



Industry Focus: OIL & GAS

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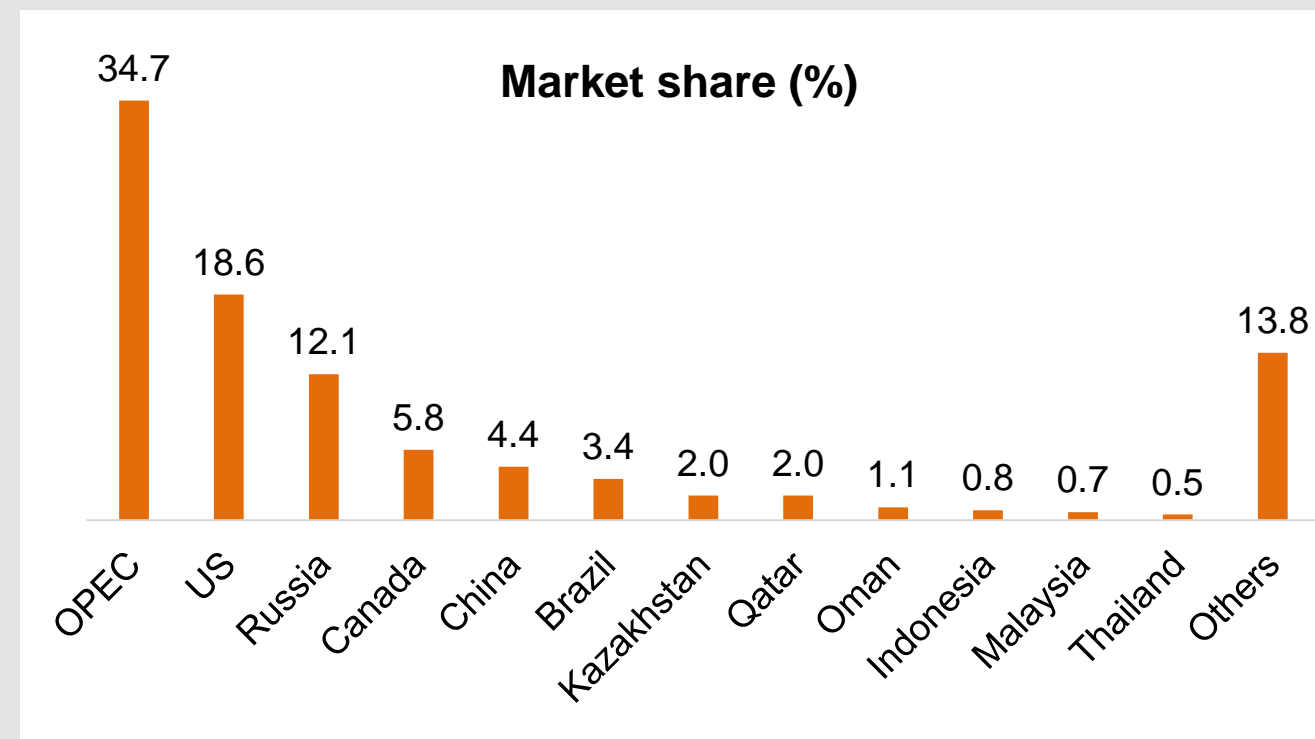
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The Russia-Ukraine tensions and supply shortages due to the reopening of economies have driven up global crude oil prices (Jan 2022 average: USD85.3/barrel). Increased capital expenditures (CAPEX) by Petronas at RM40 - 45 bil each year over the next 5 years (2020: RM33.4 bil) implies a brighter outlook, though investment is still below pre-pandemic levels (2019: RM47.8 bil).

Sub-Sector	Outlook
Extraction of Crude Petroleum	Positive
Support Activities for Petroleum and Natural Gas Extraction	Positive

Global oil production in 2020

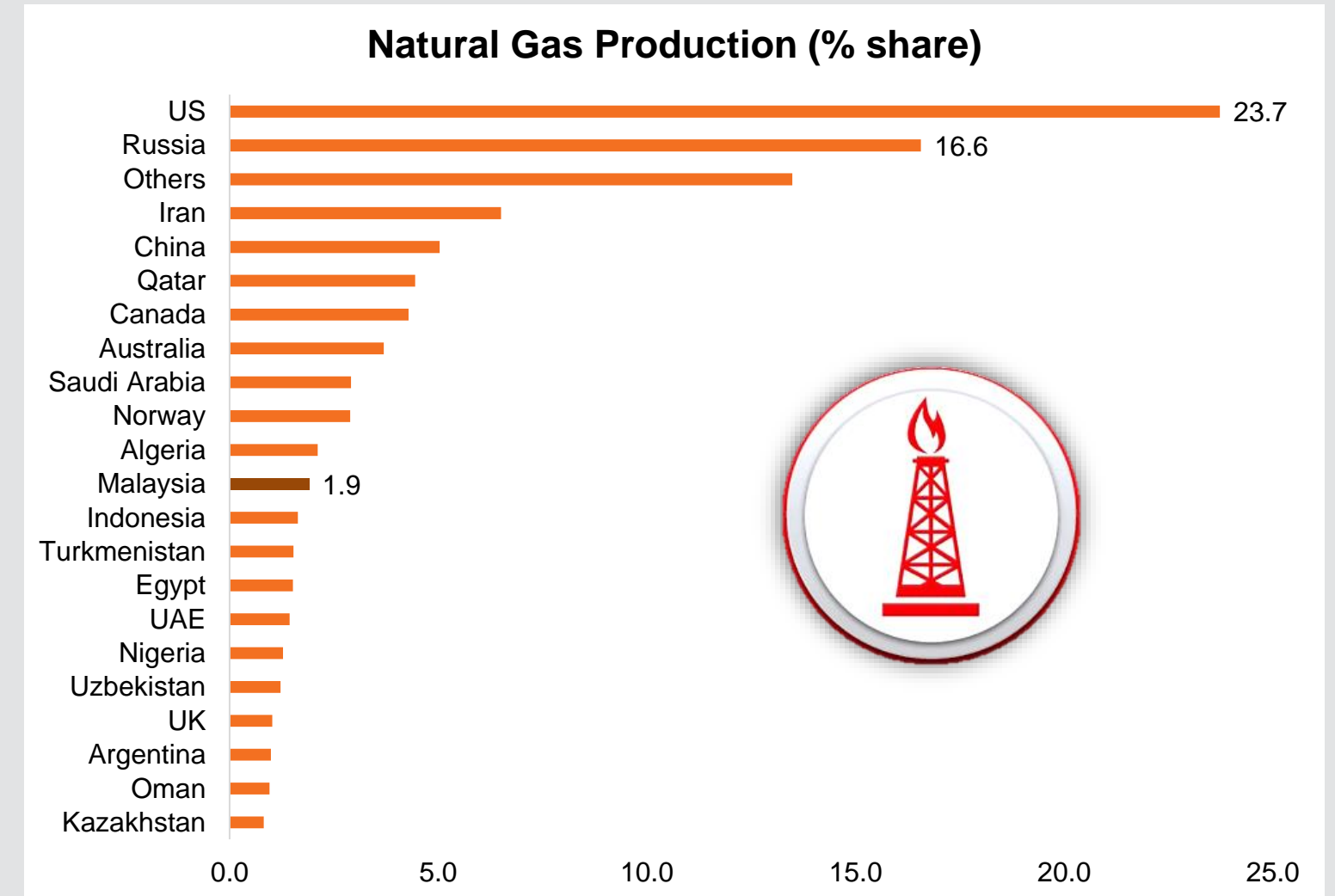
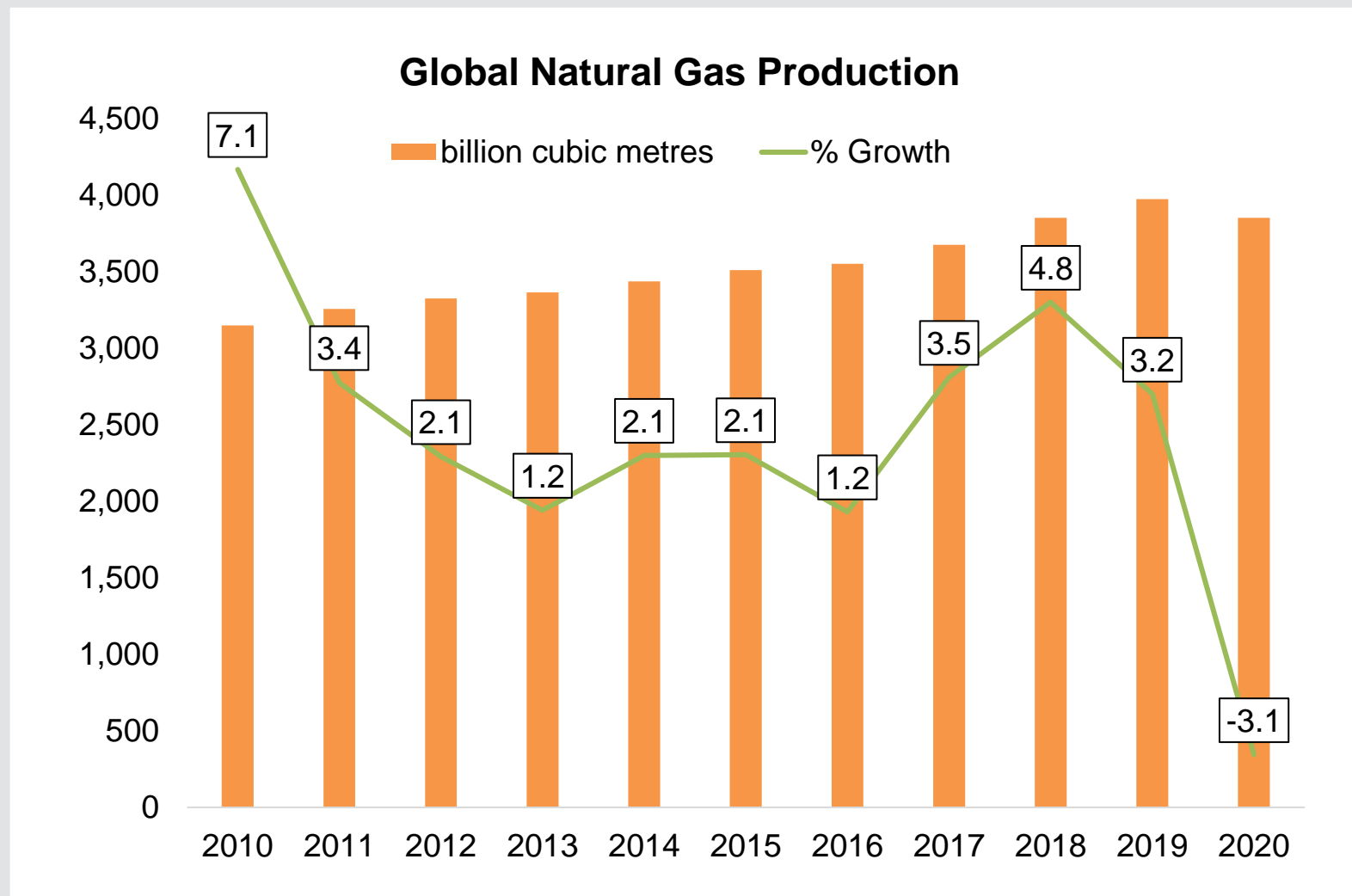


Recent developments

- Higher fuel prices, due to the abolishment of price cap, sparked a 1-week protests in Kazakhstan on 2 Jan. Moscow-led troops were dispatched to quell unrest. By mid-Jan, **oil production rebounded strongly, indicating that output has fully restored.**
 - Russia has deployed a large troop near Ukraine's border, stoking invasion concerns. As a result, the Nord Stream 2 pipeline connecting Russia and Germany has not started operations. This could mean **a prolonged period of high gas prices for Europe.**
 - The Yemen's Houthi movement launched drone & missile strikes on the UAE's fuel trucks and killed 3 people. Although damage to oil facilities was minor, **possibility of more supply disruptions** could happen should tension in the region escalate.
- + Despite **short-term headwinds that elevates oil prices**, OPEC expects **oil demand to rise in 2022** (+4.15 mil bpd) to 100.8 mil bpd, surpassing pre-Covid levels (~97 mil bpd).
- + Petronas plans to **boost domestic spending to 55% of CAPEX**, which will **benefit local O&G players and its related service providers.**

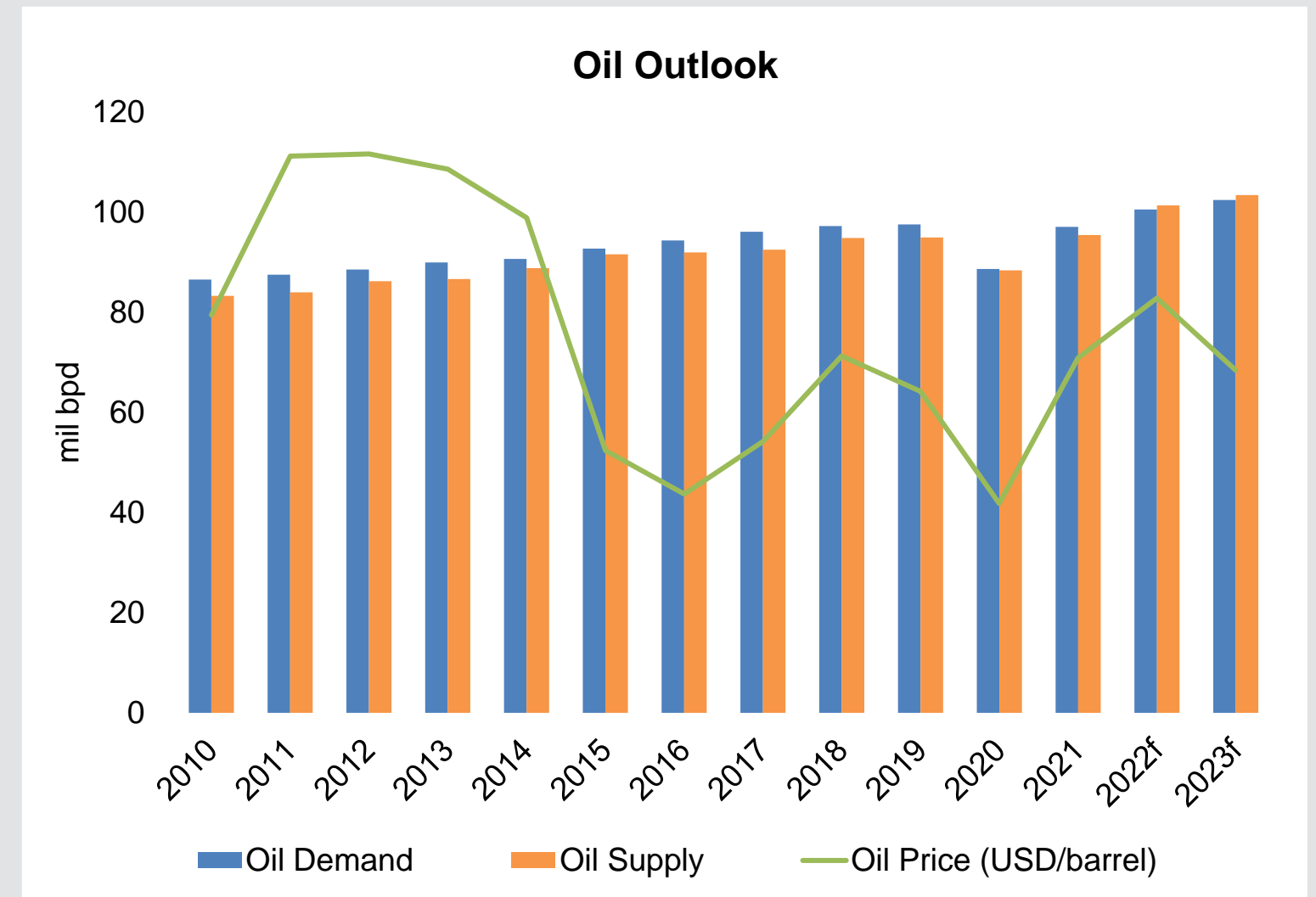
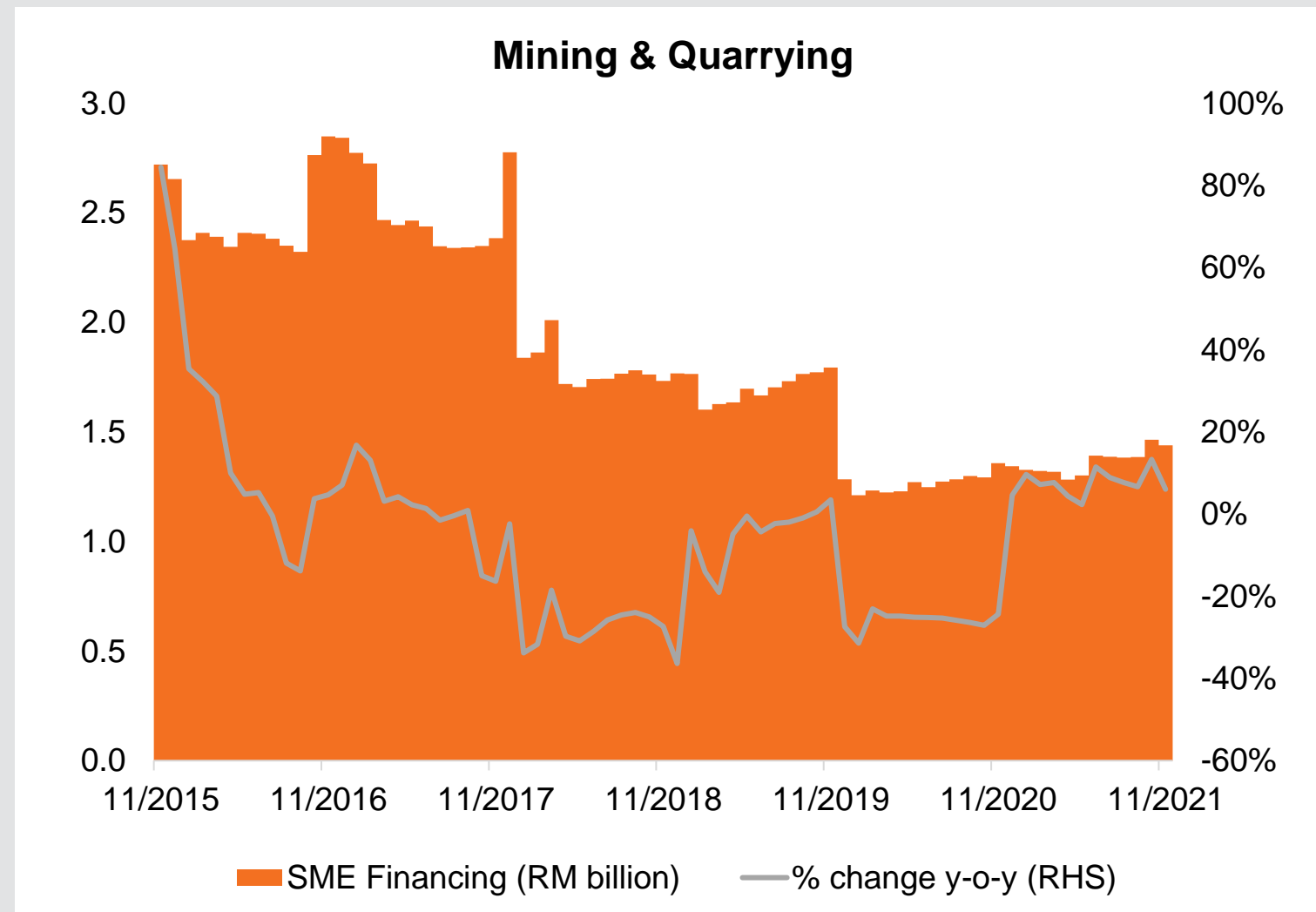
Industry Focus: Oil & Gas (2/3)

- Under the **12th Malaysia Plan**, the government has pledged to achieve **carbon neutral by 2050**.
- In the face of a long-term renewable energy transition, **natural gas offers a cleaner temporary energy choice** than other fossil fuels. It emits 45-55% lower greenhouse gases than coal during power generation.
- In Malaysia, **19 natural gas projects** are anticipated to begin operations between 2021 and 2025. Kasawari, Jerun, and B14 are 3 of the key projects and are forecast to contribute about half of the country's natural gas production by 2025.



Industry Focus: Oil & Gas (3/3)

- The banking industry’s SME financing extended to the Mining & Quarrying sector registered a 7.8% y-o-y growth as at Nov 2021, mainly due to low base effect, bucking the contraction trend (2017-2019: -11.2%).
- With global oil demand projected to surpass pre-pandemic levels in the medium term, financing needs for O&G projects are expected to grow.



*US Energy Information Administration’s (EIA) forecast

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