

Pemex farmouts – Positive second round

October 4, 2017

- The *National Hydrocarbon Commission* (CNH) announced the winners of the second round of Pemex farmouts
- Within this round, three blocks were offered, two are onshore fields while the remaining is located in shallow waters
- Both of the onshore were allocated, while the shallow water one was declared empty
- In our opinion, the allocation was successful, showing the continuing interest in the development of Mexico’s oil market
- The following bidding processes will take place on January 31, 2018 with another Pemex farmout
- Crude oil market is reflecting tighter balances, with the futures curve recently shifting to backwardation
- We reiterate our forecast for Brent at 53 \$/bbl at year-end, expecting a slightly higher range for next year but with relatively low conviction of a strong upward breach above 59 \$/bbl

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes

Senior Economist, Mexico
alejandro.cervantes@banorte.com

Francisco Flores

Economist, Mexico
francisco.flores.serrano@banorte.com

Fixed income and FX Strategy

Alejandro Padilla

Head Strategist – Fixed-Income and FX
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA

FX Senior Strategist
juan.alderete.macal@banorte.com

Santiago Leal Singer

Fixed-Income and FX Strategist
santiago.leal@banorte.com

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Second round of farmouts for Pemex. The *National Hydrocarbon Commission* (CNH) announced the winners of the second round of strategic associations of Pemex with companies from the private sector, also known as farmouts. This round encompasses three fields: two are onshore, while the other one is in shallow waters. All three blocks are in the region known as the “Southeastern Basin”, in the state of Tabasco.

The first of this field, named Ayín-Batsil, is the shallow water field and it covers an area of 1,091 sq. kilometers (421 sq. miles). This field contains mainly heavy oil. The second field, known as Cárdenas Mora, covers an extension of 168 sq. kilometers (65 sq. miles) and mainly contains light oil. Finally, the third field, named Ogarrio, spanning 156 sq. kilometers (60 sq. miles), with the main hydrocarbon to exploit being light oil.

Ayín-Batsil Field



Source: CNH

Cárdenas Mora Field



Source: CNH

Ogarrio Field



Source: CNH

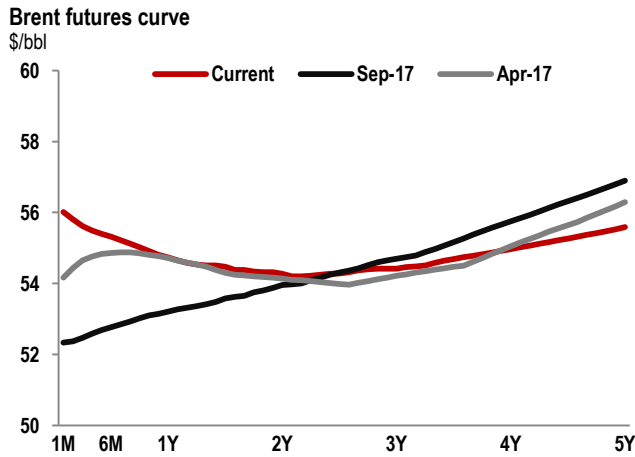
Once again, a successful result. Despite the fact, there were not any bids for the Ayín-Batsil field; the other two blocks were allocated. For the Cárdenas Mora field, two proposals were delivered, one from Cheiron Holding Ltd. (Egypt) and another from the consortium between Gran Tierra México and Sierra Blanca (Mexico). The winner was Cheiron Holding Ltd., having offered an additional royalty percentage of 13%.

For the third field, four offers were tendered, one from Ogarrio E&P (Chile), and another from California Resources Corp. and PetroBal (USA and Mexico). The other bids were from DEA DeutscheEdroel (Germany) and TecPetrol and Galem Energy (Argentina and Mexico). The winner was DEA Deutsche Erdoel, offering an additional royalty percentage of 13% and a cash payment of US\$213.9 million.

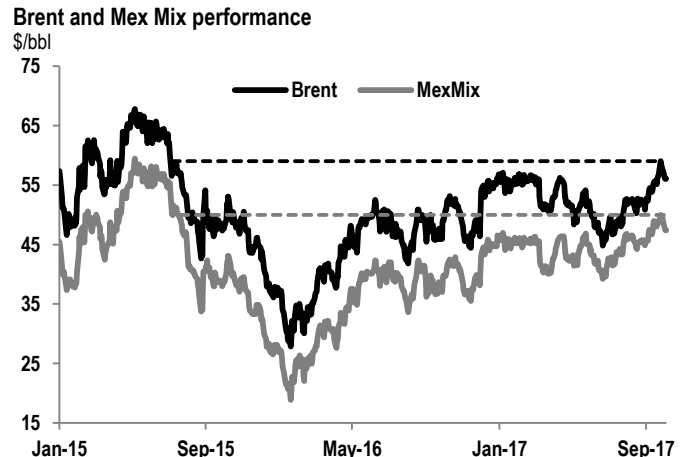
The following bidding process will take place on January 31, 2018. This contemplates one deep-water Pemex farmout in the Gulf of Mexico, in front of the coasts of Tamaulipas. Moreover, the allocation for Round 3.1 will take place on March 27. This round will tender 35 shallow water fields all across the coast of the Gulf of Mexico.

From our fixed income and FX strategy team

Crude oil market reflects tighter balances. Crude oil prices have conveyed relatively healthier fundamentals, especially during the last quarter, highlighting global commercial inventories falling, and North American production growth and forecasts from main agencies starting to moderate. This situation has took place in a context where the supply restriction pact of OPEC and other producers has shown outstanding compliance metrics, with discussions about an additional extension and/or deeper cuts being more present by the day. In this sense, the most relevant episode has been the recent move of the futures curve, shifting clearly to backwardation, portraying expectations of more limited supply conditions in the short-term (see chart below on the left hand side) with the front-end Brent contract reaching its highest level since July 2015 by September-end, a movement which has incentivized some profit taking by market participants in recent days (see chart below on the right).



Source: Bloomberg



Source: Bloomberg

Meanwhile, the impact of recent hurricanes in the U.S. Gulf Coast was also a major event, mostly reflected in gasoline's higher volatility and notable appreciation, whereas crude benchmarks within the region were pressured albeit in a more modest magnitude. In this sense, refinery margins (crack spreads) rose sharply, translating into North American crudes adding to the global oil rally from which they were initially decoupled due to local meteorological conditions.

Going forward, the market will be focused on new negotiations between OPEC and other producers (next OPEC meeting on November 30th), as well as the North American energy sector reaction to the price rebound, with 2018 futures trading in attractive levels for hedging purposes. In this context, we hold our view for Brent closing this year at 53 \$/bbl, below current spot at 56 \$/bbl, while expecting slightly higher average ranges in 2018 relative to this latter level albeit with low conviction of a strong upward breach of 59 \$/bbl.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Víctor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454