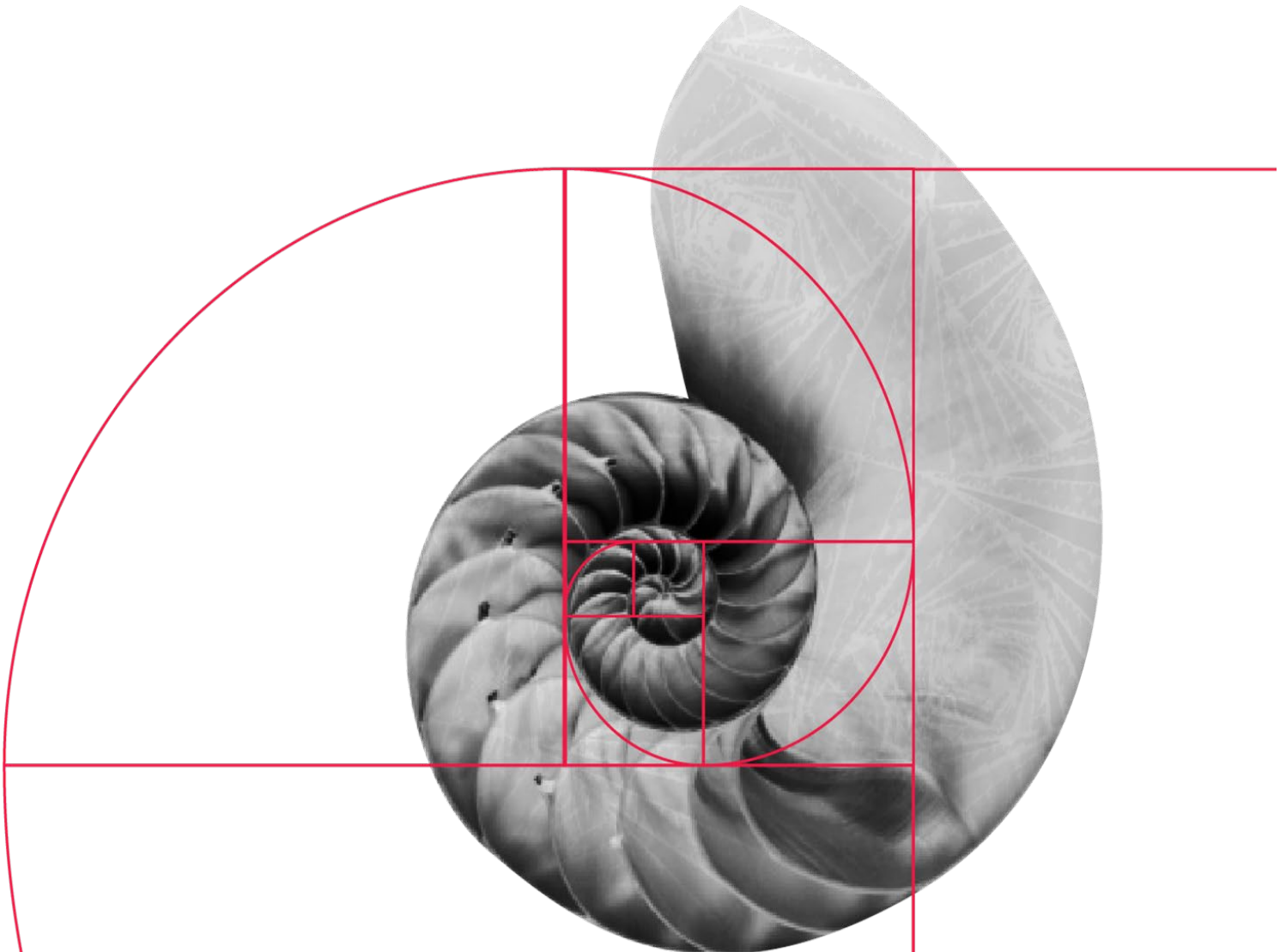


# Navigating the Uneven Path of Recovery.



## Executive Summary.

The global economy appears to be decoupling itself from the havoc caused by the pandemic as the administration of vaccines has paved the way for economies to be reopened. Although policymakers have made concerted efforts to vaccinate their population, the overall level of progress remains sub-optimal and uneven among countries. Notwithstanding, the strong efficacy of Covid-19 vaccines has birthed hopes of Reflation trade (a prospect that assets that benefit from a recovering economy will outperform safer ones) and Commodity super-cycle (commodities trading above their long-term price trend due to pent up demand emanating from an end to lockdowns).

As the global economy gravitates towards growth, new strains of the virus in some regions and the possibility of early withdrawal of policy support have undermined optimism about the vaccine-induced post-pandemic recovery. As a result, the road to a synchronised global growth remains long. Our baseline expectation is that the general administration of vaccines will preserve the reopening of economies. We are also inclined with the view that major global central bankers expressed that the surge in inflation is transitory. Hence, tightening of monetary policy is unlikely to happen anytime soon. Against this backdrop, the global economy is projected to expand by 6.0% in 2021, a remarkable improvement from the negative growth of 3.3% in 2020.

On crude oil, we remain optimistic that global demand will maintain its rebound, albeit below pre-pandemic levels, supported by increased vaccinations, improvements in economic growth, increased mobility in the summer, improved manufacturing activity and continued fiscal support. On supply, we expect a steady increase in production, as OPEC and its allies confirmed in their monthly meeting in June, to gradually increase outputs to keep pace with the rising demand and prices. Also, we note that the increased WTI prices may entice US shale producers to increase production. On a balance of factors, we think Brent crude oil price will likely sustain its rebound for the rest of the year. Thus, we forecast that Brent crude price will average between USD68.00 and USD73.00/bbl in 2021.

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## Contents.

<b>Executive Summary.</b> .....	<b>1</b>
<b>Growth</b> .....	<b>3</b>
<b>A Post-Pandemic Recovery Induced by Vaccine Administration</b> .....	<b>3</b>
<b>Crude Oil</b> .....	<b>13</b>
<b>The Market is Rebalancing, but Normalcy is Still Far Off</b> .....	<b>13</b>
<b>Disclosures</b> .....	<b>20</b>

## Growth.

### A Post-Pandemic Recovery Induced by Vaccine Administration

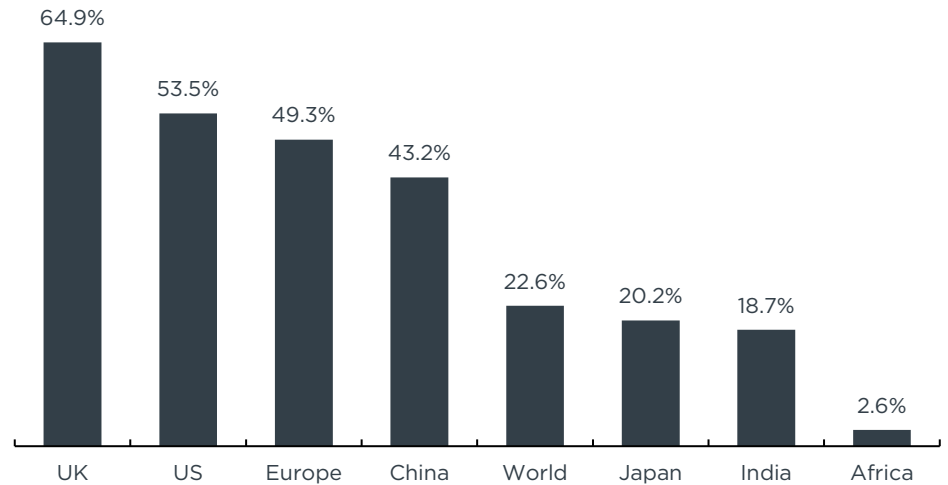
- Global growth to settle at +6.0% y/y (2020FY: -3.3% y/y) in 2021E
- Vaccine administration to pave the way for normalisation of activities
- Advanced economies to grow by +5.1% y/y (2020FY: -4.7% y/y)
- Global monetary policy to remain dovish in 2021E

Although the global economy began to see a moderate recovery close to the end of last year, the emergence of new COVID-19 variants slowed down the momentum in the first two months of 2021. The preceding was more pronounced in the advanced economies than emerging economies, just like the first wave of the pandemic. However, the authorisation of the administration of COVID-19 vaccines bolstered hopes of economic recovery globally, as countries secured doses for their citizens.

Although policymakers have made concerted efforts to vaccinate their populations, the overall level of progress remains sub-optimal and uneven among countries. The global vaccination rate stood at 22.6% as of the 26th of June. While the United States (US) and the United Kingdom (UK) had vaccinated 53.5% and 64.9% of their respective populations as of the 26th of June, Africa and Asia are still far behind with 2.6% and 23.0%, respectively. Meanwhile, the Euro Area's vaccination rate stood at 49.3%, with Germany (53.0%) and Italy (54.4%) leading the region. We believe the divergence across the different countries reflects unequal access to vaccines amid varying degrees of scepticism among citizens regarding the vaccines.

The impressive vaccination rate in advanced economies has led to the relaxation of some of the stricter COVID-19 measures put in place through phased reopening plans from the end of April, such as mask mandates and restricted congregation numbers. However, given the risks associated with the reopening of economies amid concerns on the emerging variants of COVID-19, global central banks have elected to adopt a “wait and see” approach. Similarly, fiscal authorities have maintained their expansionary fiscal policies to strengthen the recovery process. Consequently, we expect normalisation in economic activities to continue for the rest of the year, barring any broad-based spike in COVID-19 cases around the world.

Figure 1: Global vaccination rates as of the 26th of June

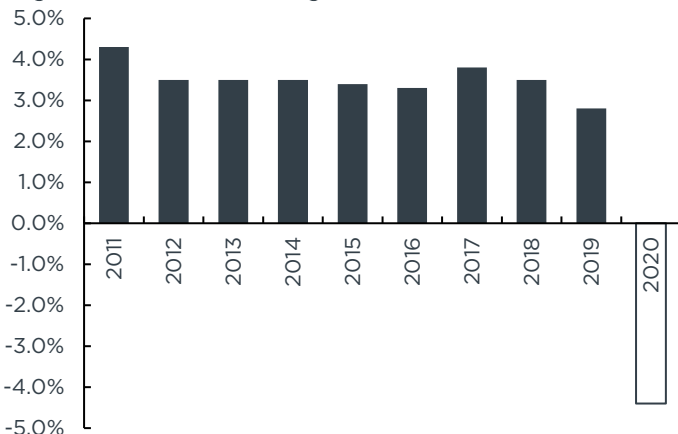


Source: Our World in Data, Statista, Cordros Research | Data for China is as of the 10th of June

### New Variants of COVID-19 Soften hopes of Global Economic Recovery

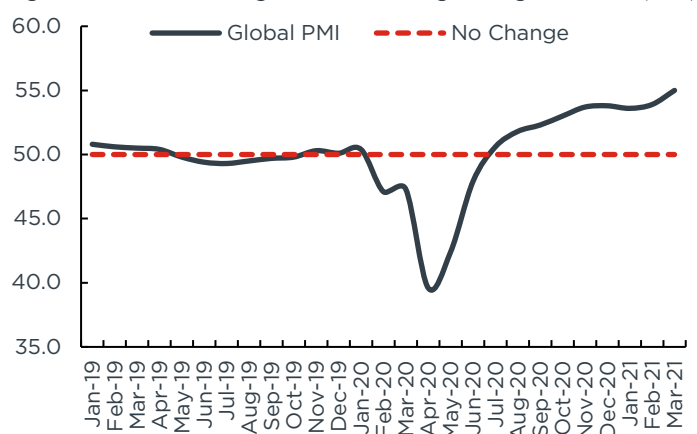
Economic growth across the different countries of the world was mixed but primarily tilted to the downside in Q1-21. On the one hand, the emergence of new variants of the virus led to the rekindling of containment measures in some notable countries – the United Kingdom, Germany, Italy, Spain and India. On the other hand, increased vaccine administration tempered fears of a protracted recovery amid the cautious relaxation of social distancing measures. It is pertinent to note that India (3.3% of world GDP) had to deal with a third wave of the pandemic in the second quarter of the year, linked to large crowds during election rallies and the week-long Hindu festival. Overall, the combination of vaccine administration and policy support is expected to drive a rebound in the global economy from the lows in 2020. However, this is expected to be uneven among countries.

Figure 2: Global economic growth



Source: IMF, Statista, Cordros Research

Figure 3: Movement in global Purchasing Managers' Index (PMI)



## Increased Infection Rates slowed Growth in Most Advanced Economies

**United States:** The US economy grew by 6.4% q/q in Q1-21 (Q4-20: +4.3% q/q) – the second-highest quarterly growth since Q3-03 (8.2% q/q). The preceding reflects the (1) continued economic recovery from the pandemic-induced slump in the prior year, (2) gains from the phased reopening of the economy, and (3) impact of sustained unemployment benefits related to the COVID-19 pandemic. Accordingly, the economy witnessed a robust increase in personal consumption (+11.3% q/q vs Q4-20: +2.3% q/q), government spending (+6.3% q/q vs Q4-20: -0.8% q/q), and fixed investments (+10.1% q/q vs Q4-20: +18.6% q/q). More importantly, the reading indicates that the GDP has recouped c. 96.0% of its pandemic-induced decline. On a year-on-year basis, the economy grew by 0.4% y/y (Q1-20: +0.3% y/y).

Figure 4: US economic growth trend

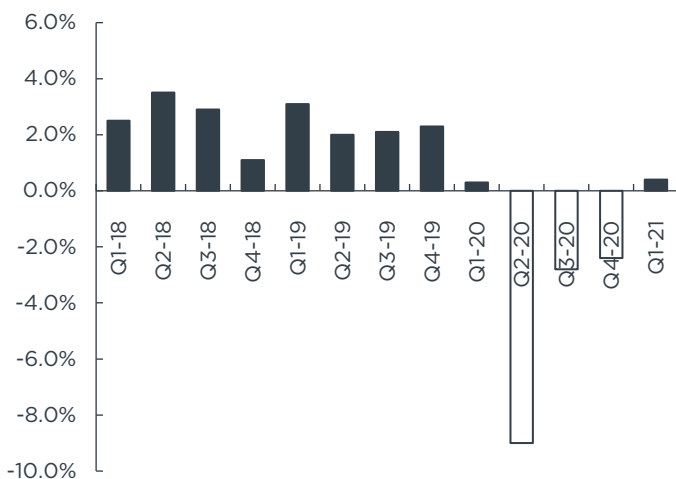
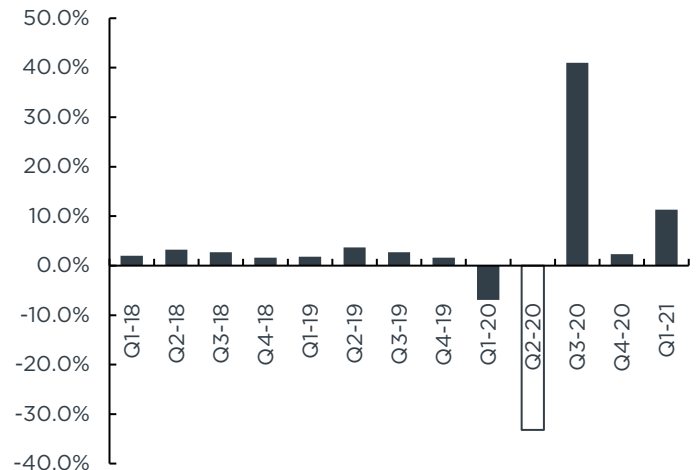


Figure 5: US personal consumption expenditure



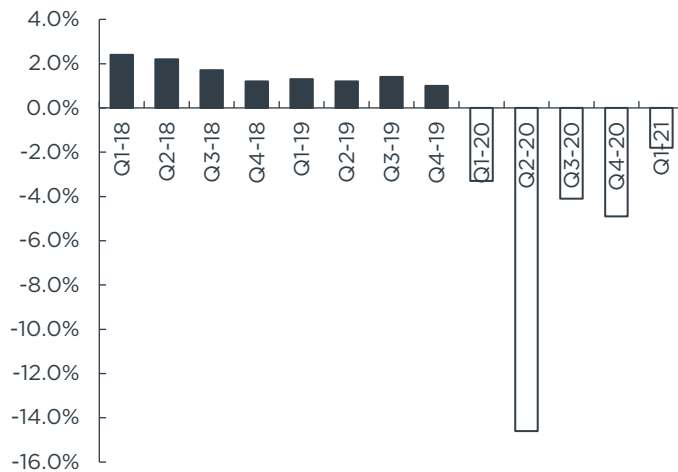
Source: BEA, Cordros Research

**Euro Area:** However, the economic activities in the Euro area reflected the impact of new rounds of containment measures amid rising cases of new infections during the quarter. Pertinently, the economy declined by 1.8% y/y in Q1-21 (Q4-20: -4.9% y/y), reflecting the impact of tighter containment measures introduced during the quarter, which hampered activities in the services sector. On a quarter-on-quarter basis, the economy declined by 0.6% (Q4-20: -0.7% q/q). The preceding was due to the declines in some heavyweight countries, as Germany (-1.7% q/q vs Q4-20: +0.5% q/q), Spain (-0.5% q/q vs Q4-20: 0.0% q/q) and Italy (-0.4% q/q vs Q4-20: -1.8% q/q) offset the growth recorded in France (+0.4% q/q vs Q4-20: -1.4% q/q).

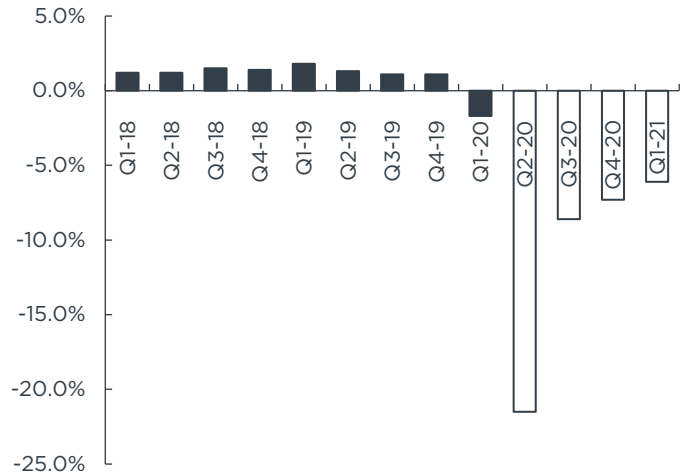
**United Kingdom:** Similarly, growth in the United Kingdom declined by 6.1% y/y in Q1-21 (Q4-20: -7.3% y/y), as the introduction of new COVID-19 restrictions

hampered the services (-6.2% y/y vs Q4-20: -6.8% y/y), construction (-1.2% y/y vs Q4-20: -5.9% y/y) and production (-1.6% y/y vs Q4-20: -3.2% y/y) sectors.

**Figure 6: Euro area economic growth trend**



**Figure 7: UK economic growth trend**



Source: IMF, ISM, Cordros Research

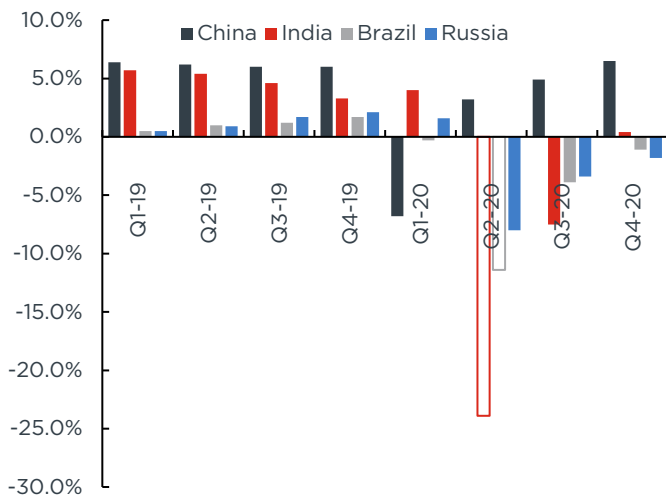
### Slow Vaccine Rollout Subdues Recovery in Emerging Economies

Having already surpassed its pre-COVID growth level, China's economy grew by 18.3% y/y in Q1-21 (Q4-20: 6.5% y/y) – the highest since the NBS started keeping year-on-year growth records in 1993. In our opinion, the growth was bolstered by (1) solid industrial output on improved orders, (2) robust export growth given the demand for Chinese made medical goods, (3) low base effect, and (4) a rebound in consumer spending following the reopening of the economy. However, on a quarter-on-quarter basis, we highlight that the economy grew marginally by 0.6% in Q1-21 (Q4-20: +3.2% q/q) mainly due to travel restrictions over the Lunar New Year holiday amid an increase in new COVID-19 cases.

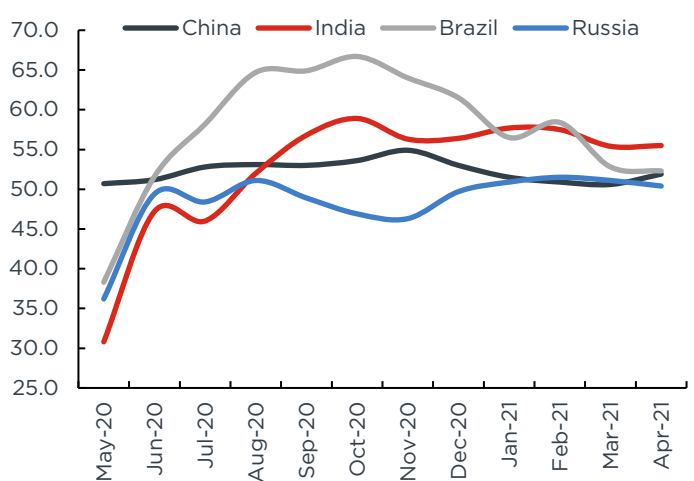
Elsewhere, the magnitude of the decline in economic activities slowed in Russia following the (1) improvement in global oil prices amid a slow rise in domestic crude output and (2) services sector recovery in line with the slow easing of lockdown restrictions. Overall, the contraction in the economy moderated to -1.0% y/y in Q1-21 (Q4-20: -1.8% y/y).

In the EMs, India ranks top as the country was severely hit by a surge in new COVID-19 infections in Q1-21. We believe the country's predicament was due to (1) mass religious and political gatherings and (2) slow vaccine administration due to shortages. Similarly, Brazil's second wave of the COVID-19 pandemic has been devastating as the political and diplomatic issues surrounding the purchase of vaccines continue to limit progress in vaccine administration. This has been exacerbated by the citizens' lax attitude towards complying with social distancing measures.

**Figure 8: GDP growth in emerging and developing economies**



**Figure 9: PMI in emerging and developing economies**



Source: Trading Economics, Cordros Research | Note: A PMI reading above/below 50 indicates activities is expanding/contracting

In Sub-Saharan Africa, the pace of decline moderated in South Africa (Q4-20: -4.1% y/y vs Q3-20: -6.2% y/y) and Angola (Q4-20: -5.4% y/y vs Q3-20: -6.2% y/y), while Nigeria (Q4-20: +0.1% y/y vs Q3-20: -3.6% y/y) surprisingly exited the COVID-19 induced economic recession. For South Africa, the re-introduction of lockdown measures and supply-side constraints were the key drivers behind the economy's third consecutive quarter of decline. The moderation in Angola's economic contraction was driven largely by the (1) mild contraction in the transport sector and (2) growth in the financial, real estate and fishing sectors, both of which moderated the 10.8% y/y decline in the oil sector GDP. Elsewhere, the non-oil sector drove the growth in Nigeria, following twelve-quarter record growth in the Agricultural sector (3.4% y/y vs Q3-20: 1.4% y/y), complemented by a rebound in the service sector (+1.3% y/y vs Q3-20: -5.5% y/y).

Across relatively smaller economies, Ghana (+3.3% y/y vs Q3-20: -3.2% y/y) recorded a rebound in economic activities in Q4-20 due to (1) a more robust expansion in the agriculture sector (+8.18% y/y vs Q3-20: +4.89% y/y) and (2) a rebound in the services sector (+4.65% y/y vs Q3-20: -3.35% y/y) amid the easing of COVID-19 restrictions which took effect in June 2020. However, in Kenya, despite the partial reopening of the economy in Q3-20, the lingering impact of lockdown measures resulted in the economy recording its first recession since the KNBS started keeping quarterly data in 2000. Pertinently, the economy declined by 1.08% y/y in Q3-20 (Q3-19: +5.78% y/y). The service sector (-5.28% y/y vs Q2-20: -11.62% y/y) was the biggest drag on growth during the period.

Figure 10: SSA GDP growth

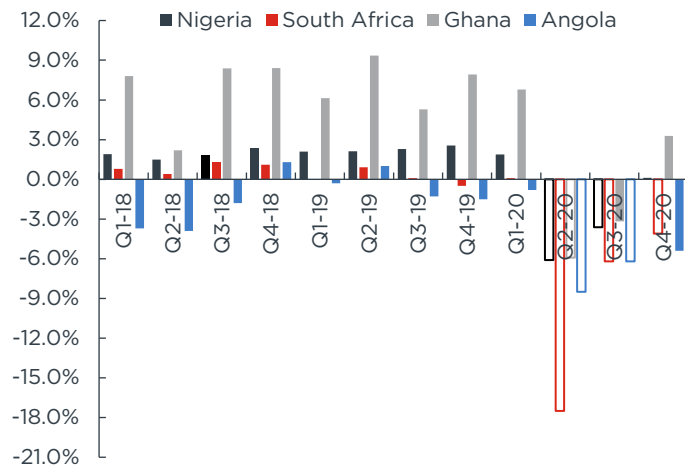
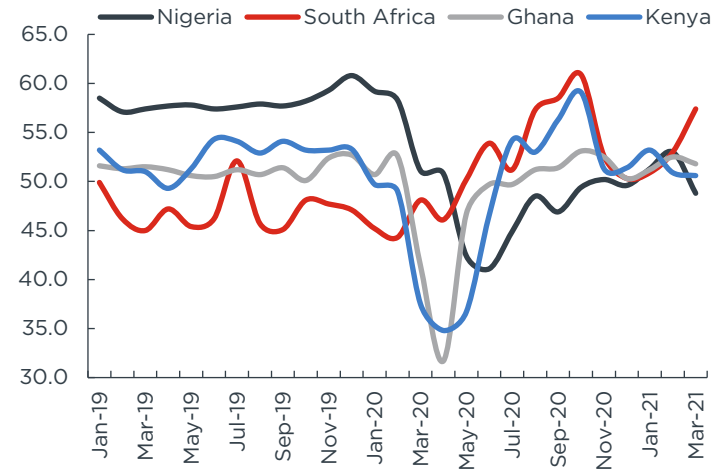


Figure 11: Selected Africa Purchasing Managers Index (PMI)



Source: Trading Economics, Cordros Research

### Policy Makers are Adopting a “Wait and See” Approach

Recognising that the global economy is still reeling from the impact of the pandemic, policymakers are leaning towards maintaining their fiscal and monetary stimulus packages to support the recovery process. Despite rising inflationary pressures, central bankers maintained accommodative monetary stances across regions, noting that surges in inflation were transitory in nature. The preceding was prominent in the US, where rising inflation brought back the rhetoric of “taper tantrum”. So far, global systemically important banks have been able to ease market concerns on an abrupt end to the era of ultra-loose monetary policy whilst pledging to maintain their asset purchase programmes.

For one, the US Fed has maintained the key policy rate within the 0.0% to 0.25% band this year while continuing its bond purchase programme to the tune of USD120.00 billion per month. However, at the June policy meeting, 13 out of the 18 officials favoured at least one rate hike by the end of 2023, compared with just seven in the March policy meeting. Similarly, eleven members projected at least two hikes by the end of 2023, while seven (compared to four at the March meeting) saw an interest rate hike as early as 2022. We think the notable change in voting pattern is connected to the fact that the inflation rate (5.0% y/y as of May 2021) is far ahead of the Fed’s 2.0% target. Consequently, there is a possibility that the Fed could start tapering early next year.

The European Central Bank (ECB) has also continued to affirm its accommodative monetary policy stance in a bid to support the region’s economy amid the lingering impact of the third wave of the pandemic in Q1-21. Thus, in its April 2021 meeting, the ECB elected to keep the interest rate on the main refinancing operations unchanged at 0.0%. At the same time, the committee stated that it would continue to conduct net asset purchases under the pandemic

emergency purchase programme (PEPP) with a total envelope of EUR1.85 trillion (or USD2.25 trillion) until at least the end of March 2022 and, at any case, until it judges that the COVID-19 crisis phase to be over.

Meanwhile, the People's Bank of China (PBOC) maintained its one-year loan prime rate at 3.85% despite the economy recovering to pre-pandemic levels. However, we note that the PBOC recently asked banks to curtail loan growth for the rest of 2021 to keep new advances at roughly the same level as last year. Thus, the preceding indicates that the bank is proceeding cautiously to maintain sufficient support for the economy while gradually reducing stimulus to cut debt and defuse financial risks.

Elsewhere, inflation worries have caused Brazil and Russia to tighten key policy rate by 150bps YTD (to 3.50%) and 75bps YTD (to 5.00%), respectively.

**Table 1: Macroeconomic indicators across selected countries**

	US	Euro Area	UK	Japan	China	India	Brazil	Russia
<b>YTD rate decision</b>	Unchanged	Unchanged	Unchanged	Unchanged	Unchanged	Unchanged	+150bps	+75bps
<b>Latest Inflation Rate</b>	4.2%	1.6%	1.5%	-0.4%	0.9%	4.3%	6.8%	5.5%
<b>Unemployment Rate</b>	6.10%	8.10%	4.80%	2.60%	5.10%	6.5%	14.4%	5.2%
<b>Equity Market (YTD return)</b>	+11.5%	+13.7%	+8.9%	+4.4%	+3.5%	+6.8%	+4.9%	+12.7%

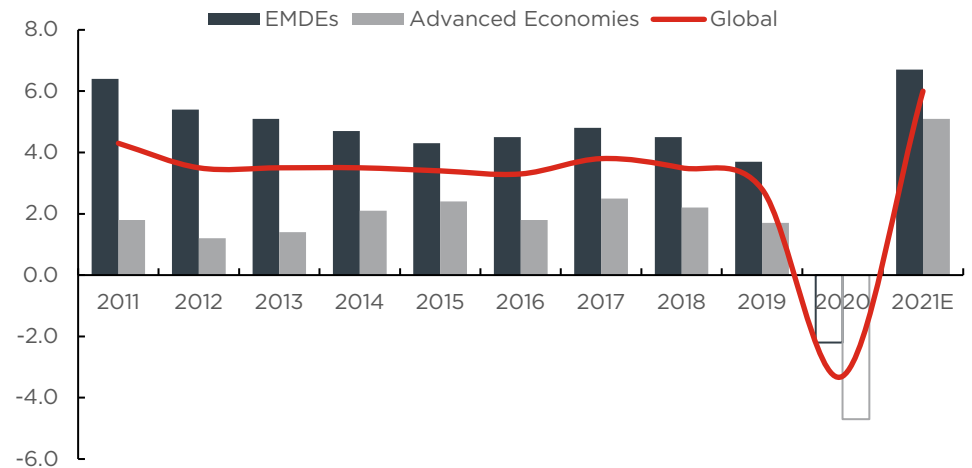
Source: IMF, Bloomberg, Cordros Research

## Global Economy Recovering Unevenly

The global recovery is slow but steadily improving, even as uncertainties remain given the continuing issues surrounding the COVID-19 pandemic, including mutations of the virus in some countries. Nonetheless, the increased vaccination rate among countries is expected to provide comfort to governments to sustain the reopening of their economies, boosting aggregate demand. In addition, different countries have announced sizeable fiscal support for 2021 to consolidate the recovery process. For evidence, the US (USD1.90 trillion) and Japan (JPY106.60 trillion or USD975.00 billion) have announced sizeable fiscal support for 2021, and the European Union has agreed to start distributing the Next Generation EU funds (EUR800.00 billion between 2021 and 2026). Thus, we expect the new fiscal packages to provide a solid boost for growth in these countries in 2021FY alongside substantial positive spillovers to their trading partners. Moreover, fiscal stimulus programmes neatly dovetail with the accommodative monetary policy of global central bankers.

**Overall, the global economy is projected to expand by 6.0% y/y over 2021FY (2020FY: -3.3% y/y), driven by improved growth across both developed (5.1% y/y vs 2020FY: -4.7% y/y) and emerging (+6.7% y/y vs 2020FY: -2.2% y/y) economies - based on IMF estimates.**

Figure 12: Trend in global growth and projection



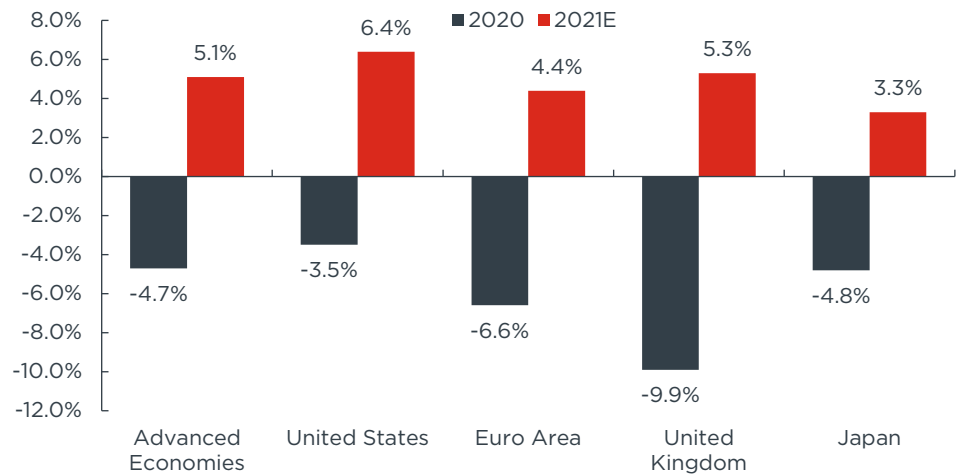
Source: IMF, Cordros Research

Across the advanced economies (AEs), we expect growth to strengthen by 5.1% y/y in 2021 on account of (1) a robust vaccination programme and (2) sustained fiscal and monetary stimulus to hasten the recovery process. We believe the impressive vaccination rate (48.8% of the total population across AEs have received at least one dose of COVID-19 vaccine as of the 23rd of May) bodes well for the continued normalisation of economic activities. Moreover, as businesses move away from the era of lockdowns and consumers have more freedom to embark on their daily activities, we expect consumer spending and business sentiments to strengthen over 2021. Overall, we expect the US economy to grow by 6.4% y/y in 2021FY, a cyclical rebound from the decline of 3.5% in 2020FY.

Elsewhere, we expect the Euro Area to grow by 4.4% in 2021FY amid the rollout of vaccines and the gradual easing of restrictions. In addition, we expect the (1) robust fiscal and monetary policies, (2) disbursement of EU recovery funds and (3) improving foreign demand to support growth in the region. However, downside risks stem from pandemic-related uncertainty and rising public debts.

The UK's economy is expected to rebound significantly, as the substantial easing of COVID-19 restrictions, a rapid vaccination campaign, and fiscal support measures buoy household spending and domestic demand. Sequentially, we expect the U.K economic growth to print 5.3% y/y in 2021FY (2020FY: -9.9% y/y).

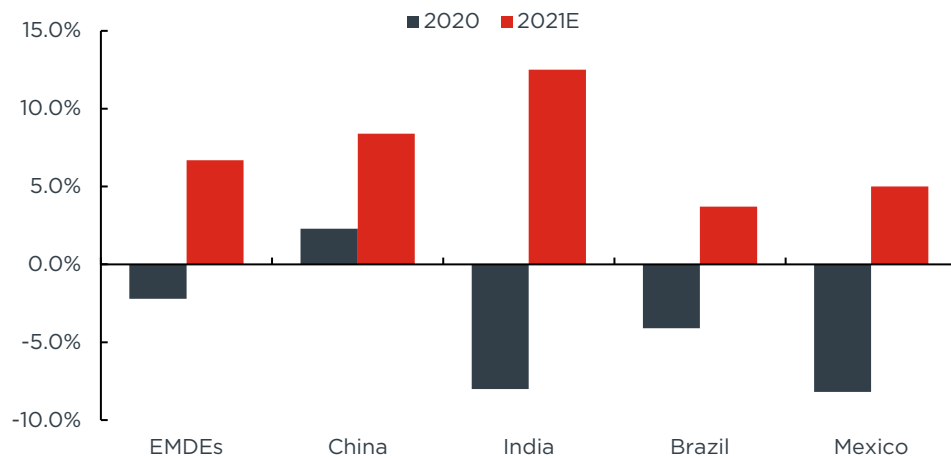
Figure 13: IMF's advanced economies growth forecast



Source: IMF, Cordros Research

We expect the emerging and developing economies (EMDEs) to return to growth this year, although still below the pre-pandemic levels. The preceding is based on our expectation of global vaccinations firming up domestic and foreign demand as restrictive measures are gradually eased, particularly from H2-21. Yet, risks may be higher, particularly in nations with high COVID-19 caseloads, as seen in India, Brazil and South Africa. We have a neutral view on these countries, given that output growth may be constrained by a general reluctance to reopen their economies fully. Accordingly, we believe growth outlook across the EMDEs will be dependent on (1) the pandemic's trajectory amid vaccine administration, (2) the evolution of global financial conditions and commodity prices, and (3) the effectiveness of domestic policy actions to limit the damage caused by the pandemic. Considering the US' decision to begin sharing up to 80 million surplus shots with the rest of the world by June, which we expect to be majorly shared with EMDEs, we are optimistic regarding the region's recovery over the medium term. Except for China (with a broad and sustainable recovery), we expect the recovery pattern to vary in other developing economies as domestic consumption and external demand improve less rapidly. **We expect the emerging markets to grow by 6.7% y/y in 2021FY (2020FY: -2.2% y/y), driven mainly by an expected 8.4% y/y growth in China (2020FY: 2.3% y/y).**

Figure 14: IMF's emerging economies growth forecast



Source: IMF, Cordros Research

## Crude Oil.

### The Market is Rebalancing, but Normalcy is Still Far Off

- Oil prices rebounded from last year’s plunge
- Demand will remain below pre-pandemic levels in 2021
- Short-term risks are tilted to the upside
- 2021E Brent crude price forecast: USD68.00 – USD73.00/barrel

On the heels of the price plunge in 2020, oil prices rebounded markedly in 2021 and hit pre-pandemic levels in February. The global benchmark price, Brent crude, has risen by 46.6% (as of the 28th of June) to USD75.95/barrel – its highest value since May 2019. We attribute the improved prices to rising demand underpinned by (1) impressive COVID-19 vaccine administration and (2) improved industrial activities and social mobility. Additionally, we note that the supply cuts instituted by OPEC+ members provided another layer of support to the oil market. As shown in figure 16 below, the recovery this year outperformed previous oil price recoveries.

Figure 15: Crude oil prices in 2021 (USD per barrel)

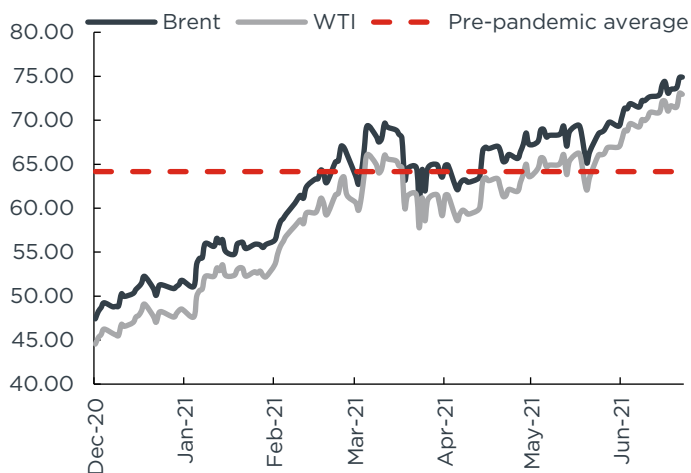
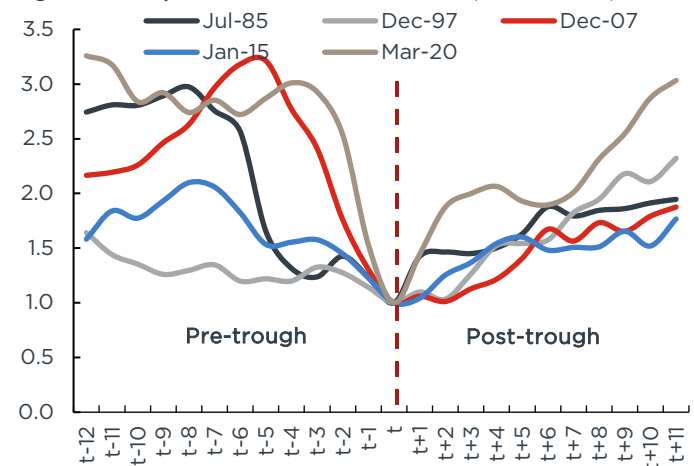


Figure 16: Oil price recoveries since 1980 (indexed at 1)



Source: Bloomberg, World Bank, Cordros Research | t = time in months, with t at 0

As underscored in our [2021 outlook update](#), crude oil stocks have eased thus far due to rising demand facilitated by the unwinding of stiff restrictions on economic activities. Going forward, we remain optimistic that global demand will maintain its rebound, albeit below pre-pandemic levels. Therefore, we maintain our 6.0% growth forecast for demand in 2021, as we expect improved growth from top consumers US and China.

On supply, we expect a steady increase in production, as OPEC and its allies confirmed in their monthly meeting in June, to gradually increase outputs to keep pace with the rising demand and prices. We highlight the potential of increased outputs from Iran, as the country is currently in discussions with several

developed countries to revive its 2015 nuclear deal. If successful, sanctions preventing Iran from increasing its output will be lifted. However, OPEC has downplayed the effects of Iran’s increased output and noted that it expected Iran to act “constructively” as higher prices also favour the producer. Also, there is the possibility that the rally in WTI will entice US shale producers to increase production.

**Given current market dynamics, future expectations and factoring speculative activities, we expect oil prices to average USD68.00 - USD73.00/bbl in 2021 (2020: USD43.21/bbl).**

### Market balance still fragile

**Demand:** Crude oil consumption in the year so far has been higher relative to last year, following the faster-than-expected recovery from the depths induced by the pandemic. For context, the US Energy Information Administration (EIA) estimates that the world consumed about 96.22 mb/d of crude oil in May 2021, a 4.3% increase from last year’s average. However, we highlight that the recovery in demand was uneven, as re-instituted lockdowns in Europe and most recently Asia (especially India) due to renewed outbreaks of the pandemic slowed the demand for crude in these regions. Meanwhile, China’s consumption grew rapidly this year, following a strong rebound in economic activities.

Figure 17: Petroleum demand by geography, y/y change (mb/d)

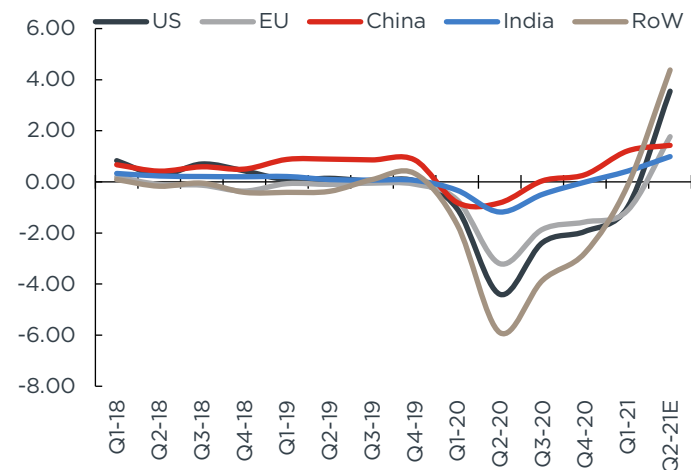
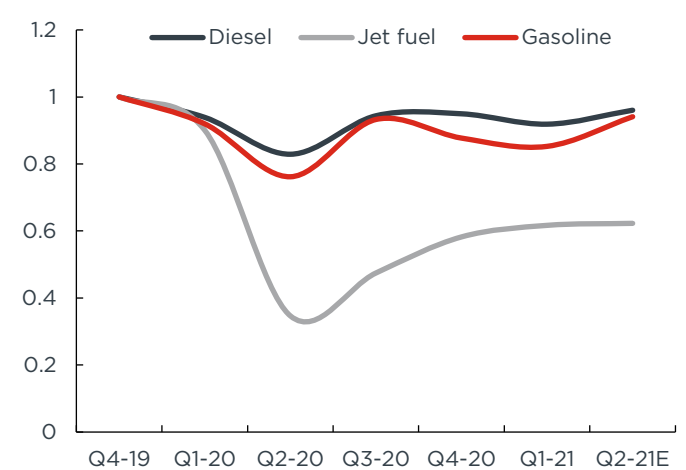


Figure 18: Refined product demand in H1-21 (indexed at 1)

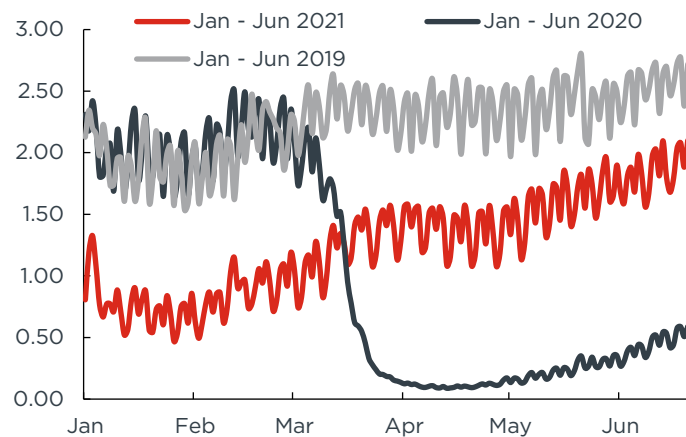


Source: EIA, IEA, Cordros Research

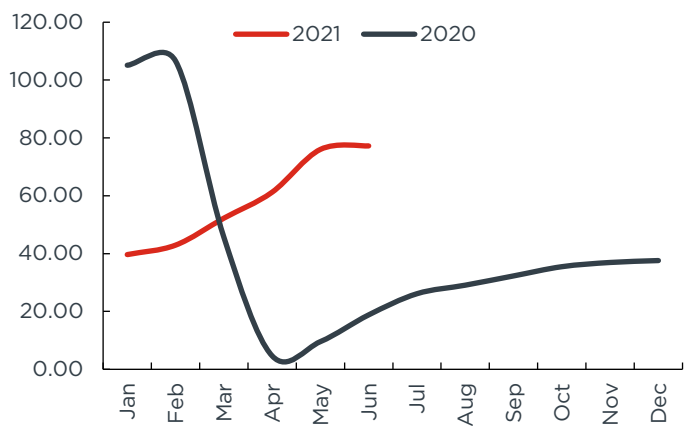
The impressive vaccine administration and the accompanying reduction in COVID-19 infection rates in developed countries have improved transportation (two-thirds of oil consumption) and industrial production. Improved demand for refined products reflects the increased usage for transport and travel. We note that demand for jet fuel also increased as air travel picked up in the year. However, we highlight that demand for jet fuel still stands at one-third of the pre-pandemic level, as the air travel industry is yet to fully recover from its pandemic-

induced slump. Gasoline demand has inched towards pre-pandemic levels following increased mobility. As noted in our [2021 outlook](#), diesel consumption was the least affected transport fuel given that its primary use is for transporting goods by road and ships, which was less affected than air and personal car travel. However, it still declined by nearly one-quarter as of Q1-21.

**Figure 19: US TSA traveller throughput (million passengers)**



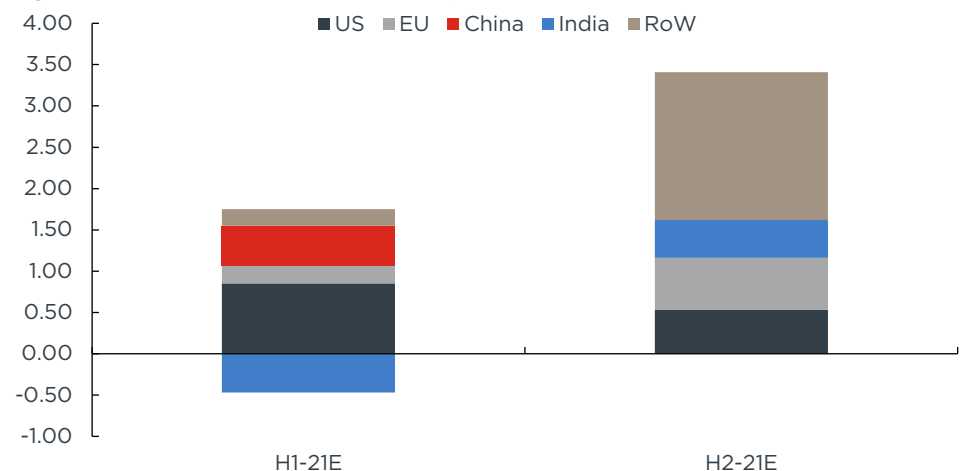
**Figure 20: US air travel (as a percentage of 2019)**



Source: TSA, World bank, Cordros Research

We expect a faster pace of recovery in demand for the second half of the year, following increased vaccinations (mainly in developed countries), improvements in economic growth, increased mobility in the summer (hinged on vaccinations), improved manufacturing activity and continued fiscal support. However, we highlight that convergence to pre-pandemic consumption levels (2019FY: 100.90 mb/d) is still way off, given that COVID-19 infections risk still exist. **Overall, demand is expected to increase by 5.44 mb/d in 2021FY.** The EIA estimates that OECD demand will rise by 2.34 mb/d (+5.6%), and non-OECD demand will rise by 3.06 mb/d (+6.1%) in 2021.

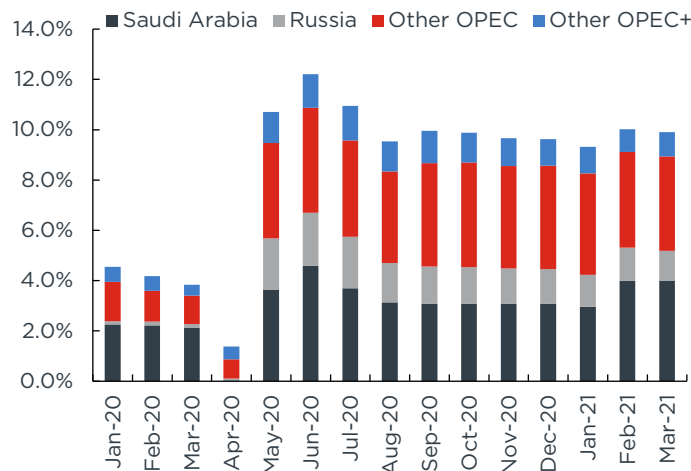
**Figure 21: Oil demand forecast in H2-21 (mb/d)**



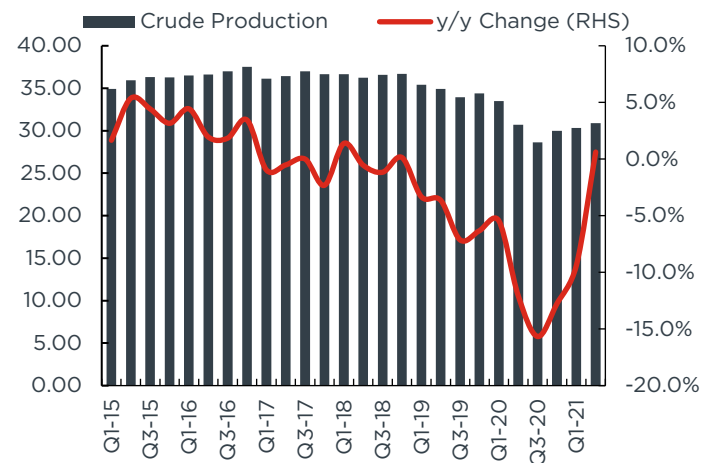
Source: EIA, Cordros Research | RoW = Rest of World

**Supply:** As of May 2021, oil production increased modestly by 0.8% to 95.02 mb/d from the FY-20 average of 94.24 mb/d. The subdued growth in production has been majorly due to OPEC+, either by extending cuts or increasing output slower than initially planned. It is pertinent to note that compliance with the cuts remains high (average compliance of c. 115.0% from January to May 2021). OPEC+'s crude oil production of 25.46 mb/d as of May 2021 is still below the average in H2-20 (26.97 mb/d) due to the extended cuts. We highlight that exception was granted to Russia and Kazakhstan in January to increase production by 65.00 kb/d and 10.00 kb/d, respectively, in February and March. The quotas granted to the two countries was doubled to 130.00 kb/d and 20.00 kb/d, following the coalition's meeting in March, while Saudi Arabia elected to take an additional 1.00 mb/d cut in February. We believe OPEC+'s cautious approach reflects the group's uncertainty about the market as concerns over global economic recovery amid renewed COVID-19 outbreaks remain.

**Figure 22: OPEC+ spare capacity (% of global production)**



**Figure 23: OPEC crude production (mb/d)**

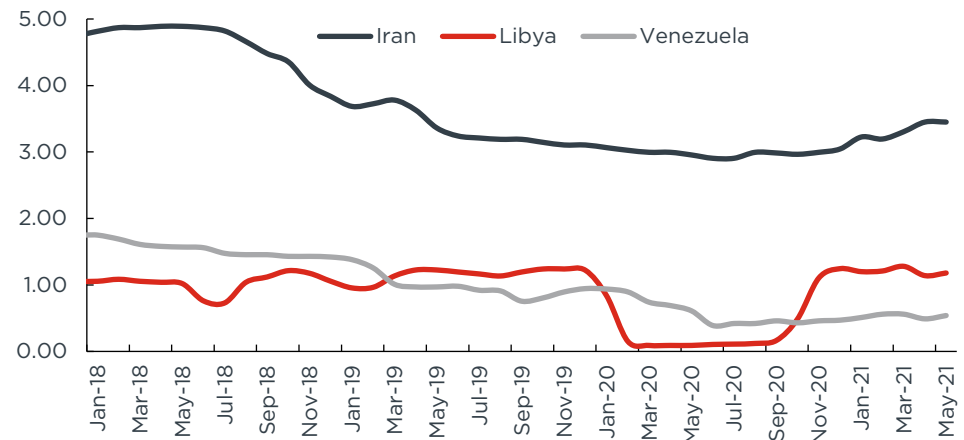


Source: IEA, EIA, Cordros Research

Furthermore, we highlight that there have been additional pressures on supply from OPEC countries currently exempted from cuts - Iran, Libya & Venezuela. Iran's production improved slightly in October 2020 and has maintained the pace ever since. We note that some of Iran's oil (about 1.00 mb/d) was sold unofficially to China. Typically, "grey" oil consumption limits oil stocks' decline and makes it difficult for OPEC+ to monitor and control. Also, it appears that production in Iran is likely to increase further (by an additional c. 1.00 mb/d), as the nation is currently in talks with Western powers to restore its 2015 nuclear deal, which when concluded, will lift the sanctions preventing Iran from increasing oil outputs. Although OPEC played down the impact of the additional production from Iran, given that Iran will also benefit from a higher oil price, we highlight that any factor of increased output may exert pressure on crude oil prices, especially if current

demand projections falter. Elsewhere, Libya’s production rebounded to 1.00 mb/d levels, while it appears the decline in Venezuela’s production has bottomed out.

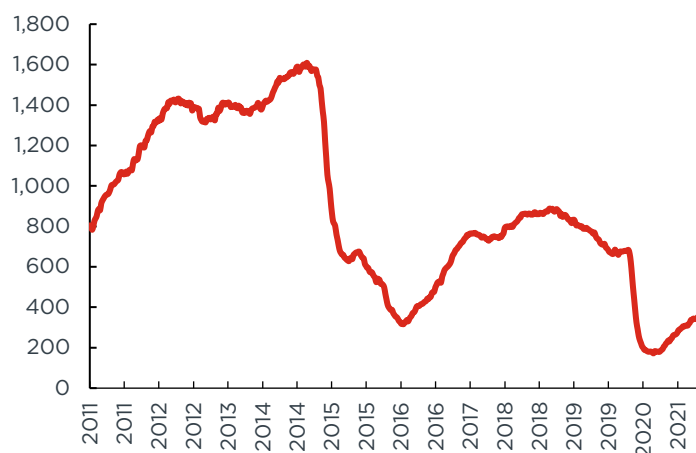
**Figure 24: Crude oil production in Iran, Libya and Venezuela**



Source: IEA, Cordros Research

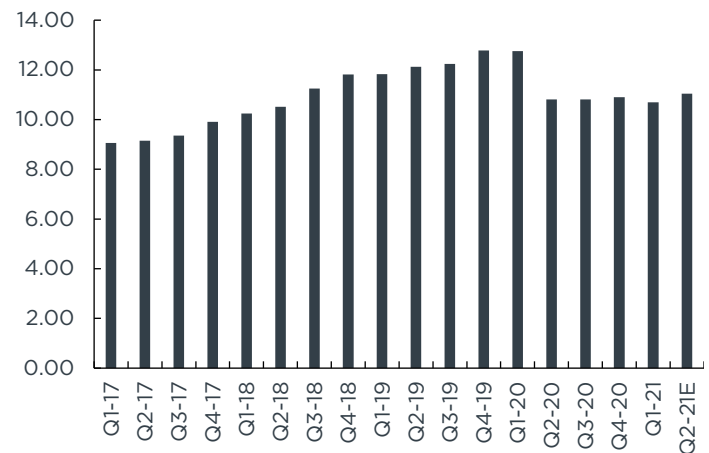
Non-OPEC supply increased by 1.2% as of May 2021, from last year’s average. However, production in the US, the biggest non-OPEC producer, declined by 1.1% over the same period. Adverse weather conditions in the US resulted in a drop in production in February, and production thus far has remained subdued. Although the rig count in the US increased by 61.7% y/y to 359 as of May 2021, it is still below the pre-pandemic peak of 877. Consequently, we think a further increase in the number of rigs, to at least pre-pandemic levels, will be needed before US production significantly picks up. In the absence of any shock or deviation from the current market dynamics, we highlight that price increases will encourage US producers to deploy more rigs for the rest of the year. However, we do not think the number of rigs will hit pre-pandemic levels until at least 2022.

**Figure 25: US active rig counts: oil rigs (units)**



Source: Baker Hughes, EIA, Cordros Research

**Figure 26: US oil production (mb/d)**



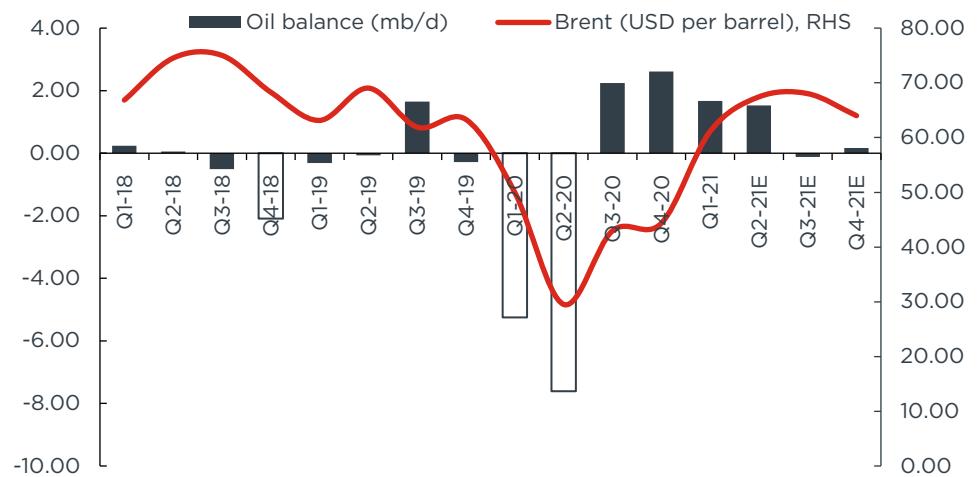
In its June meeting, OPEC+ members reconfirmed the gradual easing of production cuts, as agreed in its meeting in April. The group intends to boost current outputs by adding another 2.10 mb/d to the market between May and July. Additional cuts beyond July were not agreed upon. Nonetheless, we expect the group to increase outputs in the year to keep pace with rising demand. However, we do not rule out the possibility of additional cuts in the case of a supply glut.

On non-OPEC production, the EIA forecasts a steady rise in US production from current levels, as increased oil prices allow shale producers to hedge their production at attractive levels. Production is also expected to increase across smaller producers, driven mainly by increased production from new fields.

### Price Forecasts & Risks

Given current market dynamics, future expectations and factoring in the speculative elements that impact the market, we expect oil prices to average USD68.00 – 73.00/bbl in 2021.

Figure 27: Oil balance



Source: EIA, Cordros Research

Risks to the forecasts are tilted to the upside, with the most significant risk being the evolution of the pandemic. Although vaccinations have been impressive in advanced countries (where the prior year’s weakness in demand was concentrated), the continued spread of the virus suggests that renewed outbreaks are still possible. This could lead to the re-introduction of lockdown measures which would hamper demand growth.

On supply, OPEC+ currently controls a significant portion of market supply. As a result, any disagreement or fallout among the coalition members could lead to a supply glut, which would exert downward pressure on oil prices. We also highlight the potential of increased supply from Iran subsequent to the lifting of

sanctions. Furthermore, we note that a significant increase in US shale production could breed discontentment among members of the OPEC+ agreement.

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