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# Commodities Update

April 2021

# KEY FINDINGS

## Economic impacts of Covid-19

> 2021: A year of global economic recovery?

> Annual rate of change in world GDP, 1990-2021

## Oil & Gas Sector Highlights

> Mozambique LNG Project Developments

> Cabo Delgado Overview  
Impacts of military attacks

## Energy Sector Demand forecasts

> In 2021, oil demand is expected to rebound by 6%, faster than all other fuels

> In 2021, coal demand has rebounded strongly, reversing all of the declines in 2020

## Commodities and EuroBond Yields

> Brent currently trades around \$ 68/bbl and WTI \$ 63/bbl

> Yields on Mozambique's Eurobonds rose five basis points on April to 10.47%,

01

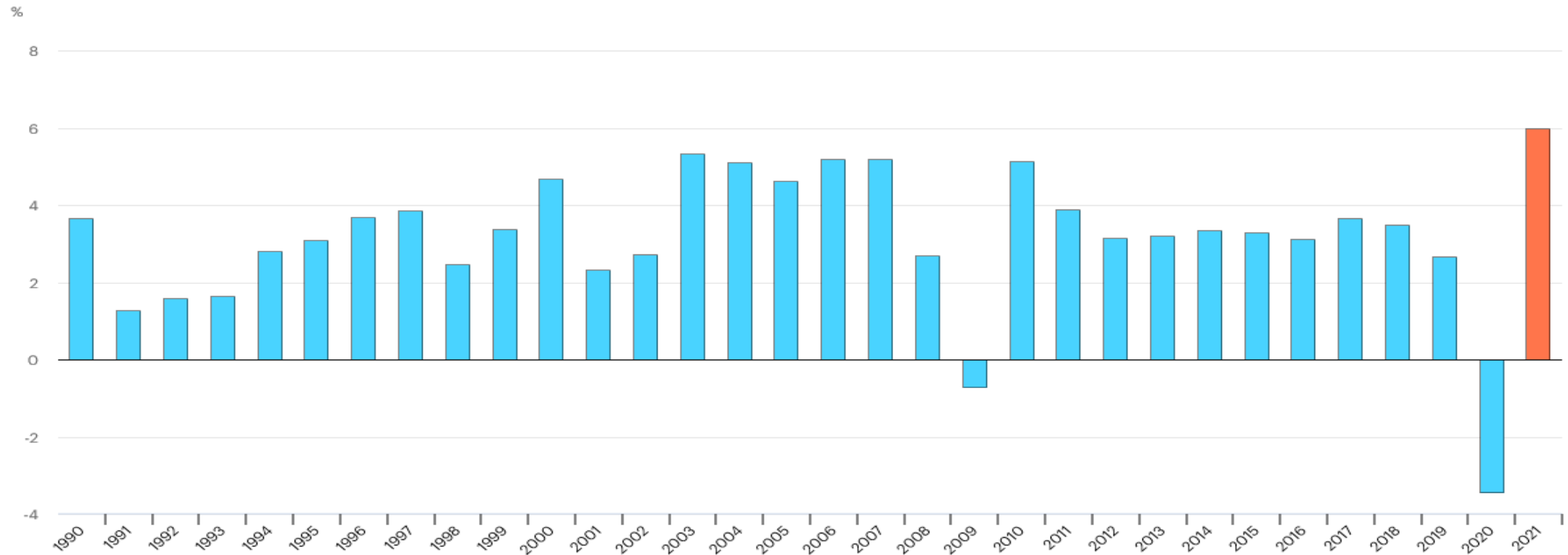


# Economic impacts of Covid-19

2021: A year of global economic recovery?

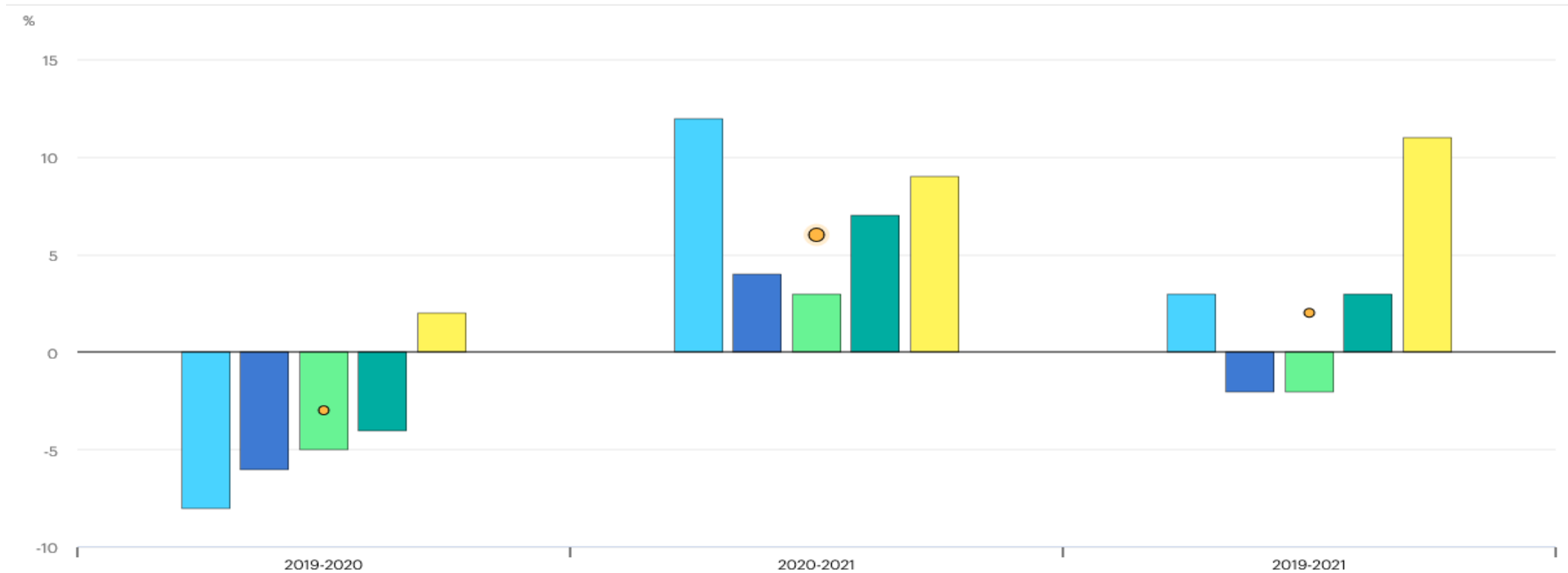
# Annual rate of change in world GDP, 1990-2021

While the global health crisis continues in the early months of 2021 with second and even third waves of the virus in many regions, accelerating vaccine rollouts and major stimulus packages in many advanced economies have provided a beacon of hope. **The IMF projects the global economy will grow by 6% in 2021, more than compensating for the 3.5% drop in 2020**



# Change in GDP in selected regions, 2019 to 2021

India is likely to be a key variable for the global economic outlook. The outlook significantly improved at the end of the year, driven by recovering industrial production. Early estimates place India's annual GDP growth at 12% in 2021, though with significant uncertainties linked to the evolution of infections and the rollout of vaccines.



02



# Oil & Gas Sector Highlights

Highlights on Mozambique's gas field developments

# Mozambique LNG Project Developments



## Total declares force majeure after insurgent attacks

- ✓ French energy group Total declared force majeure on its US\$ 20B liquefied natural gas (LNG) project in Mozambique and confirmed it had withdrawn all staff from the construction site following insurgent attacks last month.
- ✓ The violence in March has dealt a blow to plans by Total and rival Exxon Mobil, which also has an LNG project in Mozambique, to turn the country into a major LNG producer to rival Australia, Qatar, Russia and the United States.
- ✓ It also comes as major energy companies reassess their approach to LNG, once seen as a fuel of the future because it has lower emissions than coal or oil but now under scrutiny in the drive to cut carbon emissions even more deeply.



## Mozambique LNG suspension to be maintained until Government restores security

- ✓ The “Declaration of Force Majeure” in the Total oil project in Mozambique will remain in effect until the Government guarantees security in the province in a verifiable and sustainable manner, a spokeswoman for the French energy company declared.
- ✓ In a press conference organised in reaction to Total’s force majeure declaration, Carlos Zacarias, Chairman of Mozambique’s National Institute of Petroleum (INP) stated that “any cost that, directly or indirectly, is caused by the implementation of the project, will later have to be discussed with the Government”.
- ✓ Asked if the losses caused by the stoppage of the natural gas project will be attributed to the Mozambican government, due to the inability to protect the site, the president of the oil regulator explained that this issue will have to be discussed between the parties.

# Mozambique LNG Project Developments

**ExxonMobil**



**ExxonMobil**

## Area 4 - FLNG Platform Arrives in December 2021

- ✓ The floating platform that will be the first project to produce natural gas in the Rovuma basin will be in Mozambican waters in December, announced by local authorities.
- ✓ The Minister of Mineral Resources and Energy, had announced in March that the construction of the platform at Korean shipyards in Busan “is about 90%” and that work should be completed in December to reach Mozambican waters in the first quarter of next year.
- ✓ The governor said at the time that everything is underway for the operation to start in July 2022, after the platform parked on the high seas.
- ✓ The platform is part of the Area 4 consortium led by Exxon Mobil and Eni from the Coral South gas reserves.

## Exxon Mobil FID likely to come in 2023

- ✓ Fitch Solutions said that insecurity in northern Mozambique will lead US oil company ExxonMobil to postpone the Final Investment Decision (FID) to 2023, hampering the country’s economic growth.
- ✓ In a commentary on the situation of insecurity experienced in the province of Cabo Delgado, Fitch Solutions’ analysts point out that, “notwithstanding the insurgency in the country still posing a threat to the development of the liquefied natural gas sector, the three projects planned for the country should start operating, despite the risks”.
- ✓ In commenting on the latest developments in the province of Cabo Delgado, Fitch Solutions also writes that the long-term perspective of security depends on the Government’s response.



# Cabo Delgado

## Overview

01

Since 2017, the country has been struggling to control an insurgency orchestrated by militants linked to the Islamic State

The conflict has already costed the country more than 2 thousand lives and led to about 500 thousand displaced

02

This has contributed to exacerbate the levels of social vulnerability in Cabo Delgado

Already one of Mozambique poorest provinces according to the 2014/5 household survey

03

The progress of the LNG projects, have been affected as attacks have occurred in areas closer to the projects operations

Additionally, the already tight public budget has seen significant pressures from increased military spending

04

Contracts for site activities have been temporarily suspended, according with Total and INP

Including that of the CCS JV, a joint venture between McDermott International Ltd., Saipem SpA and Chiyoda Corp

05

The Mozambican state had been hoping to reap nearly \$100 billion in revenue over 25 years from LNG projects

Earlier delays have already caused the International Monetary Fund to scale back its economic growth forecasts

06

Yields on Mozambique's \$900 million of Eurobonds due 2031 rose five basis points to 10.47%

Widening the country's sovereign risk premium over U.S. Treasuries by seven basis points

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Downside risks will impact the financial sector, with potential spillovers to the real economy, business perspective, security conditions, labour force and banking expansion

The sustained economic recovery would require addressing the military insurgency

03

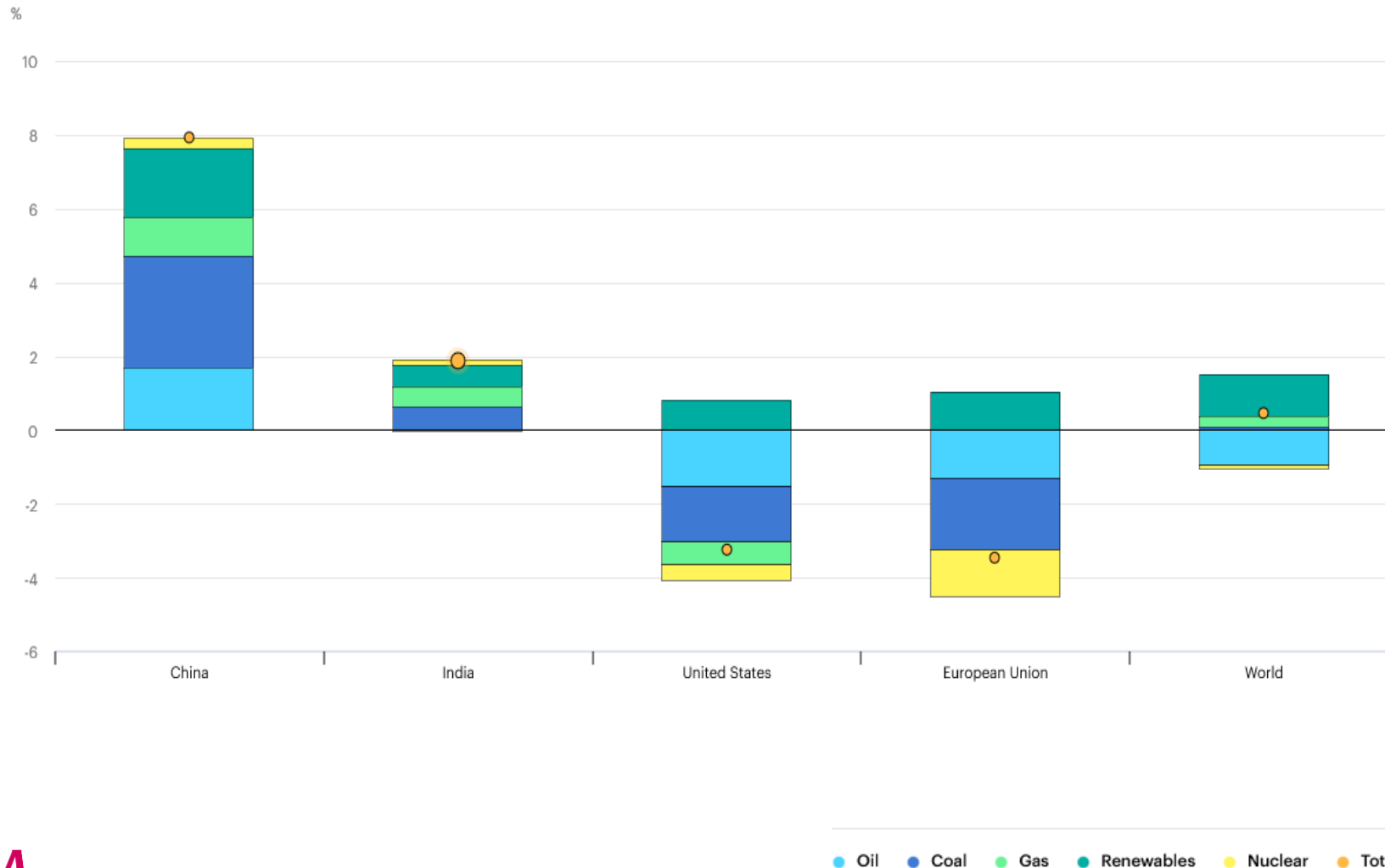


# Energy Sector

Demand forecasts

# Energy demand by fuel

Change of primary energy demand by region and by fuel in 2021 relative to 2019

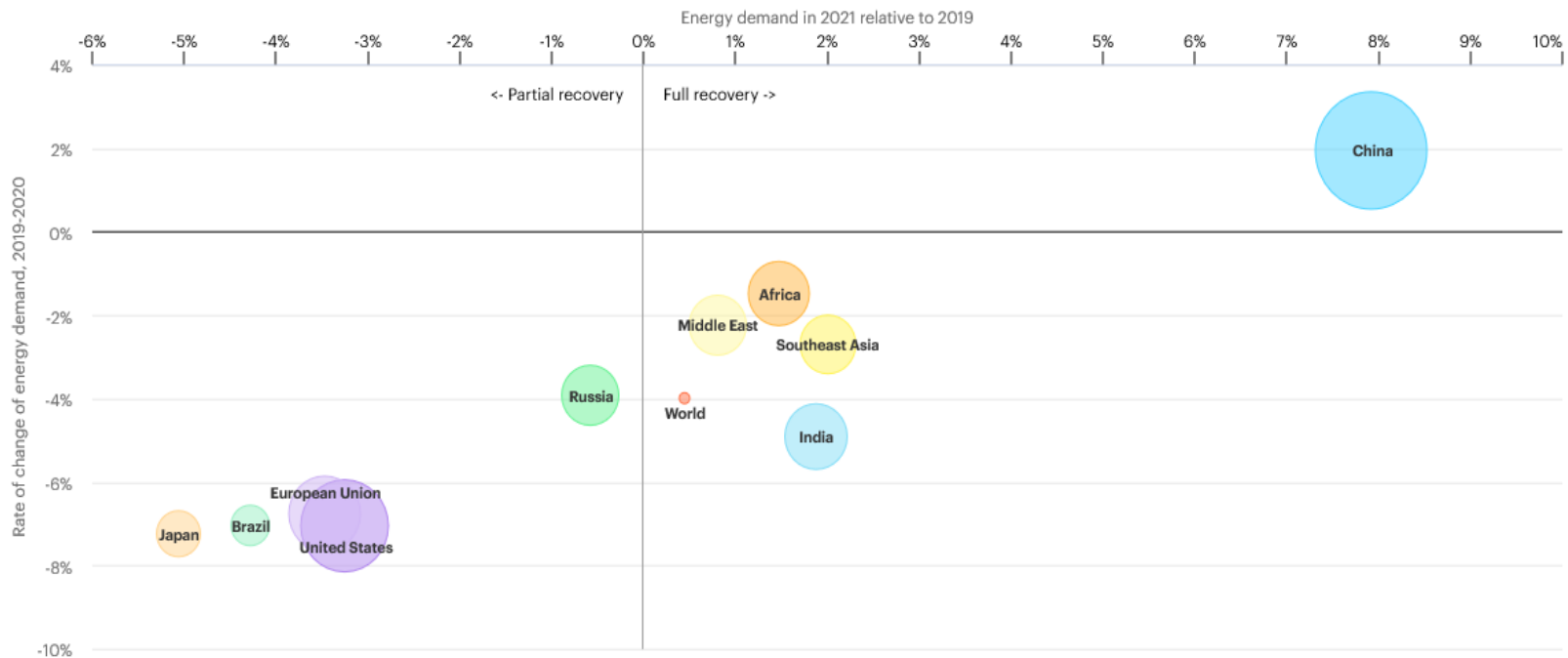


- In 2021, oil demand is expected to rebound by 6%, faster than all other fuels. The last time oil demand increased this rapidly was in 1976. Despite the strong rebound, oil demand remains 3% (3.1 mb/d) below 2019 levels

- In 2021, coal demand has rebounded strongly, reversing all of the declines in 2020, though with major geographic variations. Meanwhile, China is projected to account for 55% of the 2021 increase.

# Energy demand by region

Rate of change of energy demand in 2020 and 2021 energy demand relative to 2019 levels, by region



The world's biggest economies have been impacted by Covid-19 to different degrees.

Energy demand across advanced economies fell by over 6% on average in 2020, with every advanced economy at some point experiencing a contraction of economic output.

Looking to 2021, advanced economies are expected to see rapid recoveries in economic output and energy demand across most sectors.

Economic activity in China is set to further accelerate in 2021, and energy demand is expected to grow by 6%, with demand in 2021 almost 8% higher than in 2019, thus cementing China's position as the economy least impacted by Covid-19.

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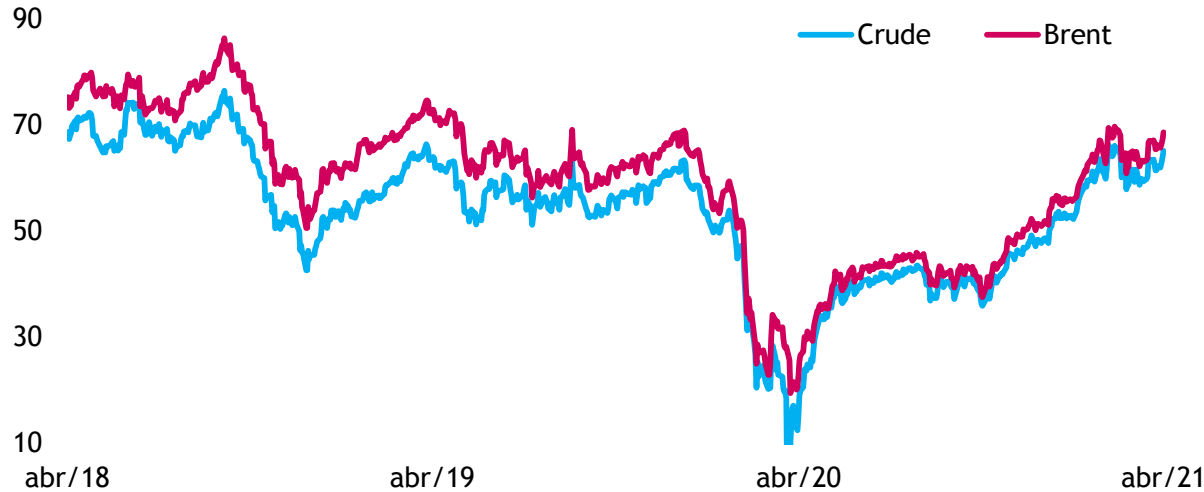


# Commodities

Price Movements

# Brent currently trades around \$ 68/bbl and WTI \$ 63/bbl

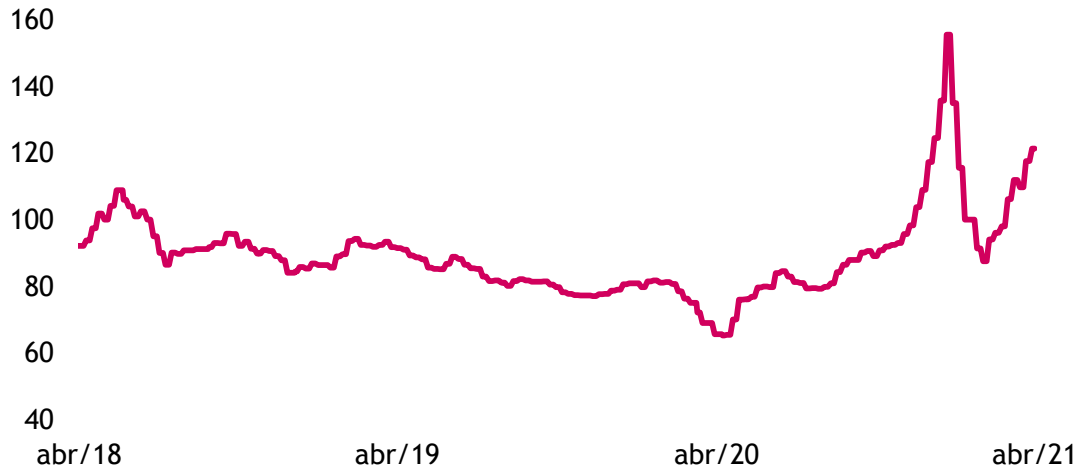
Crude Oil Price (\$/bbl)



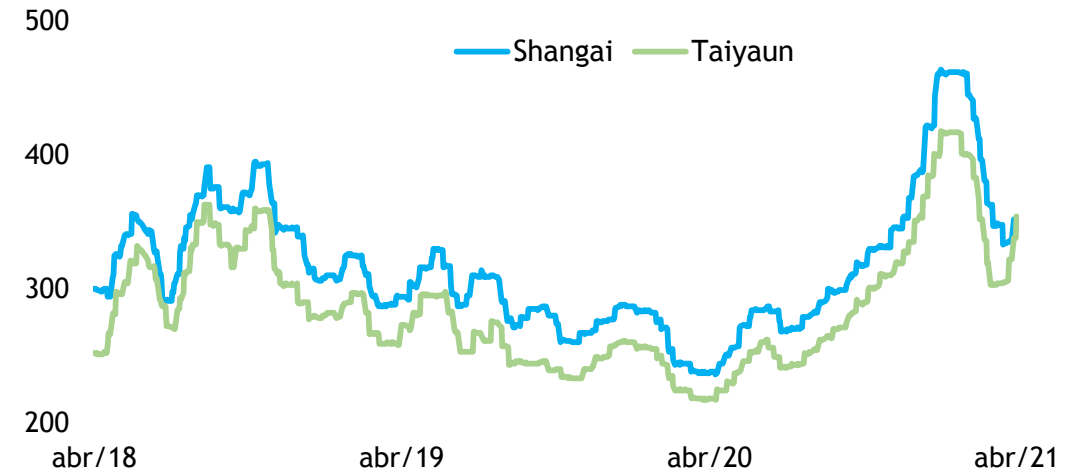
- ✓ Prices could yet come under renewed pressure in the coming months with world oil supply set to ramp up and shift the market from deficit towards balance. Global production was already on the rise in March, increasing by 1.7 mb/d as US output recovered from a sharp drop in February and OPEC+ supply edged higher.
- ✓ The market changes dramatically in the latter half of this year as nearly 2 mb/d of extra supply may be required to meet expected demand growth - even after factoring in the announced ramp-up of OPEC+ production. Global refinery runs are forecast to rise by 6.8 mb/d from April to August, just as crude oil-fired power generation rises seasonally.
- ✓ In its April update of the World Economic Outlook, the IMF raised its forecasts for 2021 and 2022 global GDP growth to +6% and +4.4%, respectively, but noted divergent recoveries and a high degree of uncertainty. Not surprisingly, the biggest upgrade was for the United States, given its swift vaccine rollout and hefty stimulus packages on the way.
- ✓ China was also revised slightly higher. This improved outlook, along with stronger prompt indicators, has led us to revise up our 2021 global oil demand growth forecast by 230 kb/d. Following a decline of 8.7 mb/d last year, world oil demand is now expected to expand by 5.7 mb/d in 2021 to 96.7 mb/d. There are still lingering concerns over the strength of the recovery in demand growth, however, with the number of Covid cases surging in Europe and some major oil consuming countries such as India and Brazil.

# Coal Market

China Port Thermal Coal (\$/mt)  
COASQ155 Index, Daily



2<sup>nd</sup> Grade Coke Shanghai and Taiyuan (\$/mt)  
CCOKSHAN Index, Daily

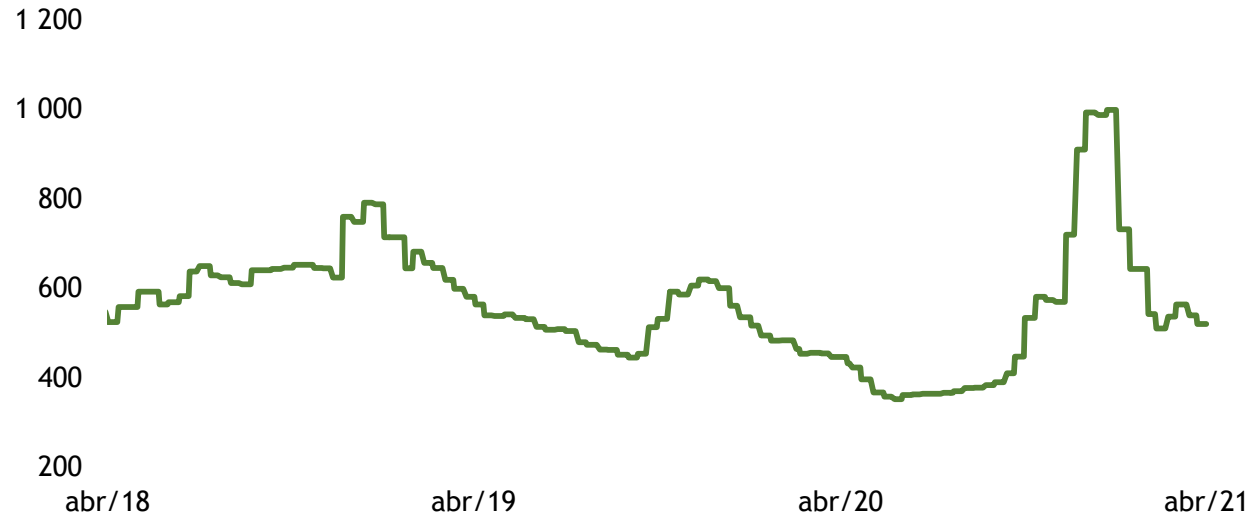


- Thermal coal prices were unstable in the first quarter of 2021, due to lower supply availability.
- In this period, the price of thermal coal reached its all-time high of 155.56 USD/tn
- The reduction in supply was due to the fact that many coal mines cut or even stopped production
- However, consumption soared in the period under review, due to the recovery of the economy and the strong demand for heating in the winter amid the extreme cold.

- Coal output in China, the world's top producer, has been curbed by increased safety inspections at mines following several fatal mining accidents across the country.
- Daily coal use in China's eight coastal provinces jumped by 23.8% as of end-March from a year earlier, according to data from the China Coal Transportation and Distribution Association.

# Winter has come, yet gas demand recovery remains fragile for 2021

LNG China (\$/mmbtu)



- ✓ After an unprecedented drop in natural gas demand 2020 closed with a **rapid recovery in gas prices as a rise in winter demand tightened supply**. A similar pattern held in the first weeks of 2021 with cold snaps bumping gas prices in Europe to their high winter levels and spot LNG prices in Asia broke historical records.
- ✓ This tight market episode was driven by **short-term factors, whereas the fundamentals remain uncertain and potentially challenging** for global gas demand recovery in 2021.
- ✓ Colder temperatures in December 2020 marked the start of a gas price rally amid tightening LNG supply. **Spot LNG prices in Asia more than tripled to above USD 30/MBtu by the start of January 2021**, with some cargoes reportedly awarded close to USD 40/MBtu; breaking the record price levels in the aftermath of the Fukushima nuclear accident in 2011.
- ✓ This forecast expects **global natural gas demand to grow 2.8% in 2021 (about 110 bcm), slightly above the 2020 decline**, thus enabling a recovery to the 2019 level. This is a far cry from the 7.5% y-o-y post-2009 financial crisis rebound observed in 2010. **Global gas demand recovery in 2021 is uncertain. Demand is subject to a variety of risk factors** including fuel switching, slow industrial rebound and mild weather which can moderate consumption.



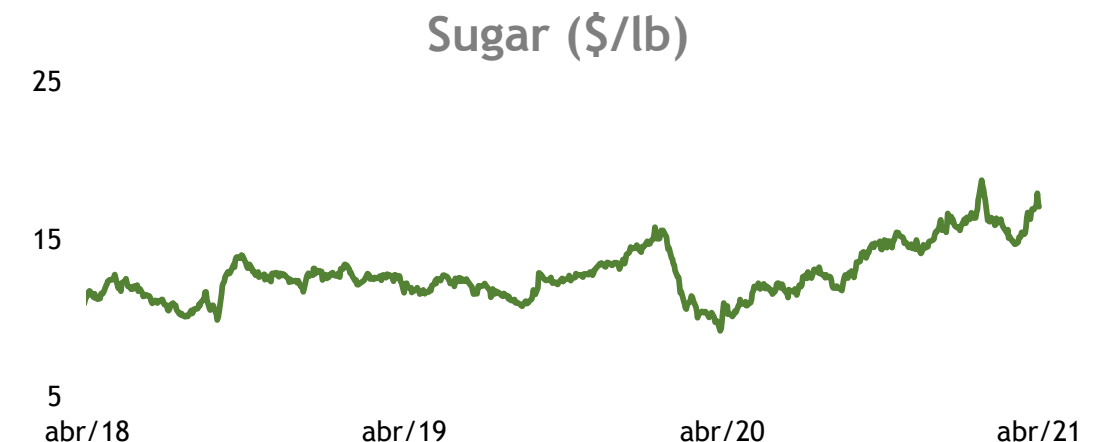
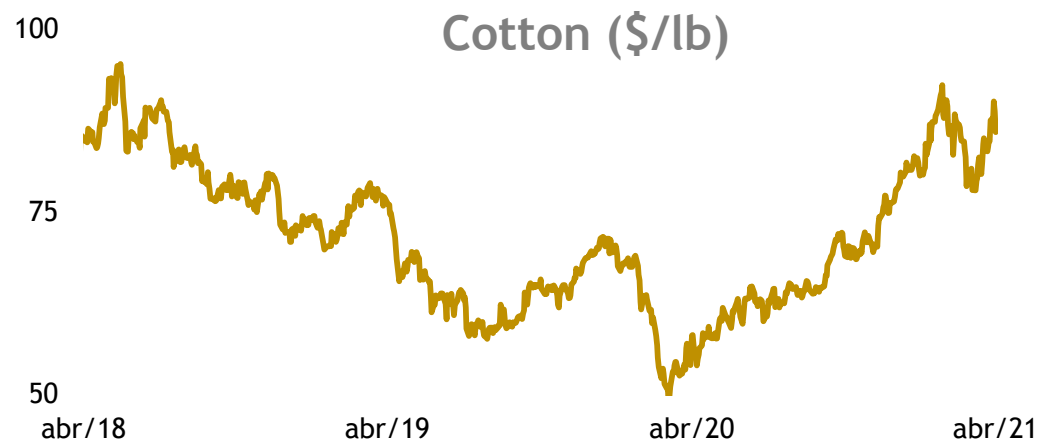
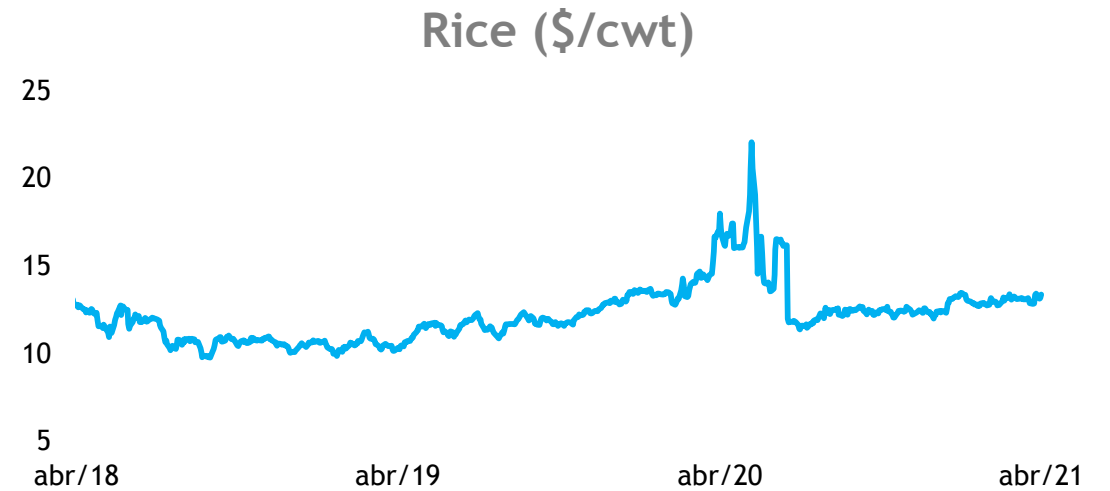
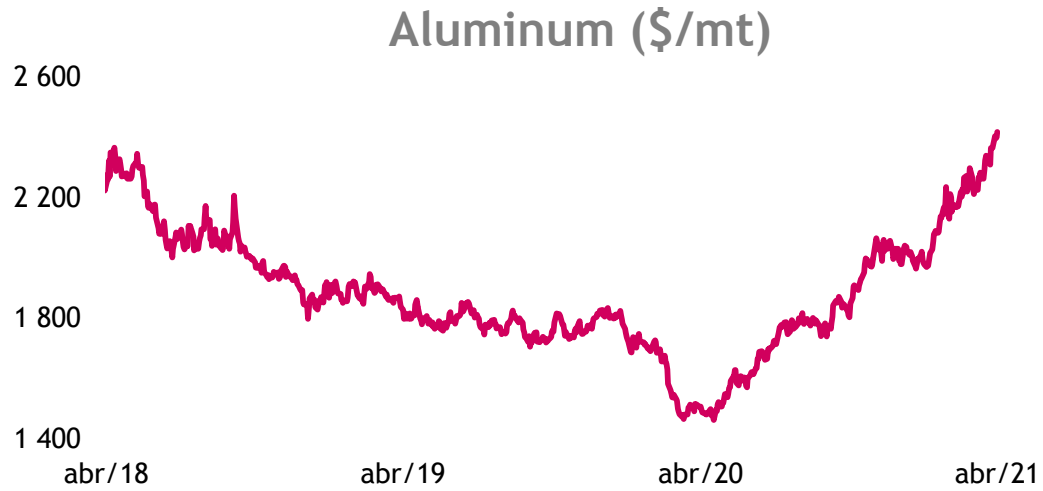
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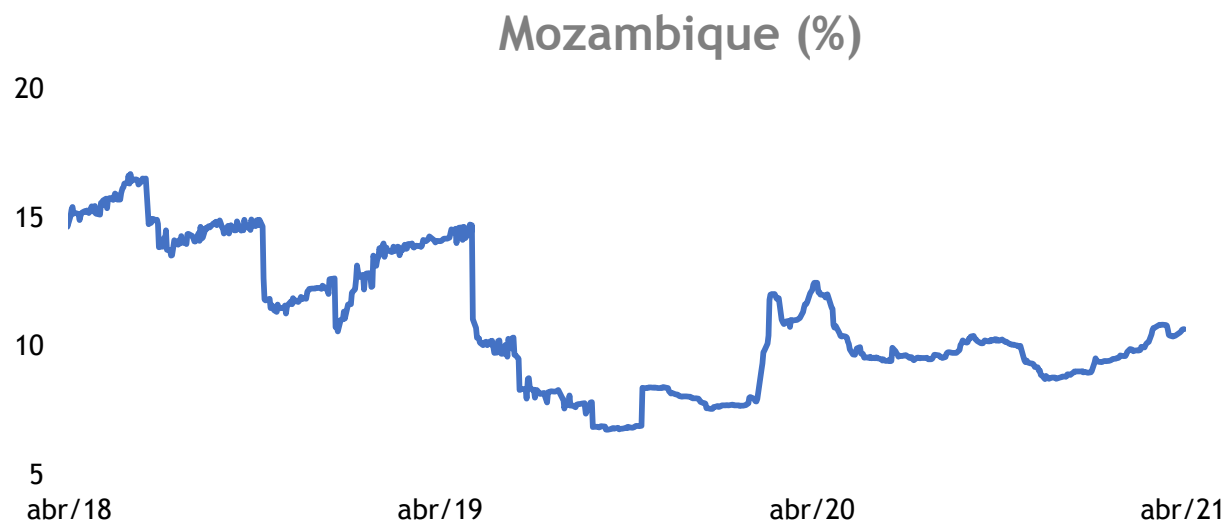
# Annexures

Non Energy Commodities and EuroBond Yield

# Annexure 1: Non Energy Commodities



# Annexure 2: EuroBond Yield



- ✓ The current macroeconomic context has raised challenges and put pressure on public accounts. Total's suspension of \$20 billion Mozambique LNG project slows hoping on future earnings of nearly \$100 billion in revenue over 25 years from LNG projects for the Mozambican State, as well as contributed to the increase in public spending on security (to combat terrorism in the province of Cabo Delgado), despite the pressure on health spending (to treat and combat Covid-19).
- ✓ Yields on Mozambique's \$900 million of Eurobonds due 2031 rose five basis points on April to 10.47%, widening the country's sovereign risk premium over U.S. Treasuries by seven basis points.

RATINGS ENTITIES	2015	2016	2017	2018	2019	OUTLOOK
<b>STANDARD &amp; POOR'S</b>	B-	CC	CCC	CCC	CCC+	Stable
<b>FitchRatings</b>	n/a	RD	RD	RD	CCC	N/A
<b>MOODY'S</b>	Caa3	Caa3	Caa3	Caa3	Caa2	Stable

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# Annexures

Disclaimer & Contacts

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