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HOUSE VIEW

Prime Partners' take on the global economy and financial markets

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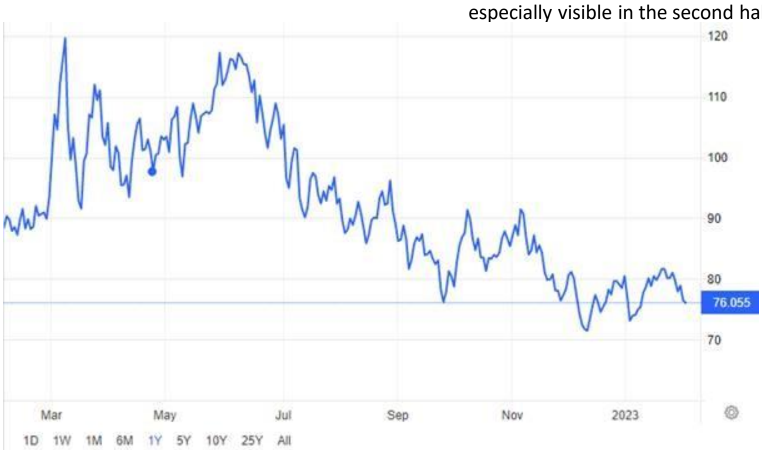
Oil & Gas: Markets & Impacts.

Since December, EU + G7 and Australia found an agreement not to buy Russian oil above USD 60 per barrel (crude oil at USD 76.2 today) in order to limit the export of Russian oil. In reaction, since the 1st of February, Russia does not permit to sell Russian oil to any countries which have established a price cap. It may reduce Russian production by around 0.5 mio to 1.4 mio barrel per day, depending on the sources. *In a period where the Chinese economy is reopening will this news impact the price of oil upwards ? The answer is no :*



The main explanation is coming from Russia itself. Robust Russian exports have limited the change of any significant upside move. Russia's December oil figures indicate output up to 10.92 mio barrel per day, which remains a high level. It seems that Russia tries to compensate for the important loss of gas export by maintaining high oil production. **Finally the evolution of the oil price since this summer is an excellent news for the EU economy (deflationary impact).**

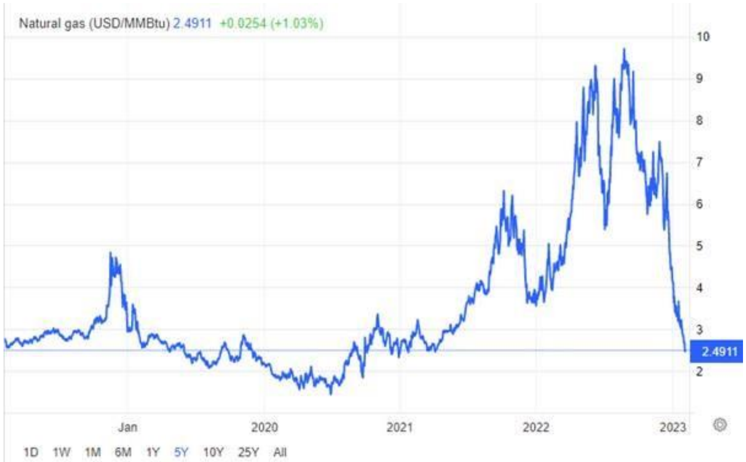
On the gas segment, the situation is even better. Natural gas and TTF Gas (EU) prices dropped significantly :

The bet of Poutine failed ! Mild weather in Europe, lower consumption, higher production in Norway & Algeria, imports of US GNL finally compensated for the loss of Russian gas since last Summer. As observed in the slide above, the Natural gas price is back to its average price of 2018-2021. With a drop of more than 80% of exports to the EU, which can not be compensated by exports to China as the only pipeline is already at full capacity (a new one must be installed, work starting in 2024, name "Siberian Strength 2"). It is a shortfall of several dozen of billions for the Russian 2023 budget !

It is confirmed by *Gazprom* figures *which communicated a drop of its gas deliveries outside the ex-Soviet Union area, from 185 bn m3 in 2021 to only 100.9 bn m3 in 2022*, especially visible in the second half of the year.

GNL capacities in Russia are limited with exports of only 21 bn of m3. *Deliveries may be even worse in 2023 with a much lower average price.*

Another challenge for the 2023 Russian budget will be Weapons exports. Russian benefited from a market share of 20%, *representing around USD 50 bn per year of revenue (3% of 2021 Russian*



equipment in Ukraine does not speak for great export successes and probably now that the Russian army cannot afford to export any military supply. Main customers : India, China, Algeria and Egypt. These 2 latest countries are already under important pressures from the US government to stop buying Russian military equipment and Egypt has already cancelled large orders.

The US economy is at an advantage with a price of natural gas back to low levels which is not so obvious in the EU even if the situation is far better than last Spring and even better than before the start of the year. A good news for the EU industry (including the Automotive sector) but also for EU private customers. **All things being equal, electricity prices may drop within a few quarters. Another good news for inflation and the purchasing power.**

On the equity level we can anticipate lower revenues and net profit from all companies involved in the production and selling of oil and gas. Volume should continue to be strong but average prices may be clearly lower than a year ago. But mainly anticipated by investors. High dividend and/or buyback programs are not risk.

The next main challenge regarding energy prices : 1) the pace of the Chinese recovery 2) the ability of European countries to fully fill gas tanks next Autumn!

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