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Oil At USD60/bbl:

Who Is Most Vulnerable?

November 2014

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Outline

Core Scenario: Lower Oil Prices Ahead

Weaker global economic conditions have seen us lower our oil price forecasts.

- **Brent crude oil prices will average USD86/bbl** between 2014 and 2018.
- **Weak global demand** is the main reason behind structurally lower oil prices.
- **Upcoming OPEC meeting (November 27)** should pave the way for production cuts, offering temporary support to oil prices.

USD85-95/bbl Is The New Norm

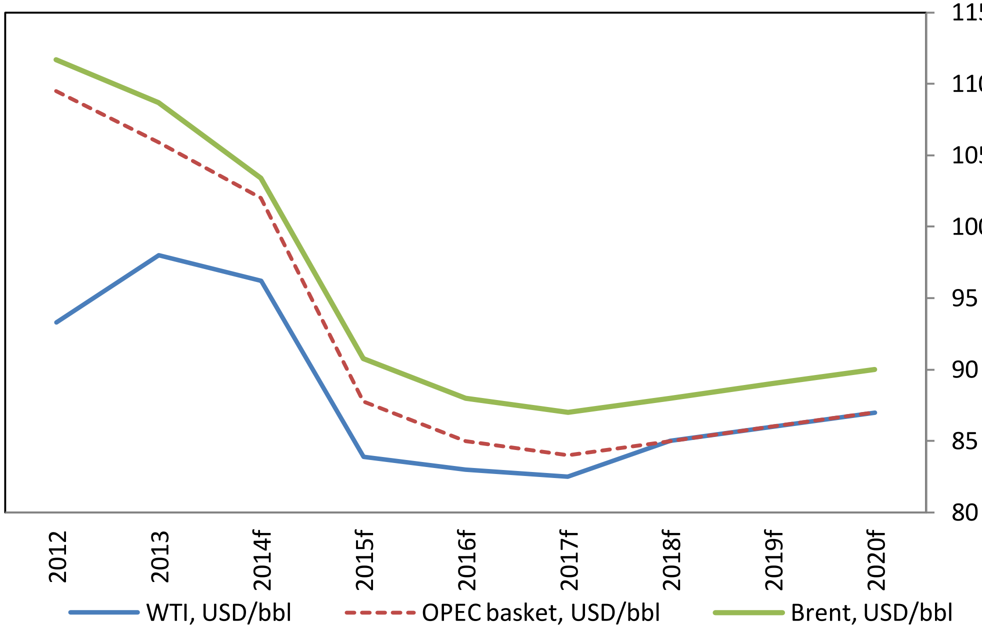


Table: Median Forecasts WTI And Brent, Front Month (USD/BBL)

	2014	2015	2016	2017	2018
WTI - Bloomberg Consensus	95.3	91.4	93.9	95.0	89.3
WTI - BMI Forecast	96.1	83.9	83.0	82.5	85.0
Brent - Bloomberg Consensus	101.8	97.0	98.0	96.9	92.5
Brent - BMI Forecast	103.3	90.8	88.0	87.0	88.0

*BMI is a contributor to Bloomberg Consensus. f = BMI forecast.
Source: Bloomberg, BMI Research

OPEC Meeting: Assessing Potential Scenarios

- **Core View:** We see a 60% likelihood of OPEC agreeing an output cut (circa 500,000bpd).
- **Cut will temporarily stabilise oil prices** around the USD80-90/bbl range over Q414-Q115.
- **Risk of no agreement rising:** If no cuts are agreed, Brent could hit USD60/bbl by early 2015.
- **Secular oil price decline will not be reversed** regardless of outcome from OPEC meeting.

Table: OPEC Oil Production And BMI Assessment of stance going into November 27 meeting

BMI View: Willing to hold out	OPEC Share (Oct 2014)	Fiscal Breakeven Oil Price, USD/bbl	Production % Y-o-Y chg	Production % chg vs. 2010 average	BMI View: Willing To Coordinate A Cut	OPEC Share (Oct 2014)	Fiscal Breakeven Oil Price, USD/bbl	Production % Y-o-Y chg	Production % chg vs. 2010 average
Saudi Arabia	31.7%	89	-2.4%	16.2%	Iran	9.1%	136	3.4%	-26.0%
UAE	9.2%	81	-0.5%	20.3%	Venezuela	7.7%	117	-1.1%	-0.4%
Kuwait	9.2%	52	-2.1%	20.6%	Nigeria	6.3%	124	-0.5%	-7.7%
					Angola	5.5%	94	-4.4%	-7.0%
					Algeria	3.8%	107	-0.9%	-7.1%
					Libya	2.8%	106	78.0%	-46.0%
					Qatar	2.3%	59	-3.3%	-10.5%
					Ecuador	1.8%	122	3.7%	13.1%
Total Production Share	50.1%					39.3%			

Note: Iraq currently operates outside of OPEC quota system.
Source: OPEC, IMF, Reuters, BMI Research

Downside Risks: What If OPEC Doesn't Deliver?

OPEC inaction on November 27 would exacerbate downside pressures on oil prices.

- **USD60/bbl for Brent is a realistic downside target** should OPEC fail to agree on production cuts in its November meeting.
- **US is increasingly a price setter** in light of rising oil production.
- **Weak global demand** will maintain downside pressure on oil prices.
- **USD will rally over the coming years** amid rising interest rates, putting additional downside pressure on oil.

USD60/bbl Next For Brent?

Table: Real GDP Growth Forecasts (% chg)

	2013	2014	2015	2016	2017	2018
US	2.2	2.3	2.7	2.4	2.4	2.4
China	7.7	7.3	6.7	5.8	5.8	5.8
Eurozone	-0.4	0.7	1.2	1.3	1.4	1.4
Japan	1.6	0.9	0.8	0.7	0.7	0.7

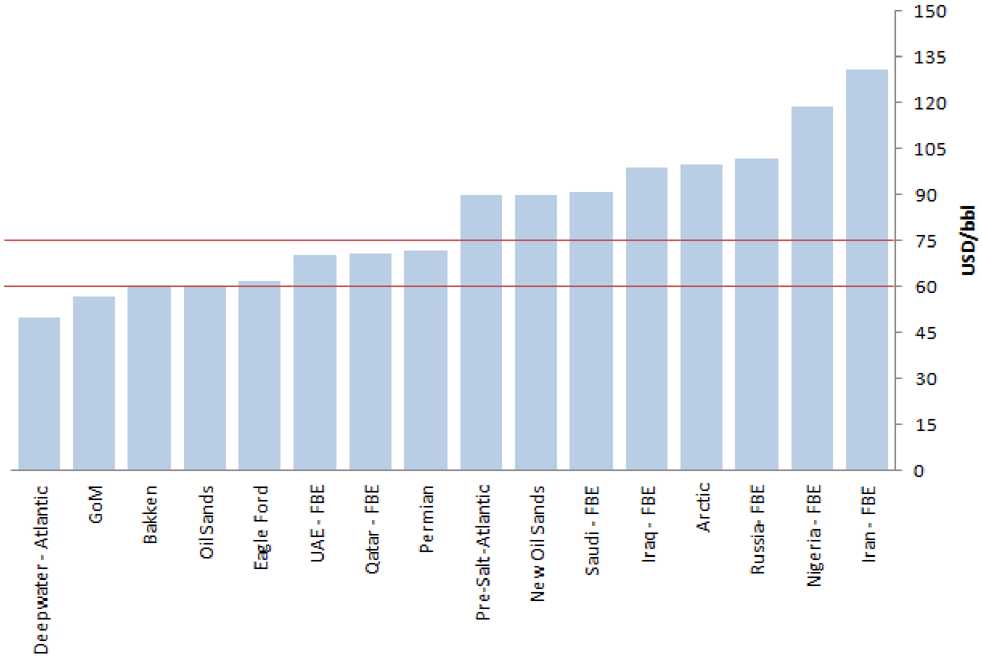
2014-2018 = BMI Forecasts

Implications: Fiscal And Commercial Viability

Oil price decline, US dollar strength and global economic uncertainty have encouraged us to identify the net oil exporting countries most vulnerable - economically, politically and commercially - to a prolonged period of lower oil prices.

- **Sub-Saharan Africa most vulnerable** to low oil prices.
- **OPEC ill placed for lower oil prices** judging by fiscal and projects breakeven oil prices.
- **Venezuela at risk of default**.
- **Political stability in Iraq and Iran** is on the line.

A Lot At Stake For OPEC

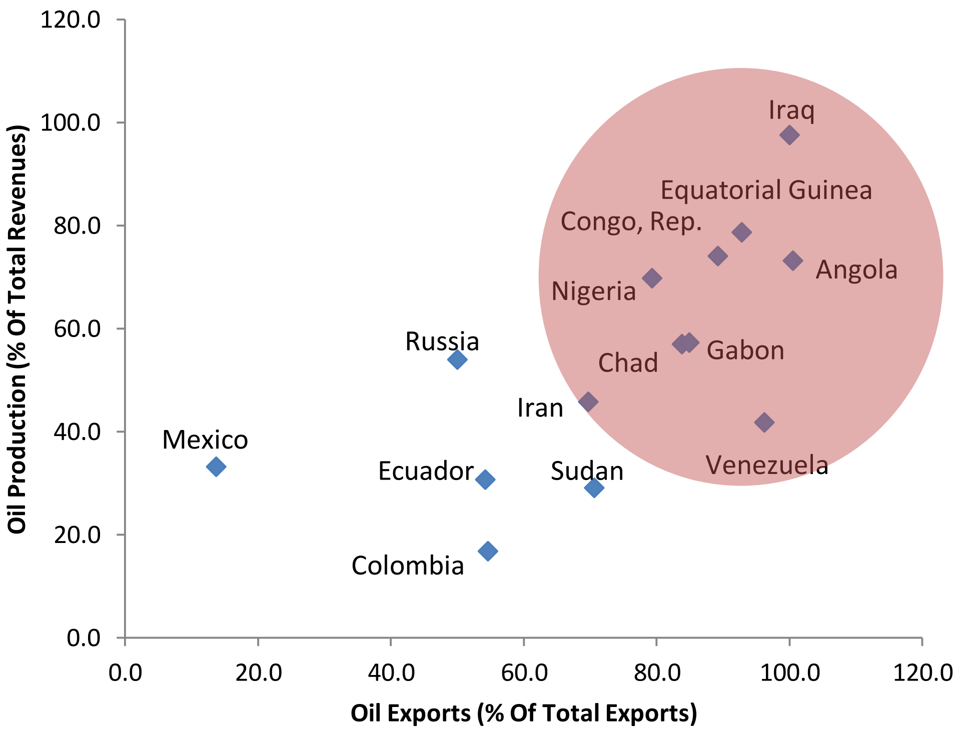


Deepwater Atlantic=Campos+Santos Basin, Gulf of Guinea. GoM=Gulf of Mexico. FBE=Fiscal Breakeven. Project and fiscal breakeven prices estimated from combination of market sources and BMI estimates. Source: BMI Research

Picking The Most Vulnerable Net Exporters

Net exporters with a high reliance on oil production for fiscal revenue, as well as foreign currency earnings, are most vulnerable to a prolonged period of low oil prices.

Highly Reliant On Oil Proceeds



Based on latest available data.

Identifying The Structural Weak Spots

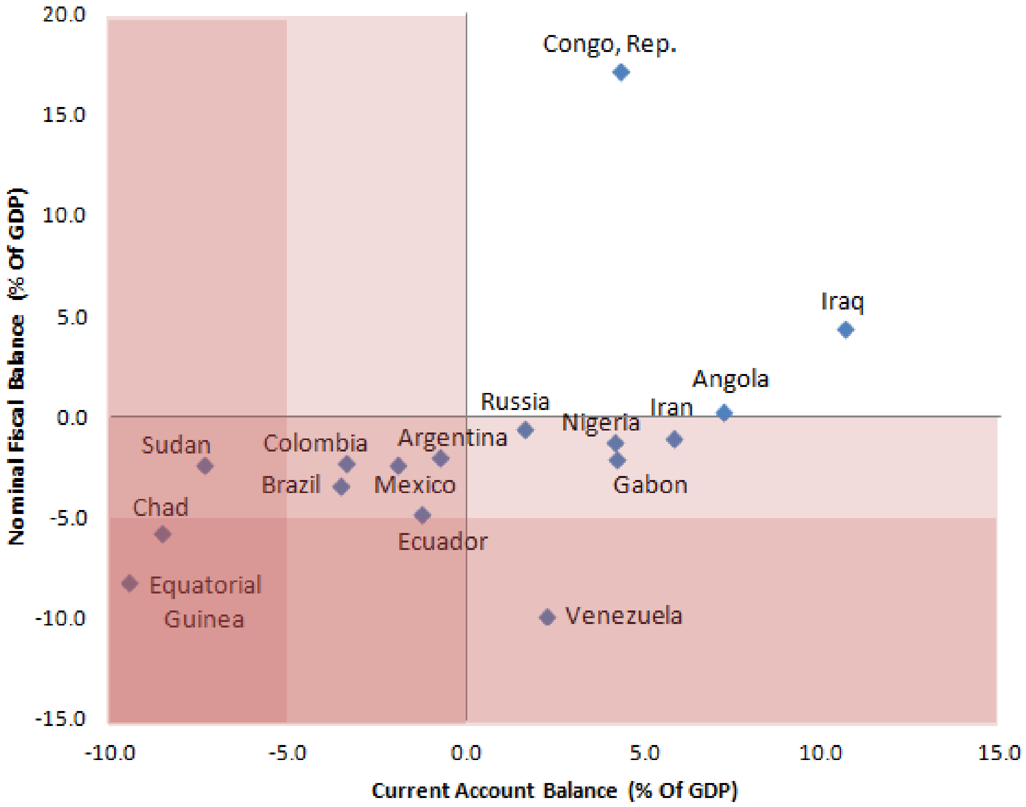
Such vulnerabilities become even more acute in cases where structural weaknesses are prevalent.

- Twin deficit countries are in the severe risk category.

- The political environment and access to foreign capital also play a key role in determining the degree of risk.

- Although a large fiscal surplus may offer a buffer, high dependence on oil proceeds and large social spending commitments mean that such buffers can rapidly be eroded.

Existing Imbalances Will Be Exacerbated



Ranking The Risk To Stability

Equatorial Guinea	Severe Risk
Chad	
Venezuela	
Angola	
Iran	
Iraq	High Risk
Nigeria	
Gabon	
Sudan	
Congon, Rep.	
Ecuador	Moderate Risk
Russia	
Colombia	
Mexico	

Countries Facing Moderate Crisis Risks

Mexico: Fiscally Exposed, Reforms At Risk

Lower oil prices could temper investor interest in the liberalised energy sector.

- **Declining oil revenue would undermine fiscal stability** even with the formation of an oil stabilisation fund.
- **Oil production outlook** could prove overly optimistic.
- **Manufacturing output growth** should offset the impact of lower oil prices on the current account balance.

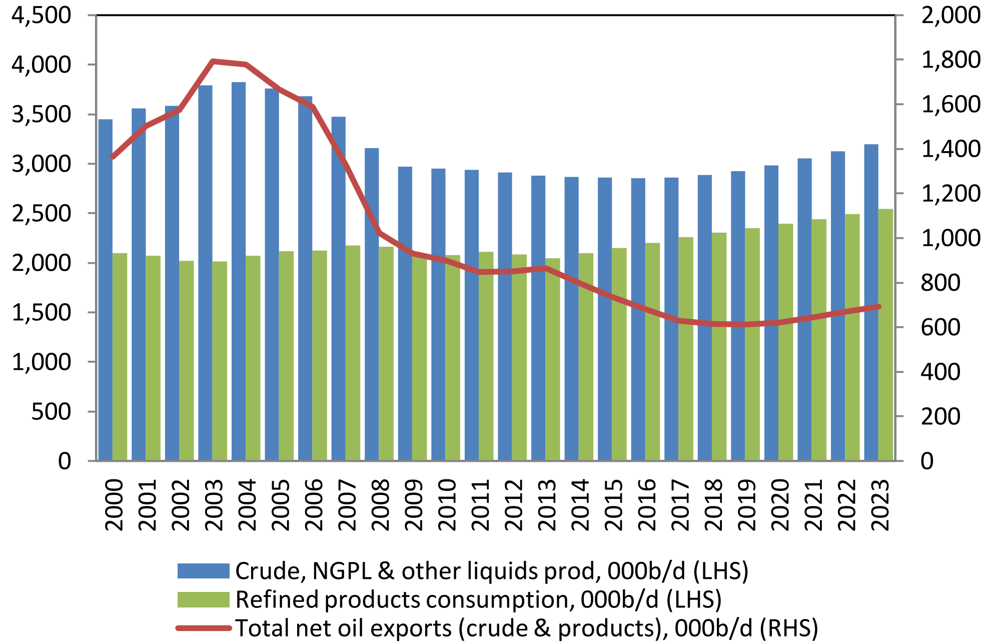


Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	1.1	2.6	3.7	3.7	4.0	4.2
Current account balance, % of GDP	-2.0	-1.6	-1.1	-0.7	-0.6	-0.6
Budget balance, % of GDP	-2.3	-3.4	-3.1	-2.5	-2.1	-1.6
Crude, NGPL & other liquids prod, 000b/d	2,882.5	2,866.5	2,857.0	2,854.0	2,857.3	2,885.9
Total net oil exports (crude & products), 000b/d	863.6	797.5	736.7	681.1	630.5	615.2

2013=BMI estimate. 2014-2018=BMI forecast.

Colombia: An Uncertain Economic Outlook

Lower oil prices will exacerbate an already difficult security environment and uncertain below-ground picture for future investment in the energy sector.

- **Economic growth would slow down** from lower fixed investment and exports.
- **A painful economic rebalancing** away from a high reliance on the oil sector would take several years.
- **Public finances would take a hit** from lower oil revenues, undoing recent fiscal consolidation efforts.

Security Issues Already Threatening Oil Revenues

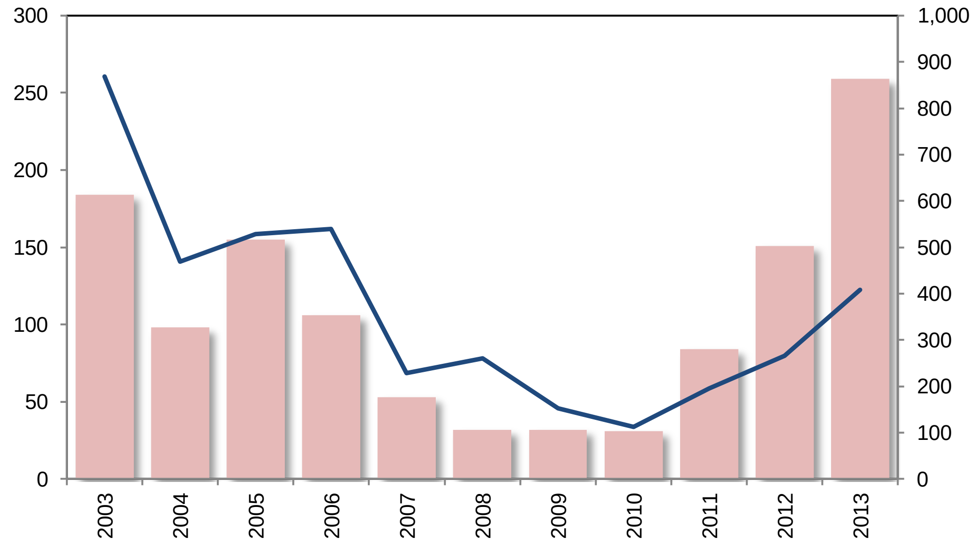


Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	4.7	5.1	4.9	4.5	4.6	4.6
Current account balance, % of GDP	-3.4	-3.0	-3.1	-3.2	-2.9	-2.9
Budget balance, % of GDP	-2.2	-2.6	-2.3	-2.2	-2.1	-2.0
Crude, NGPL & other liquids prod, 000b/d	1,022.0	1,004.5	1,029.7	1,055.5	1,082.0	1,103.9
Total net oil exports (crude & products), 000b/d	722.5	700.1	720.3	741.0	762.2	777.7

2013=BMI estimate. 2014-2018=BMI forecast.

Russia: FX Sell-Off Will Offset Fiscal Impact

Falling oil prices are a major risk to the Russian economy, with growth stagnating and capital outflows potentially picking up.

- **Oil revenues are key** to sustain its current account surplus and prevent fiscal slippage.

- **Fiscal breakevens of above USD100/bbl** for oil suggest deteriorating public finances. However, FX weakness will provide a silver lining, effectively moving the breakeven oil price lower.

Fiscal Breakeven Shifts With RUB Weakness

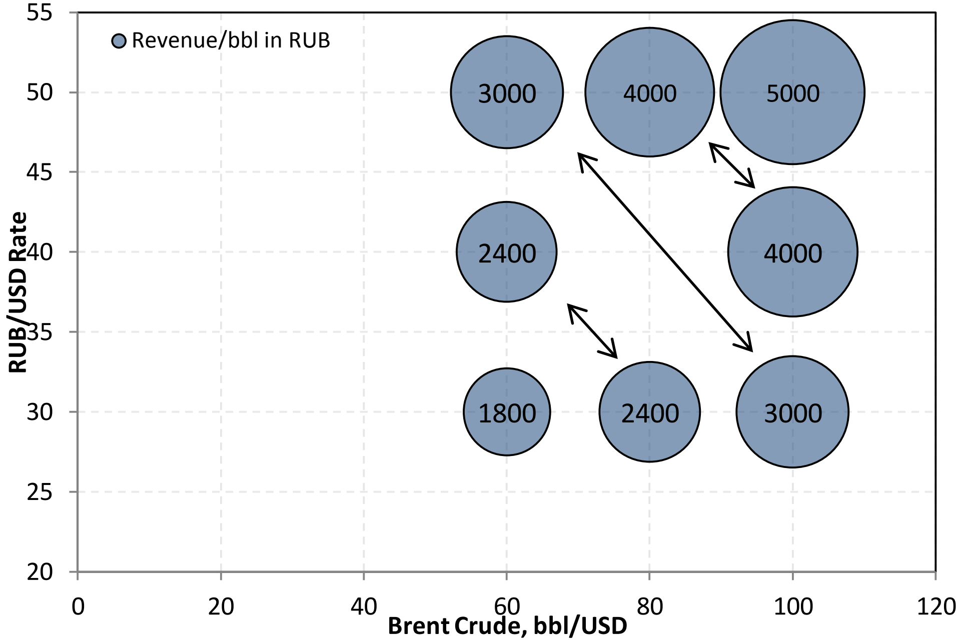


Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	1.3	0.5	1.2	2.6	2.8	2.8
Current account balance, % of GDP	1.6	2.0	1.7	0.7	-0.5	-1.5
Budget balance, % of GDP	-0.5	-0.5	-0.5	-0.4	-0.4	-0.5
Crude, NGPL & other liquids prod, 000b/d	10,602.5	10,536.0	10,458.6	10,420.4	10,372.0	10,304.0
Total net oil exports (crude & products), 000b/d	7,369.2	7,298.9	7,192.9	7,074.8	6,935.9	6,773.4

2013=BMI estimate. 2014-2018=BMI forecast.

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Ecuador: Return To Capital Markets At Risk

Ecuador's economy is highly reliant on oil exports for hard currency generation and fiscal stability.

- **Ecuador's return to capital markets** could be complicated by declining oil revenues and rising borrowing costs.
- **These dynamics will exacerbate an already-challenging fiscal picture** for Ecuador.
- **A sharper decline in oil exports** could shift the current account deeper into the red, increasing pressure to secure foreign funding.

Need For Financing On The Rise

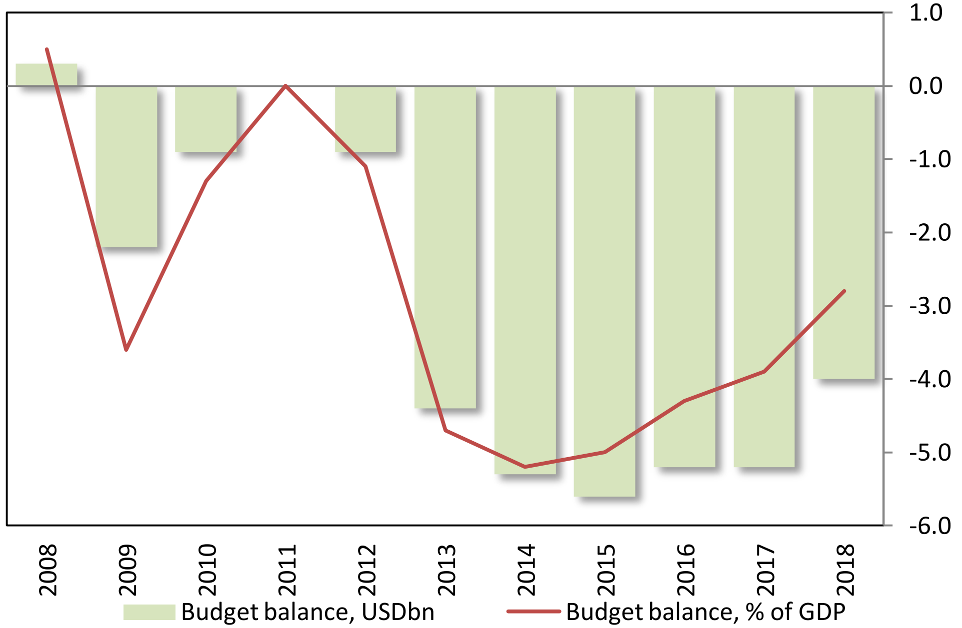

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	4.6	4.3	4.0	4.0	4.4	3.0
Current account balance, % of GDP	-1.3	-1.0	-0.9	-1.0	-0.5	0.2
Budget balance, % of GDP	-4.7	-5.2	-5.0	-4.2	-3.9	-2.8
Crude, NGPL & other liquids prod, 000b/d	524.8	525.9	531.2	533.9	536.7	539.6
Total net oil exports (crude & products), 000b/d	307.7	300.2	297.0	291.1	284.8	279.5

2013=BMI estimate. 2014-2018=BMI forecast.

Countries Facing High Crisis Risks

Congo-Brazzaville: Diversification Plans At Risk

Fiscal stability is highly contingent on oil revenues.

- **High reliance on oil for revenue** could see a more rapid erosion of the budget surplus.
- **Long-term investment into iron ore mining** could be jeopardised if fiscal buffers disappear.
- **Rising oil production would be offset** by lower proceeds, leaving the economy increasingly unstable.

Strong Oil Production Outlook

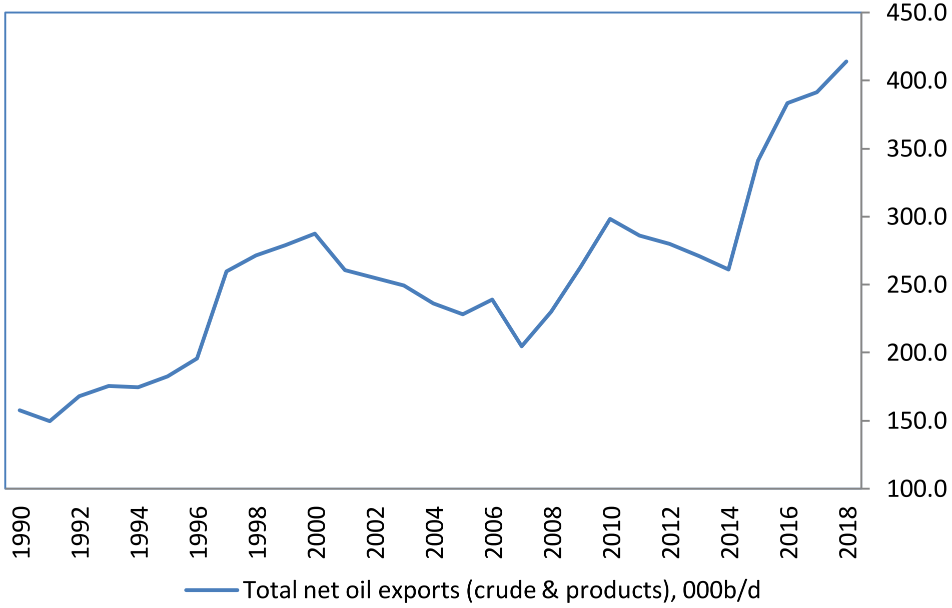

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	3.1	6.2	6.8	8.1	9.1	6.1
Current account balance, % of GDP	4.3	3.0	8.5	7.0	7.5	4.2
Budget balance, % of GDP	17.2	12.1	3.1	1.5	2.6	2.7
Crude, NGPL & other liquids prod, 000b/d	283.6	274.8	355.8	398.9	408.3	431.7
Total net oil exports (crude & products), 000b/d	270.8	261.1	341.2	383.3	391.6	413.8

2013=BMI estimate. 2014-2018=BMI forecast.

Sudan: Balance Of Payments Crisis?

Sudan is highly vulnerable to economic and political instability amid painful reforms.

- **External accounts are most at risk of lower oil prices** with less than 2 months import cover.

- **Heightened risk of debt distress** due to high non-concessional borrowing by regional standards.

- **Reduced budget revenues** could lead to heightened public unrest.

Renewed Devaluation Pressure Mounting

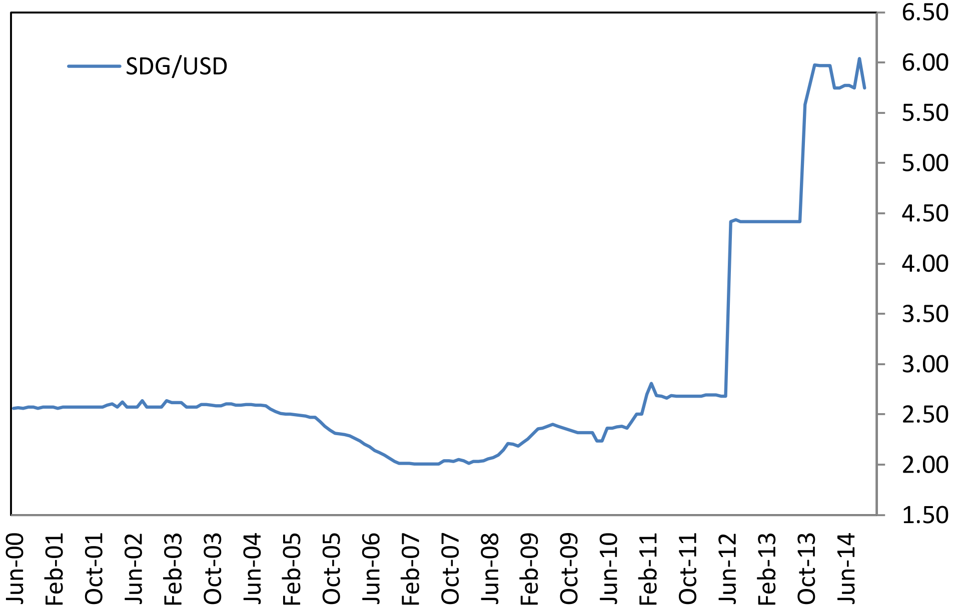

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	2.9	2.6	3.9	4.6	4.6	4.5
Current account balance, % of GDP	-7.4	-7.3	-6.6	-6.5	-6.4	-6.3
Budget balance, % of GDP	-2.3	-2.5	-3.1	-3.5	-3.7	-4.0
Crude, NGPL & other liquids prod, 000b/d	250.4	240.4	336.5	386.9	417.9	408.7
Total net oil exports (crude & products), 000b/d	152.5	143.6	238.2	286.8	313.1	299.1

2013=BMI estimate. 2014-2018=BMI forecast.

Gabon: Exacerbating Structural Deficits

Lower oil prices will stress Gabon's deteriorating fiscal situation, while an ambitious government investment programme may need to be delayed.

- **Fiscal balance already under strain** from high investment spending.
- **External account deteriorating** as we already forecast a current account deficit under a baseline scenario.
- **Oil output decline** would occur more rapidly than we currently forecast exacerbating structural weaknesses.

Declining Production Paints A Bleak Outlook

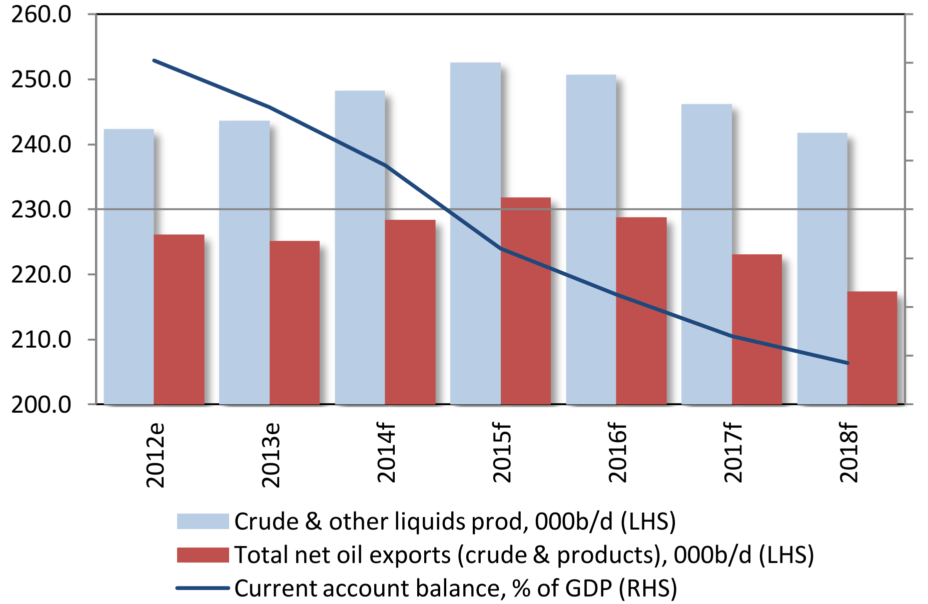

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	5.5	5.1	5.5	5.6	5.4	5.2
Current account balance, % of GDP	4.2	1.8	-1.6	-3.5	-5.2	-6.3
Budget balance, % of GDP	-2.0	-3.8	-5.4	-5.3	-5.3	-5.6
Crude, NGPL & other liquids prod, 000b/d	243.6	248.2	252.6	250.7	246.2	241.8
Total net oil exports (crude & products), 000b/d	225.1	228.4	231.8	228.8	223.1	217.4

2013=BMI estimate. 2014-2018=BMI forecast.

Nigeria: Fiscal And FX Targets At Risk

A sharper drop in oil prices means that the cost of defending the naira will take its toll on Nigeria's reserve position and external account stability.

- **Upcoming elections make a devaluation unlikely** given the inflationary impact.
- **Cost of defending naira on the rise** with reserves (USD37.7bn on November 11) starting to decline.
- **Rapid budget deficit widening** likely if oil prices keep dropping.

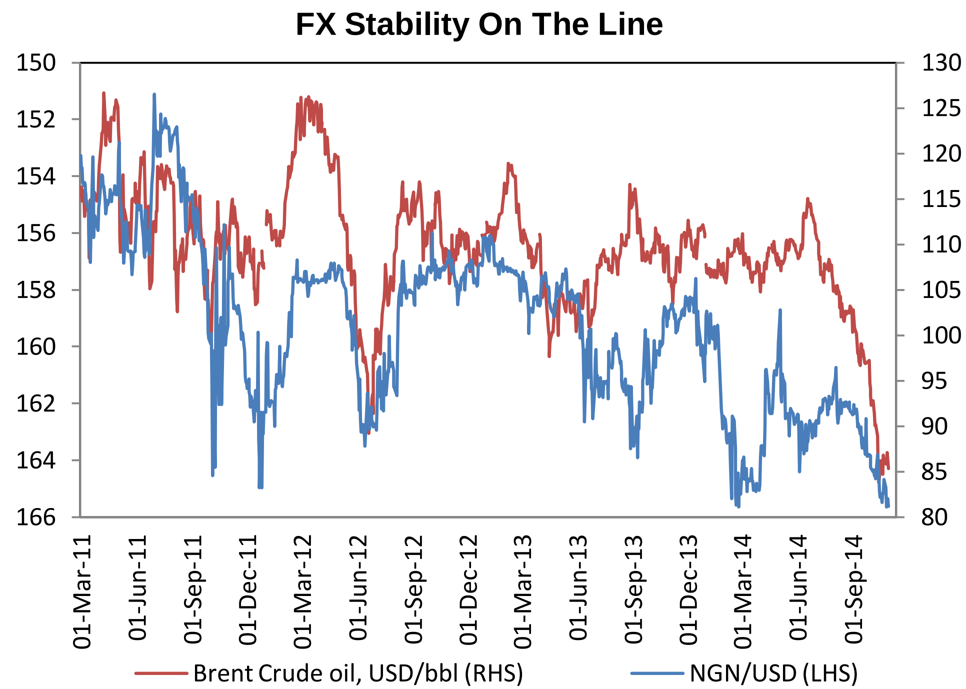

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	5.5	6.2	6.5	6.9	6.9	7.0
Current account balance, % of GDP	4.1	4.1	3.5	2.4	2.2	1.3
Budget balance, % of GDP	-1.2	-2.2	-1.5	-1.8	-2.0	-2.3
Crude, NGPL & other liquids prod, 000b/d	2,369.0	2,388.0	2,413.2	2,449.4	2,510.6	2,598.5
Total net oil exports (crude & products), 000b/d	2,071.1	2,083.8	2,102.9	2,132.9	2,189.6	2,270.7

2013=BMI estimate. 2014-2018=BMI forecast.

Iraq: High Exposure To Test Financial Stability

Iraq is the country most dependent on oil for its financial stability in the MENA region.

- **Erosion of current account surplus** could occur far more rapidly.
- **Budget could fall into deficit** in the near term.
- **Popular discontent and social unrest** could flare up should Iraq be forced to cut food subsidies. Financial external support would become fundamental.

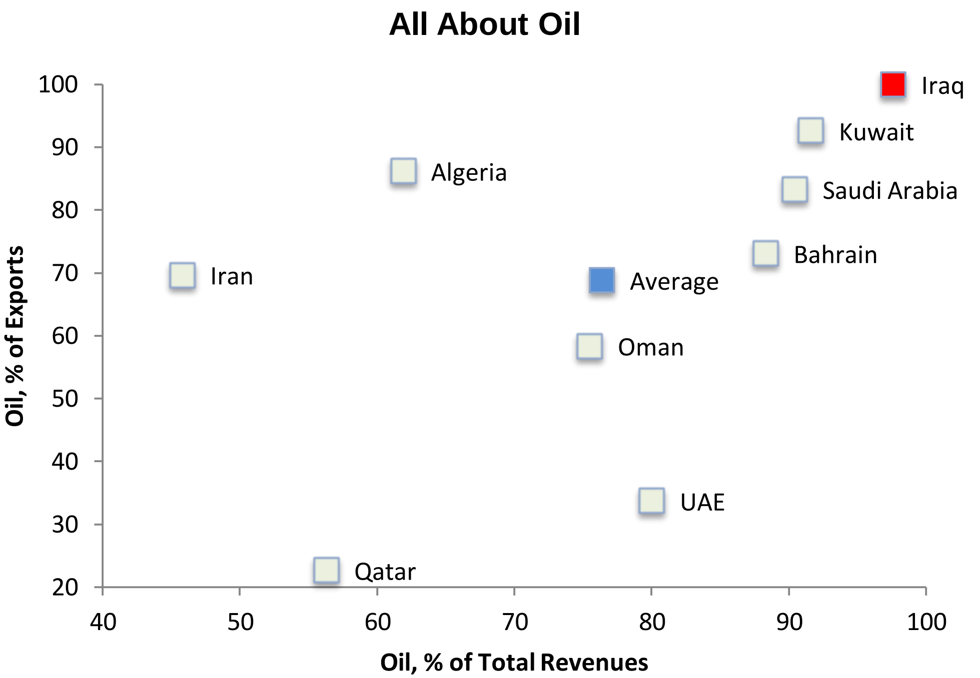

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	5.9	6.9	7.0	6.2	4.0	3.2
Current account balance, % of GDP	10.6	10.7	6.5	3.8	1.5	-0.2
Budget balance, % of GDP	4.5	3.3	0.7	0.1	0.0	-0.1
Crude, NGPL & other liquids prod, 000b/d	3,039.5	3,403.0	3,817.3	3,981.5	4,123.8	4,165.3
Total net oil exports (crude & products), 000b/d	2,344.5	2,701.3	3,094.7	3,234.6	3,351.8	3,367.2

2013=BMI estimate. 2014-2018=BMI forecast.

Countries Facing Severe Crisis Risks

Iran: Political Stability On The Line

Fiscal deterioration and falling current account surplus would erode support for a moderate government.

- **Elevated risk of another recession** in the event of lower oil prices.
- **Government may be forced to abandon subsidies and accelerate currency devaluation**, causing higher inflation.
- **Political stability would be in doubt** and nuclear negotiations would likely suffer a setback.

External Surplus To Shield From Falling Oil Prices

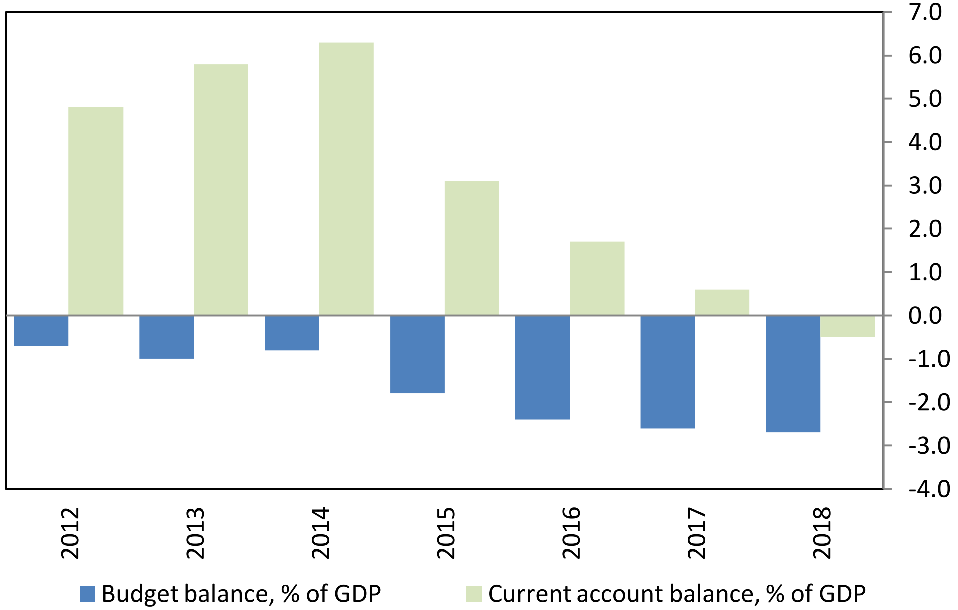

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	-2.9	2.8	2.9	3.1	3.4	3.5
Current account balance, % of GDP	5.8	6.7	4.9	3.7	2.1	0.6
Budget balance, % of GDP	-1.0	-0.8	-1.2	-1.7	-1.9	-2.0
Crude, NGPL & other liquids prod, 000b/d	3,307.7	3,436.5	3,446.6	3,460.0	3,473.6	3,487.3
Total net oil exports (crude & products), 000b/d	1,512.7	1,605.7	1,606.6	1,601.7	1,554.1	1,510.4

2013=BMI estimate. 2014-2018=BMI forecast.

Angola: Major Fiscal Deterioration Ahead

Oil accounts for over 95% of total exports, with declining output already informing our expectations for a shrinking current account surplus.

- **Shift into fiscal shortfalls** could occur more rapidly.
- **External position will deteriorate sharply** in the event of a prolonged period of lower oil prices.
- **Investment in offshore exploration could be jeopardised** amid high breakeven costs.

Oil Sector In Decline

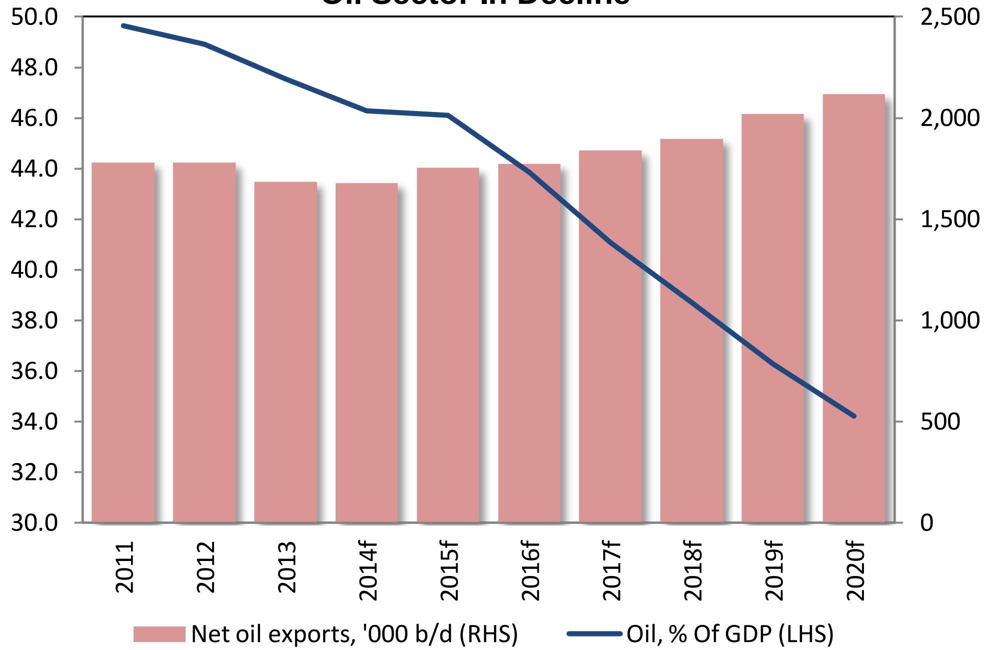

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	5.9	4.4	5.5	5.2	5.1	5.2
Current account balance, % of GDP	7.2	7.9	6.2	4.3	2.3	0.7
Budget balance, % of GDP	0.3	-5.3	-5.5	-6.1	-5.9	-6.0
Crude, NGPL & other liquids prod, 000b/d	1,781.2	1,782.8	1,862.2	1,889.2	1,964.2	2,032.6
Total net oil exports (crude & products), 000b/d	1,683.2	1,679.1	1,752.2	1,772.2	1,837.7	1,897.0

2013=BMI estimate. 2014-2018=BMI forecast.

Venezuela: Approaching Breaking Point

Oil lies at the centre of Venezuela's economy, accounting for 95% of all exports and over half of government revenues.

- **Precarious public finances are fast becoming unsustainable** with borrowing costs soaring.
- **Inability to maintain high social spending** would exacerbate political instability.
- **Lack of hard currency** already restricts vital goods imports, exacerbating social tensions.

Pricing In A High Risk Of Default

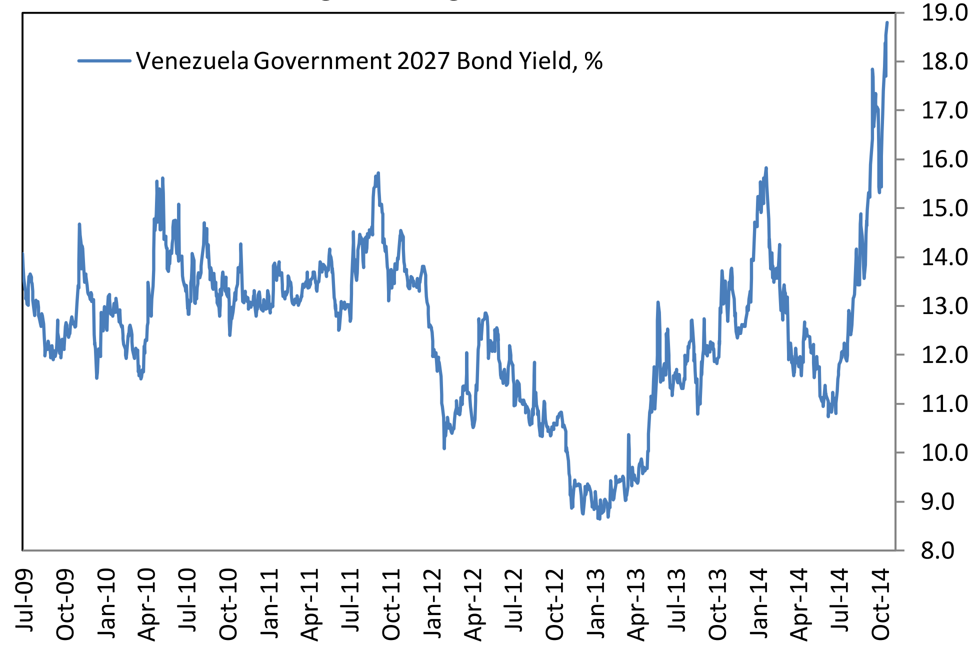

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	1.3	-2.0	0.8	1.9	2.3	2.7
Current account balance, % of GDP	2.2	1.5	3.3	2.7	1.6	1.3
Budget balance, % of GDP	-9.3	-12.6	-10.3	-8.2	-9.4	-10.5
Crude, NGPL & other liquids prod, 000b/d	2,475.0	2,496.4	2,536.5	2,589.1	2,654.8	2,734.4
Total net oil exports (crude & products), 000b/d	1,705.2	1,705.1	1,723.1	1,752.9	1,795.2	1,850.8

2013=BMI estimate. 2014-2018=BMI forecast.

Chad: Twin Deficits Could Test Political Stability

Oil output is entering a structural decline, with a lack of economic diversification exacerbating political instability.

- **High risk of regime change** in the event of a fiscal crisis.
- **Heavy reliance on oil revenues** raise risks of more severe fiscal adjustment.
- **External stability would be undermined** if oil exports decline, but currency peg offers some stability for now.

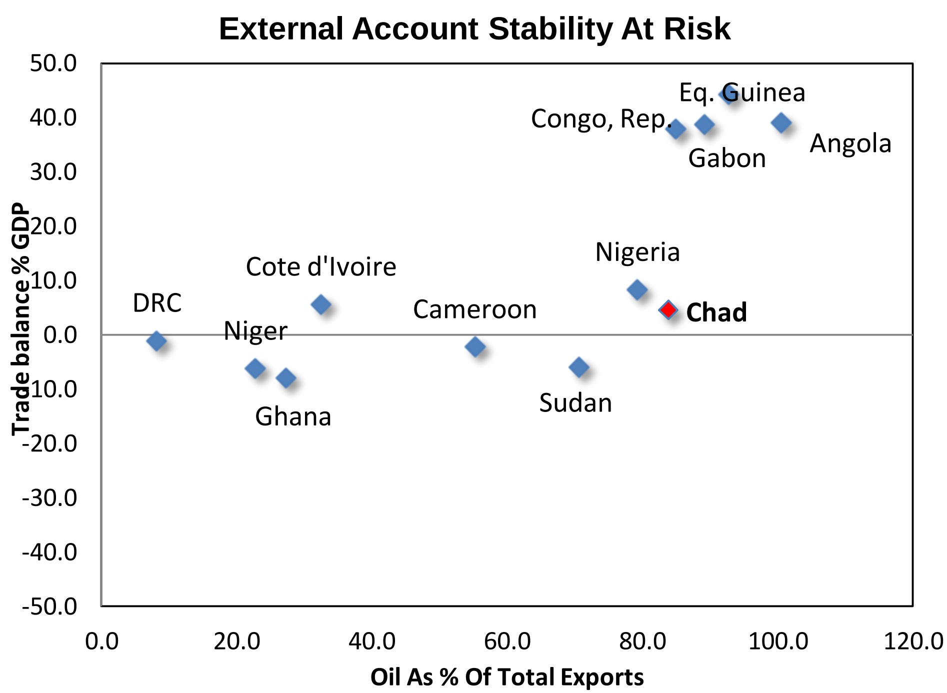

Table: Key Macroeconomic Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	3.6	9.9	6.7	4.9	4.0	2.9
Current account balance, % of GDP	-8.6	-1.8	-1.9	-4.0	-7.1	-10.4
Budget balance, % of GDP	-5.7	-1.3	0.3	-0.6	-1.1	-2.4

2013=BMI estimate. 2014-2018=BMI forecast.

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Equatorial Guinea: Most Exposed, On The Brink

Oil production is declining and the state has few other industries it can rely on for growth.

- **Fiscal deficit will balloon** if oil revenues drop and government spending continues.
- **External position will grow more precarious** as current account deficit widens.
- **Unconstitutional transition of power** a distinct risk if spending programmes are cancelled.

Share Of Net Exporters' Budget Derived From Oil, %

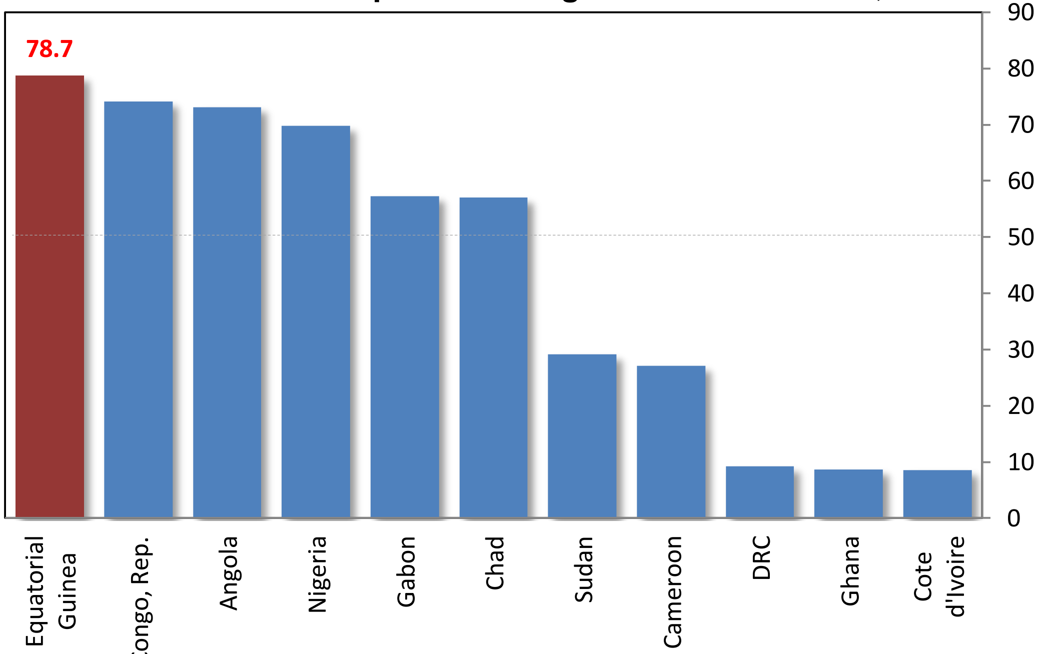

Table: Key Macroeconomic & Oil and Gas Forecasts

	2013	2014	2015	2016	2017	2018
Real GDP growth, % y-o-y	-1.5	-1.6	-3.8	-1.4	-1.0	-1.8
Current account balance, % of GDP	-9.5	-12.5	-19.0	-22.9	-25.0	-25.7
Budget balance, % of GDP	-8.1	-8.7	-6.9	-4.9	-5.8	-6.5
Crude, NGPL & other liquids prod, 000b/d	346.1	363.5	375.5	369.1	366.4	363.8
Total net oil exports (crude & products), 000b/d	343.2	360.5	372.5	366.2	363.5	360.9

2013=BMI estimate. 2014-2018=BMI forecast.

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