumed according to a statement by Dana Gas the following day. The field supplies gas to power plants in the Iraqi Kurdish region of Sulaymaniyah and Kalar, and to the Bazian Block in Erbil, and is the largest one in the sister field Chemchemal, which is operated by the Pearl Petroleum consortium, made up of Abu Dhabi-listed Dana Gas and Bangladesh-Crescent Petroleum.

Khor Mor has also been the subject of several attacks with local officials attributing at-lack mostly to pro-Iranian groups. Iran-backed militias have been the opportunity to challenge the US security presence in Iraq and across the Middle East as the US supports Israel's ongoing war on Palestine, and have stepped up attacks on US forces in Iraq, which have led to a proxy standoff between Washington and Tehran, prompting US and Iraqi defence officials to reconsider the future of the US military mission in Iraq.

TOP ENERGY DEALS IN THE MENA REGION

Project

Masdar 1 GW Solar Plant in Iraq

Client / Buyer

Iraq Ministry of Electricity

Contractor / Seller

Masdar

Implications

- UAE's clean energy SWF–vehicle Masdar is planning to build a solar plant in Iraq with an output of 1 GW in the first phase, with discussions underway with the Iraq Ministry of Electricity.
- Currently the project is under reform with the Cabinet to be approved, as it also seeks certain benefits for Masdar to invest, such as tax exemptions
- The development has been scheduled to go ahead in an independent fashion by the Iraqi government to fund four of several solar power projects awarded over the past months as part of a strategy to boost the share of renewable sources to nearly 33% of generated power in 2025
- Iraq had previously launched a renewable bid round in 2019 for 750 MW of renewables, and has also awarded standalone projects to a number of foreign firms (such as TotalEnergies, ACWA Power) over the past months for construction of solar power plants with a combined generation of 1.5 GW
- Despite being slower-moving than its peers, Iraq holds some of the world's best potential for solar power, which could help it address its chronic problem of power shortages
- The influx of new capacity to developers could also hasten progress on "high costs" that Iraqi officials have historically claimed; despite costs being around US$0.3-44/kWh (which are higher when compared to other MENA counterparts, but attractive on a global level) due to high debt rates and cost of capital

Iraq Oil Market Highlights

Crude Oil Prices
As of January 11th, 2024

WTI: USD 76.54
Brent: USD 81.31

Iraq Oil Exports

December 2023: 3.348 Mbpd
November 2023: 3.48 Mbpd

Iraq Rig Count

December 2023: 59
November 2023: 59

Oil Exports Revenue

December 2023: 8.02 USD Billion
November 2023: 8.32 USD Billion