

## Allocation of Rounds 2.2 and 2.3 amid the recent success of the energy reform

- The *National Hydrocarbon Commission* (CNH) announced the winners of Round 2.2 and 2.3
- This round took place in a context where private companies announced a find of around 1 billion oil barrels in the coast of Tabasco
- Round 2.2 consisted of 10 blocks, out of which 7 were allocated, significantly above government's expectation (~30%)
- Round 2.3 consisted of 14 blocks, out of which 14 were allocated, significantly above government's expectation (~30%)
- In our opinion, the allocation was highly successful, showing a lot of interest in the development of Mexico's oil market by several oil companies
- The following bidding processes will take place on October 4. those being three Pemex farmouts,

**Round 2.2 and 2.3.** The *National Hydrocarbon Commission* (CNH) announced the winners of the second and third tender under the so-called Round 2 (a.k.a. Round 2.2 and 2.3). We highlight that this round represents the sixth effort by the government to allow private-sector investments into full-blown oil-related projects. In Round 2.2, 6 bidders came forth, from which 5 took part in the process. Only 2 companies managed to get allocations. This package of projects included 10 land fields, covering a total area of 4,221 km<sup>2</sup>. Nine are located in the States of Nuevo Leon and Tamaulipas, area known as the "*Burgos Basin*" and one in the "*Southeastern Basin*" in Tabasco, as shown in the map below. According to the Ministry of Energy these zones mainly contain wet gas.

In Round 2.3, 17 bidders came forth, all of them taking part in the final process from which 5 were awarded a contract. This package of projects included 14 blocks inland, which covered a total area of 2,594.8 km<sup>2</sup>. Four are located in the "*Burgos Basin*" in Nuevo Leon and Tamaulipas, one in Veracruz in an area known as "*Tampico-Misantla*". Three areas are located in the "*Veracruz Basin*", while other six areas are located in the southern part of the gulf, in Veracruz and Tabasco, area known as "*Southeastern Basin*" (as shown in the map below). Finally According to the Ministry of Energy, these zones mainly contain hydrocarbons such as dry gas and light oil.

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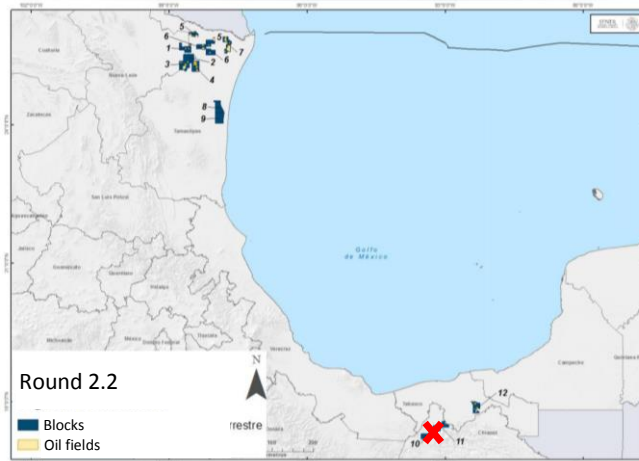
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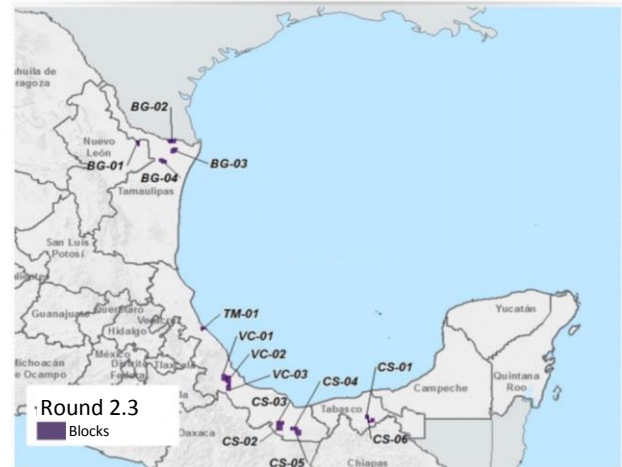
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Blocks tendered in Round 2.2



Source: CNH

Blocks tendered in Round 2.2



Source: CNH

**Excellent result of the tender.** It should be noted that in Round 2.2, 70% of the blocks were awarded, 6 out of the 7 to the Canadian-Mexican consortium *Sun God and Jaguar*. This result was better than what the federal government was expecting (25%-30%). Meanwhile, Round 2.3 allocated 100% of the blocks tendered, with most of the companies being of Mexican origin. In this case, the expectations of the government, as for Round 2.2, anticipated an allocation of between 25% and 30%, which was easily surpassed.

**We highlight the finding by private companies of around one billion barrels off the coast of Tabasco.** These results suggest that oil companies, both domestic and international, continue to show interest in Mexico's oil development, particularly supported by the news of the discovery by the consortium of Premier ,Talos and Sierra Oil & Gas, which they cataloged as one of the 15 largest finds of the last 20 years.

**Winners of the 2.2 Round allocation**

Area	Bidder	Country of Origin	Government's additional profit margin (%)	Additional investment factor	Weighted value of the economic proposal	Type of hydrocarbon to exploit
1. Burgos	Iberoamericana de Hidrocarburos and Servicios PJP4	Mexico	3.91	1	5.535	Wet gas
2. Burgos	Desierto					Wet gas
3. Burgos	Desierto					Wet gas
4. Burgos	Sun God and Jaguar	Canada and Mexico	25	1.5	29.826	Wet gas
5. Burgos	Sun God and Jaguar	Canada and Mexico	16.96	0	16.96	Wet gas
6. Burgos	Desierto					Wet gas
7. Burgos	Sun God and Jaguar	Canada and Mexico	25	1.5	29.826	Wet gas
8. Burgos	Sun God and Jaguar	Canada and Mexico	25	1.5	29.826	Wet gas
9. Burgos	Sun God and Jaguar	Canada and Mexico	25	1.5	29.826	Wet gas
10. Sur	Sun God and Jaguar	Canada and Mexico	45	1.5	52.091	Superlight oil and gas

Source: CNH

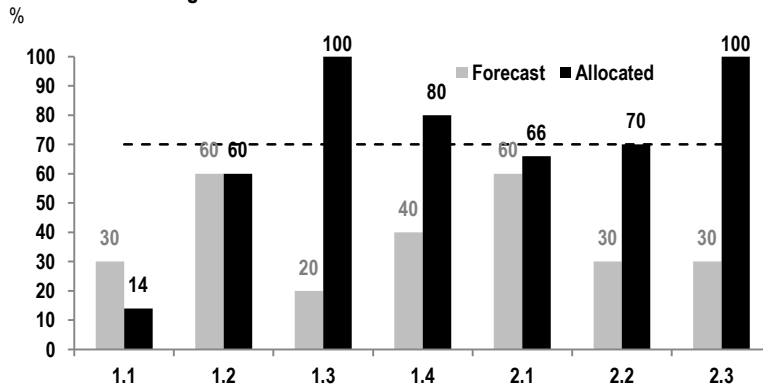
### Winners of the 2.3 Round allocation

Area	Bidder	Country of Origin	Government's additional profit margin (%)	Additional investment factor	Weighted value of the economic proposal	Type of hydrocarbon to exploit
1. Burgos	Iberoamericana de Hidrocarburos and Servicios PJP4	Mexico	25	1.5	29.826	Wet gas
2. Burgos	Newpek and Verdad Exploration	Mexico and US	25	1.5	29.826	Wet gas
3. Burgos	Newpek and Verdad Exploration	Mexico and US	23.56	0	23.56	Wet gas
4. Burgos	Iberoamericana de Hidrocarburos and Servicios PJP4	Mexico	3.91	1	5.535	Wet gas
1. Tampico-Misantla	Jaguar	Mexico	40	1.5	46.525	Oil and Wet gas
1. Veracruz	Shandong Kerui, Sicoval and Nuevas Soluciones Energéticas	China and Mexico	40	1.5	46.525	Wet gas
2. Veracruz	Jaguar	Mexico	40	1.5	46.525	Light oil and dry gas
3. Veracruz	Jaguar	Mexico	40	1.5	46.525	Light oil and Wet gas
1. Cuencas del Sureste	Jaguar	Mexico	45	1.5	52.091	Aceite and Wet gas
2. Cuencas del Sureste	Shandong Kerui, Sicoval and Nuevas Soluciones Energéticas	China and Mexico	40	1.5	46.525	Light oil
3. Cuencas del Sureste	Shandong Kerui, Sicoval and Nuevas Soluciones Energéticas	China and Mexico	45	1.5	52.091	Light oil
3. Cuencas del Sureste	Carso Oil & Gas	Mexico	45	1.5	52.091	Light oil
5. Cuencas del Sureste	Carso Oil & Gas	Mexico	40	1.5	46.525	Light oil and gas
6. Cuencas del Sureste	Jaguar	Mexico	40	1.5	46.525	Light oil and dry gas

Source: CNH

**These have been one of the most successful rounds.** The bidding process for the oil rounds has had an average allocation of 70%, while the last two rounds have allocated 70% (Round 2.2) and 100% (Round 2.3) respectively. It should be remembered that round 1.3, like the 2.3 have been the most successful, having assigned 100% of the blocks, as shown in the following graph.

Estimated and assigned blocks of the different oil rounds



Source: Banorte-Ixe, CNH

**Rounds 2.2 and 2.3 will take place in July 2017.** The allocation of both Round 2.2 and Round 2.3 will take place on July 12, 2017. Round 2.2 will involve 12 onshore fields in the states of Tamaulipas and Chiapas. Finally, the final round includes 14 onshore fields in Tamaulipas and Chiapas. Furthermore, 3 associations with Pemex will be allocated on October 4.

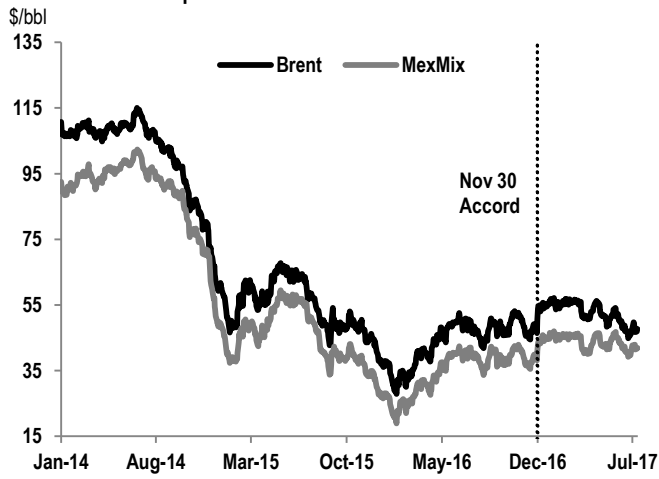
**The following bidding processes will take place on October 4.** These include three Pemex farmouts, being: (1) The Ayin-Batsil field in the "Salina del Isthmus" area in shallow waters; (2) the terrestrial field of Cárdenas Mora in the state of Tabasco; And (3) the Ogarrio land field also in Tabasco. On the other hand, market participants are still waiting for information on the possible Round 3.

*From our fixed income and FX strategy team*

**The complex rebalancing process maintains prices subdued.** Crude oil market activity is still defined by the sharp skepticism around the mismatch between supply and demand conditions, where the OPEC and non-OPEC supply pact agreed at the end of last year (and extended in May) is about to face a new test. The original agreement permits Libya and Nigeria to be exempted from a production cut given the complex political scene in both nations. Despite the fact that local conflicts are not close to be fixed, their production levels are depicting a clear recovery, and they are actually prompting an aggregate cartel output surge, just as their proprietary monthly paper reported this Wednesday. The latter is taking place in a context where U.S. output is still rising, creating a highly complex process for the rebalancing target structured in the pact.

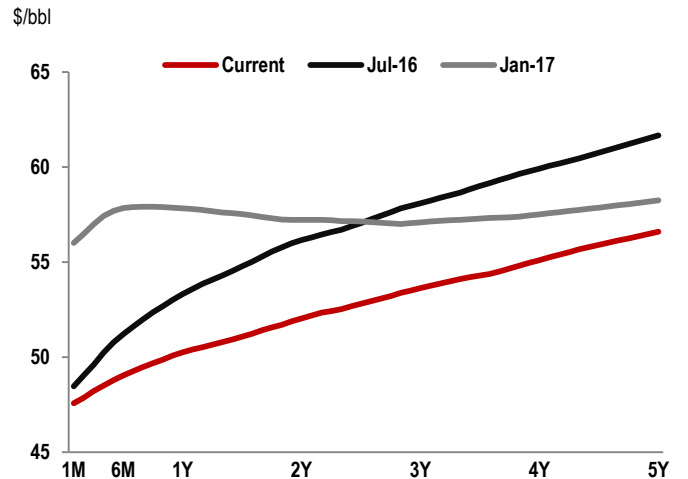
In this context, crude oil prices have traded below 50 \$/bbl in the case of Brent (see chart below on the left) at least since the beginning of June, currently close to 48 \$/bbl, which is equivalent to a 16% fall from its highest point reached this year in January. Moreover, the structure of the futures curve (see chart below on the right) has flattened substantially at the front-end, reflecting a stable price outlook for the short-term. Particularly, these securities are pricing-in levels of 49 \$/bbl for this year's close, 50 \$/bbl by mid-2018 and 51 \$/bbl by year-end 2018. On the other hand, at the beginning of 2017 the same maturities were with a quite flat structure as well, averaging 58 \$/bbl for every tenor. In our view, the case for a 2017 close higher than 50 \$/bbl is still valid, but we acknowledge that it tilts towards the lower bound of the area, and the key reason behind our expectation of Brent at 53 \$/bbl in December.

**Brent and MexMix performance**



Source: Bloomberg

**Brent Futures curve**



Source: Bloomberg

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