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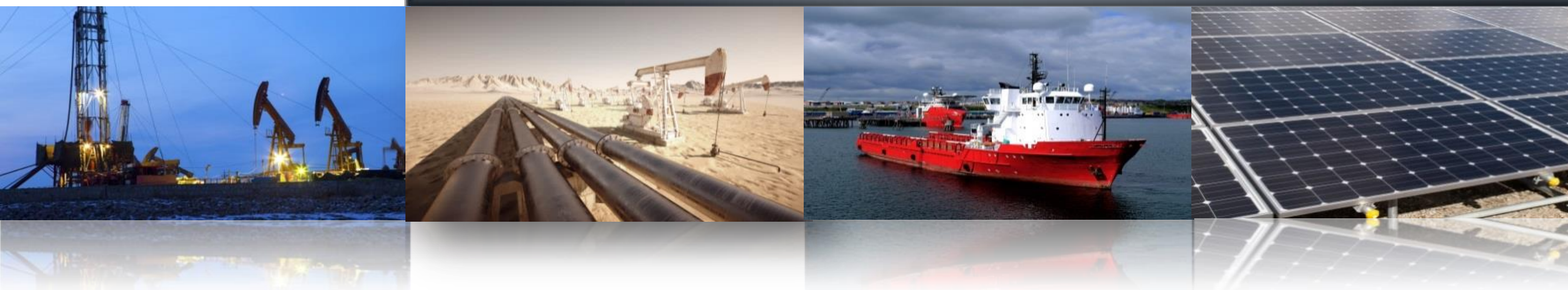

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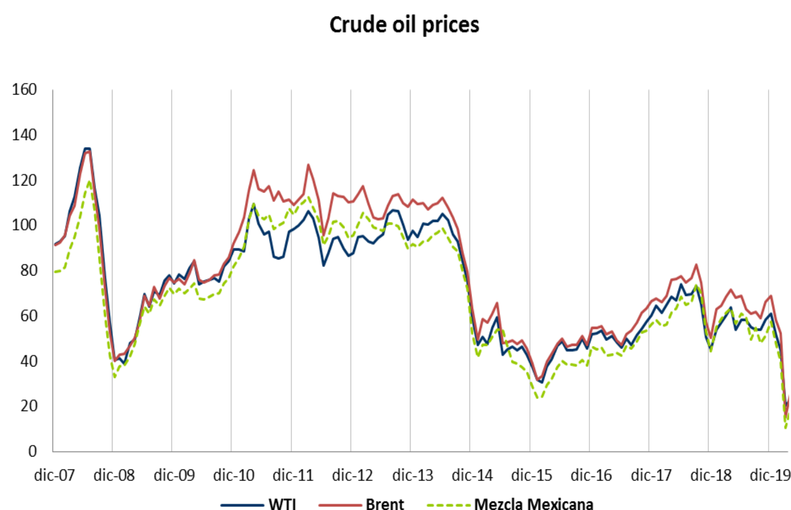

Crude oil Price* US/BD	WTI BRENT MME	16.94 21.44 8.53
NG price* US/MMBTU	Henry Hub	1.88
Mx crude production MMbd		1.746 *(Mar-20)*
Mx NG production MMpcd		4,924 *(Mar-20)*
US crude production MMbd		11.856 *(Jan-20)*

FX Rate**	24.84

** 27/04/2020 **27/04/2020*
Source: EIA. El Reforma, Pemex, Banxico, and CNH

Oil & Gas

Mexico's Pemex declares force majeure on fuel imports from trading arm: sources – *Reuters*

Pemex has declared force majeure over fuel imports from its trading arm PMI Comercio Internacional, as demand craters due to fallout from the coronavirus pandemic. Many gasoline and diesel importers around the world have declared force majeure to avoid penalties related to the suspension of supply contracts or scheduled spot purchases. Some refiners have followed with similar measures on crude imports due to lack of storage space caused by a global supply glut. PMI has yet to declare force majeure on fuel bought from its own suppliers, but would be likely to do so soon, which would potentially affect U.S. refiners that are Mexico's largest fuel providers.
The trading arm was still evaluating how to implement the declaration. A declaration of force majeure is a legal defense that refers to unexpected external circumstances that prevent a party to a contract from meeting its obligations. The contract provision can allow a party to avoid liability for nonperformance.

CNH approves Shell´s modified exploration plan – *CNH*

CNH approved Shell's request to speed up its costly and challenging deepwater drilling campaign despite record low oil prices. Shell got the green light for a study some 120km off the coast of Tamaulipas state and for drilling an additional exploratory well this year, which was originally planned for 2022. But the core of Shell's plans, approved in the regulator's June 2019-January 2020 sessions, remains unchanged so the modification could turn out relatively tame.

The outlay for the studies in the oil-rich Cinturón Plegado Perdido deepwater region could amount to an additional USD $12.6 million this year, according to Shell's base estimates and costs could raise by nearly USD $165 million if the company moves the entire drilling plan forward. Shell is including in the modified plan, a new prospect with a prospective resource of 281 million barrels of equivalent crude oil with a probability of geological success of 21%.

CNH approved to Repsol the drilling of a deepwater well off Veracruz – *CNH*

CNH approved Repsol México to drill the Júum-1EXP deepwater exploratory well. The deep water well will be drilled in block G01/2018, which is located off the coasts of the State of Veracruz with a water depth of 1,775 meters.

At the Júum-1EXP well, Repsol expects to find prospective resources of 221 million barrels of crude oil equivalent with a probability of geological success of 17.5%. The total cost of drilling is USD $76.3 million, of which USD $72.1 million will be used for drilling and USD $4.2 million for abandonment activities. Drilling will take 72 days, beginning June 30 and concluding September 10, 2020.

Moody's downgrades Pemex's ratings to Ba2; negative outlook – *Moody's*

Moody's downgraded Pemex senior unsecured ratings on the company's existing notes, as well as the ratings based on Pemex's guarantee, to Ba2 from Baa3. Simultaneously, Moody's withdrew Pemex's Baa3 issuer rating and assigned a Ba2 corporate family rating to the company. Moody's also lowered Pemex's Baseline Credit Assessment, which reflects its standalone credit strength, to caa2 from caa1. These rating actions were triggered by the company's higher liquidity and business risk and by Moody's announcement on April 17, 2020 that it had downgraded its ratings on the Government of Mexico's to Baa1 from A3 and maintained the negative outlook on the government's ratings. The outlook on Pemex's ratings remains negative.

Pemex's Ba2 corporate family rating and aa2 BCA reflect the company's high vulnerability to low commodities prices given its fragile liquidity position and excessive debt burden. Between mid-2019 and early 2020, management was able to stabilize oil production and refinance debt.

Moody's believes that Pemex's need for external funding to cover negative free cash flow will increase as a consequence of the company's limited ability to improve its business results due to the mature stage of oil fields; shortage of capital to sufficiently invest in exploration and production, with negative consequences in production and reserve replacement; and the mandate to expand the refining business, which Moody's expects will continue to post operating losses and be vulnerable to the oil and gas industry medium-term demands trends. Pemex's management believes that the company was able to replace proved reserves at a rate of 120% in 2019; however, it is unlikely that the company will be able to replace reserves at a rate equal or close to 100% in 2020-2021 given weak cash generation and limited access to capital.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines, are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The oil and gas sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment.

Pemex's Ba2 ratings take into consideration Moody's joint default analysis, which includes the rating agency's assumptions of very high government support in case of need and very high default correlation between Pemex and the Government of Mexico, resulting in six notches of uplift from the company's caa2 BCA. Since 2016, the government has supported Pemex in various ways, including capital injections, tax reductions and early redemption of notes receivable from the

government. The government has most recently announced a reduction in Pemex's taxes by USD $2.6 billion in 2020 and Moody's base assumption is that the Mexican government will provide support to help fund Pemex's negative free cash flow. The company will have to increase debt in 2020 in order to invest to meet the governments and Pemex's revised objective of maintaining production stable from 2019 levels.

Pemex has weak liquidity and is highly dependent on government support. at December 31, 2019, Pemex had USD $3.2 billion of cash and currently has USD $8.9 billion in unused committed revolving credit facilities to address over $8 billion in debt maturities in 2020-21 besides negative free cash flow of over USD $9 billion in the period, as estimated by Moody's.

Mexico to cut oil output by 100,000 bpd from May: officials – *Reuters*

Mexico will reduce its oil output by 100,000 barrels per day from May after top oil producers collectively agreed to cut production by 9.7 million barrels per day at OPEC+ talks, Mexican officials said. Mexican Energy Minister Rocio Nahle said the agreement to cut output by 9.7 million bpd had been reached unanimously in the OPEC+ group of countries, but she did not mention what Mexico's share in the reduction would be. Mexico had previously pledged to cut output by 100,000 bpd, and two officials confirmed it was sticking to that target.

The OPEC+ group had asked Mexico to decrease production by 400,000 bpd but AMLO's unwillingness to meet that demand held up oil producers' approval of the historic cuts. On Sunday, the Azeri energy ministry said the United States will compensate for Mexico by cutting output by another 300,000 bpd. That was 50,000 bpd more than AMLO and President Donald Trump had previously agreed on. One of the two Mexican officials confirmed the Azeri ministry's announcement that the United States would take responsibility for 300,000 bpd in cuts for Mexico.

Fitch downgrades Pemex's IDRs to 'BB'; outlook negative – *Fitch*

Fitch Ratings has downgraded Pemex Long-Term Foreign and Local Currency Issuer Default Ratings to 'BB' from 'BB+', National Long-Term ratings to 'A(mex)' from 'AA(mex)'. The Rating Outlook for all ratings is Negative. The downgrade applies to approximately USD $80 billion of notes outstanding. Fitch has also downgraded Pemex's National Short-Term ratings to 'F1(mex)' from 'F1+(mex)'. Today's downgrades reflect the continued deterioration of the company's standalone credit profile (SCP) to 'ccc-' amid the downturn in the global oil and gas industry, Fitch's lower oil price assumptions and the weakening credit linkage between Mexico and Pemex. Pemex's SCP deterioration reflects the company's limited flexibility to navigate the downturn in the oil and gas industry given its elevated tax burden, high leverage, rising per barrel lifting costs and high investment needs to maintain production and replenish reserves. Fitch estimates Pemex's FCF will range from negative USD $15 billion to negative USD $20 billion per year. At the current Mexico's crude basket price of below USD $20/bbl, Pemex's upstream business does not generate enough cash flow to cover operational and financial costs (half-cycle costs) of more than USD $25/bbl and the company will need extraordinary government support in the immediate future.

The downward revision of the strength of the linkage between Pemex's ratings and those of the sovereign reflects the delay and uncertainty of exceptional support from the government towards the company in light of the financial difficulties Pemex will face as a result of the decrease in oil prices. The negative outlook reflects Pemex's financial vulnerability to the current depressed oil price environment and the company's need for extraordinary and proactive government support.

Fitch will continue monitoring the company's actions to preserve liquidity and weather the downturn in oil prices as well as Mexico's response to support Pemex over the coming months. Additional rating actions are possible in the absence of proactive and extraordinary government support.

CNH approves Pokche plan for Pemex – *CNH*

CNH approved plans for two delimiter wells in a shallow-water assignment for Pemex.
Pemex will spend a combined USD $145 million on Pokche-1DEL and Pokche-2DEL in the southwest of assignment AE-0151-Uchukil. The Pokche area comprises about 58 km² of the Uchukil assignment. The objective is to reevaluate the volumetry, which has been found from the exploratory wells, and to generate a conceptual development plan. Depending on the findings and commercial viability of Pokche-1 and Pokche-2, Pemex will either drill one additional well in the area (Scenario A), or possibly two more wells (Scenario B).

Pokche-1 will cost USD $62.6 million and Pokche-2 will cost USD $82.9 million. In discussing the budgeted expenses, CNH technical advisor Jorge Perez said that Pokche-2 would be “the most complex” of the wells at the field, citing the pressure trials that would drive up drilling and production costs. Overall costs for the Pokche drilling campaign could range between USD $250 million and USD $324 million by the end of 2021. More than 98% of the development costs will be spent on drilling, thanks in part to existing infrastructure in the area.

Pemex certified the 3P reserves of the Pokche field in 2017 at 186.8Mboe (million barrels of oil equivalent). More specific details though appeared missing, especially on the third and possibly fourth wells.

Bottleneck of fuel tankers grows at Mexico's ports: data – *Reuters*

More than 20 vessels loaded with fuel have waited a week or more to discharge gasoline, jet fuel, diesel and liquefied petroleum gas at Mexico’s ports, according to Refinitiv Eikon data, as demand craters due to coronavirus-related lockdowns. Mexico imports most of its fuel and has very limited storage capacity. State oil company Pemex and about a dozen independent importers typically discharge at least two gasoline cargoes per day, mostly coming from the United States.

In January, the United States exported 1.17 million barrels per day of refined products to Mexico, in line with the 2019 average, according to the U.S. Energy Information Administration.
Pemex, which mostly imports on the spot market, has not declared force majeure over fuel purchases even though gasoline retail demand declined 60% and diesel demand fell 35% in the two first weeks of March, according to the country’s fuel retail association Onexpo. In total, 56 tankers loaded with fuel are waiting to enter Mexican ports, of which 21 have been in line for more than a week. The total volume contained in the 21 vessels would be at least 4.2 million barrels, enough for about three days of pre-lockdown demand in Mexico.

Mexico’s offshore oil investment set to plunge despite government pledges – *OilPrice*

Investment in Mexico’s offshore oil sector is set to plunge by 21% between 2020 and 2025 compared to previous expectations, as the price crash and the financial issues of state oil firm Pemex will stall some projects, despite the government pledge to turn around the declining Mexican oil production, IHS Markit said.

With oil prices crashing and international oil companies reassessing offshore oil spending and planned exploration projects, and with Pemex struggling with local supply chain contractors, capital expenditure for new offshore projects is expected down by a cumulative USD $4.6 billion in the 2020-2025 period, compared to previous estimates.

The reduction in offshore Capex in 2020 and 2021 will not be significant, because of Mexico's oil hedge and tax reductions. The lost investment will be mostly concentrated in the years after 2022. Demand for offshore equipment and services are set to drop by an average of 14% through 2025, according to the analysts.

Pemex's financial situation is precarious, and it is set to become even more difficult with the oil price crash, Fitch Ratings said earlier this month, downgrading the company deeper into junk territory. The company's stand-alone credit profile is deteriorating because of its "limited flexibility to navigate the downturn in the oil and gas industry given its elevated tax burden, high leverage, rising per barrel lifting costs and high investment needs to maintain production and replenish reserves," the rating agency said. "At the current Mexico's crude basket price of below USD $20/bbl, Pemex's upstream business does not generate enough cash flow to cover operational and financial costs (half-cycle costs) of more than USD $25/bbl and the company will need extraordinary government support in the immediate future".

Power/Renewable Energy

IEnova 1Q results - *IEnova*

Sempra Energy's Mexican subsidiary IEnova cited counterparty risk as an area of concern with the COVID-19 crisis, but company executives stress the firm is well positioned to carry out project plans and maintain liquidity throughout the pandemic.

IEnova, one of Mexico's largest private energy players, announced a USD $46 million profit in the first quarter of 2020, down from USD $101 million in 1Q19, where much of the loss was related to US$67 million in losses due to exchange rate effects as its contracts are executed in US dollars. The firm's adjusted EBITDA increased 10% to USD $251 million compared to USD $229 million in 1Q19, where the additional USD $22 million was mainly due to the start of operations of the South Texas-Tuxpan gas pipeline, higher operating income at Ventika and higher transportation rates, executives said on the 1Q20 results call. This was partially offset by deferred revenues from the Guaymas-El Oro gas pipeline, lower operating results at the Termoeléctrica de Mexicali power plant and the extraordinary adjustment of distribution rates at Ecogas Chihuahua in 2019.

IEnova waiting on Mexico export permit to sign off on Baja California LNG project – *NGI*

The Energía Costa Azul "ECA" liquefied natural gas export project in Mexico's Baja California is still set for a final investment decision this quarter pending the receipt of an export approval. While saying that the "core of the business model remains the same," IEnova CEO Tania Ortiz admitted that some projects and capital spending might be delayed this year, while permitting in Mexico, including the request for the LNG export permit, has slowed because of the pandemic.

The ECA project, the first of its kind in the country, will import U.S. gas as feedstock and includes a USD $400 million pipeline on the Mexico side of the border. Last year, ECA received U.S. Department of Energy authorizations to export U.S.-produced natural gas to Mexico and then re-export it globally. The proposed two-phase ECA liquefaction project, a joint venture between San Diego-based Sempra Energy subsidiaries IEnova and Sempra LNG, would be built adjacent to Sempra's existing ECA LNG receipt terminal near the city of Ensenada. The target market is East Asia.

An engineering, procurement, and construction agreement with TechnipFMC plc is in place and the company expects to give notice to proceed this quarter. "The only thing not in our control is the export permit," Executive Chairman Carlos Ruiz said.

In late 2018, ECA signed heads of agreement with Total SA, Mitsui & Co. Ltd. and Tokyo Gas Co. Ltd. to take capacity from Phase 1 of the proposed project. The three companies each potentially could purchase 0.8 million metric tons/year (mmty) from Phase 1. She added that she does not foresee problems in natural gas supply given upstream spending cuts and expected declines in U.S. gas production due to demand destruction caused by the pandemic. "Mexico is the natural market for U.S. gas. We are the most competitive market where U.S. gas can arrive." She added she thinks Mexico would be "one of the last markets to be impacted."

- Guaymas-El Oro

IEnova's 510 MMcf/d Guaymas-El Oro pipeline remains in force majeure as conflicts with Yaqui indigenous communities continue. Ortiz did not provide a timeline for the pipe's return to commercial operations, but said that with the local communities in isolation because of the coronavirus, weekly discussions with the government have been put on hold.

- Sierrita Completion

In related news, Kinder Morgan Inc.'s Sierrita Gas Pipeline LLC expansion project, which extends from the U.S. border near Sasabe, AZ into Mexico, was placed in service on April 12, adding yet more cross-border capacity to the gas system. The expansion increases the pipeline's capacity by approximately 323,000 Dth/d to 524,000 Dth/d, and consists of a new 15,900 horsepower compressor station in Pima County, Arizona. Kinder Morgan is a 35% owner and the operator of Sierrita Gas Pipeline.

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