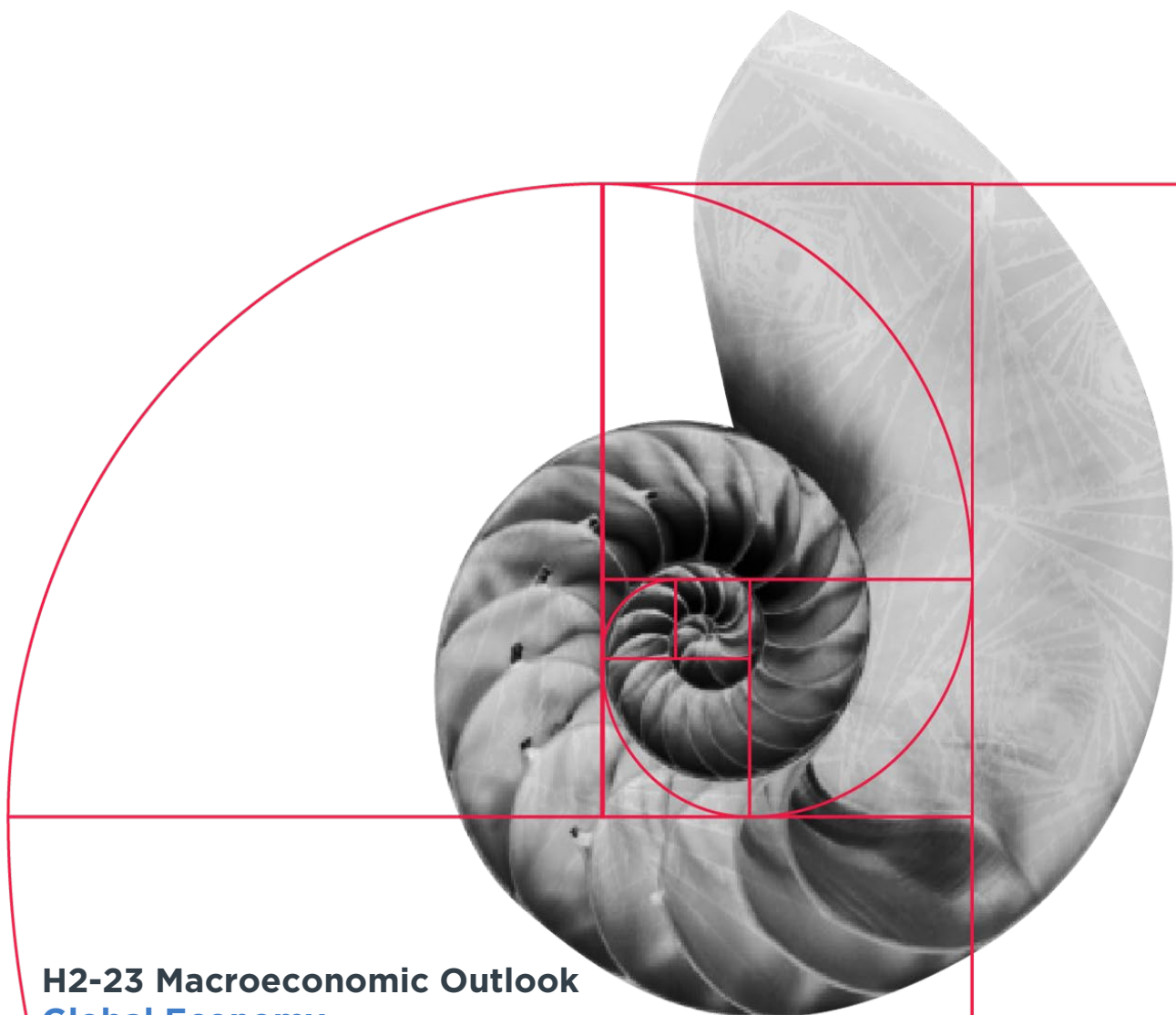


Veering from the Watershed Point.



H2-23 Macroeconomic Outlook
Global Economy

July 2023

Executive Summary.

Global economic activities in H1-23 remained reflective of the passthrough and lingering impacts of macroeconomic headwinds from 2022. These macroeconomic headwinds include (1) persistent inflationary pressures, albeit slowly, depressing consumer demand; (2) cumulative impacts of interest rate increases, leading to higher borrowing costs; and (3) lingering trade tensions from the Russia-Ukraine conflict and tensed US-China relationships. More recently, uncertainties regarding global financial system stability have added further pressure to the global economy, given the failure of some regional banks in the United States. In addition, demand conditions in China – the world’s manufacturing behemoth – have not lived up to expectations, dimming hopes of improvement in the global outlook relative to the start of the year.

Amidst all these, global central banks maintained their hawkish monetary policy stance, albeit in softened tones relative to 2022, when the unprecedented interest rate hiking cycles started. Notably, critical central banks, including the US Fed (+75bps), Bank of England (+150bps), and European Central Bank (+150bps), have slowed down their rate hikes so far in the year primarily because of the (1) moderating inflationary pressures and (2) US regional banking sector wobbles, threatening financial system stability.

Over the rest of the year, global growth will likely remain on a decelerating trend relative to the prior year. While inflationary pressures are currently moderating, we expect consumer wallets to stay depressed, albeit slowly, relative to the preceding year, slowing down external demands. At the same time, borrowing costs are expected to continue to limit private investments, more so that uncertainties regarding financial system stability are expected to linger. Accordingly, advanced economies are seen to contribute most to the global growth slowdown, with the Euro Area and United Kingdom (UK) expected to bear the most brunt. Nonetheless, developing economies are expected to grow higher than 2022FY levels, bolstered by China’s reopening after two years of intermittent COVID-19 lockdowns. Overall, the International Monetary Fund (IMF) revised its global growth forecast downwards to 2.8% y/y in 2023FY (2022FY: 3.4% y/y), down from the 2.9% growth projection at the start of the year.

Further out, monetary policy rates are expected to peak in H2-23, in line with the (1) lingering moderation in inflationary measures, (2) weak growth momentum, and (3) heightened financial stability uncertainties worsened by the regional banks’ wobbles. However, given current guidance from systemic global central banks, we do not envisage the return to an accommodative monetary policy stance until 2024E, as inflation rates are not expected to return to central banks’ targets soon.

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On crude oil, the market is steadily resetting from the unprecedented levels seen in the last three years amid the shocks from the COVID-19 pandemic and the Russia-Ukraine crisis. Chiefly, benchmark oil prices are back to the pre-crisis level as rising supplies offset a slowdown in oil consumption across advanced countries. For the rest of the year, we expect supply growth to remain tethered upwards, driven mainly by increased output from the US, counterbalancing the drag expected from OPEC and its allies. On demand, we raise our growth expectations for demand, factoring in the persistence of China's consumption. On a balance of factors, we expect the market to maintain the imbalance witnessed since the start of the year, and thus forecast Brent crude oil will average USD80.00/bbl. in 2023FY. A weaker-than-expected crude oil production growth and the strength of China's reopening represent the most significant potential tailwinds for oil prices for the rest of the year. We cite weaker global economic conditions and its effects on energy demand and stronger-than-expected oil exports from Russia as the downside risks.

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Growth.

Growth.

Global Growth Path Remains Bumpy Amid Shocks

- Global growth to weaken to +2.8% y/y in 2023FY (2022FY: +3.4% y/y)
- Growth in advanced economies to settle lower at +1.3% y/y (2022FY: +2.7% y/y)
- Emerging markets and developing economies to slow marginally by +3.9% y/y in 2023FY (2022FY: +4.0% y/y)
- Global central banks to pause interest rate hikes by H2-23

The pattern in global economic activities was relatively sideways in the first half of the year, albeit with a downward tilt, on account of the direct and indirect effects of (1) the continued rise in global interest rates; (2) depressed consumer demand; (3) lingering geopolitical uncertainties; and more recently (4) financial system instability given the failure of some regional banks in the United States (US). We also highlight that more headwinds have emerged on the back of (1) fiscal buffers (though at modest levels) and funding squeeze to service debt in emerging economies and (2) mounting trade restrictions increasing the risk of global fragmentation.

Further out, we note some concerns regarding the demand pattern in China not increasing up to expectations after lifting pandemic restrictions. Pertinently, China's relaxation of its COVID-19 restrictive measures in December 2022 increased global optimism, given the significance of the country's demand on other countries' external sectors. However, we highlight that the economic recovery was weaker than expected, as some of the compressed demand backlog expected to be released upon reopening waned before a sustainable activity uplift could occur. Indeed, the manufacturing PMI, which measures factory activity, remained below the 50-point psychological threshold for the third consecutive month in June (49.0 points vs May: 48.8 points), suggesting that the recovery pace may be moderating.

Elsewhere, central banks across the globe maintained their hawkish policy stances. However, there appears to be a softening of the stance primarily due to the slowdown in inflationary pressures from their 2022 highs and, more recently, the US regional banking sector wobbles, threatening financial system stability. Precisely, the US Federal Open Market Committee (FOMC or Fed) has raised its key policy rate further by 75bps year-to-date, compared with 150bps increase by the European Central Bank (ECB) and the Bank of England (BOE), respectively, as of the end of June.

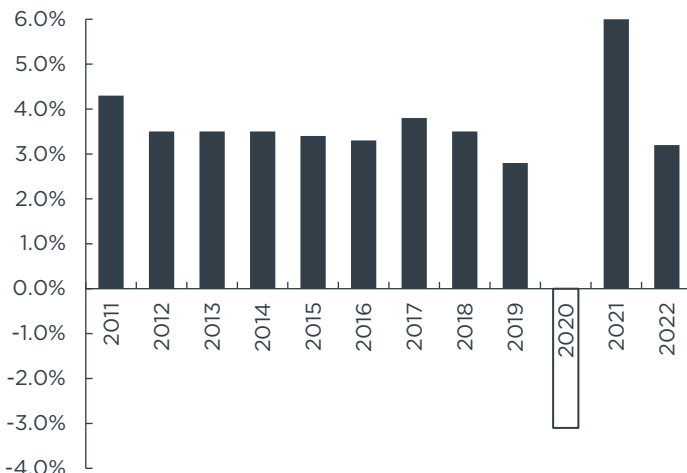
Overall, the IMF forecasts the global economy to bottom out at 2.8% y/y in 2023FY (2022FY: 3.4% y/y), with the expected slowdown expected to be

concentrated in advanced economies, particularly the UK and Euro Area. Apart from the existing challenges, the growth expectation reflects the impacts of (1) elevated geopolitical tensions, (2) increased uncertainties due to the financial sector turmoil in the US, and (3) growing geoeconomic fragmentations.

Global Economic Fragmentation is Increasing

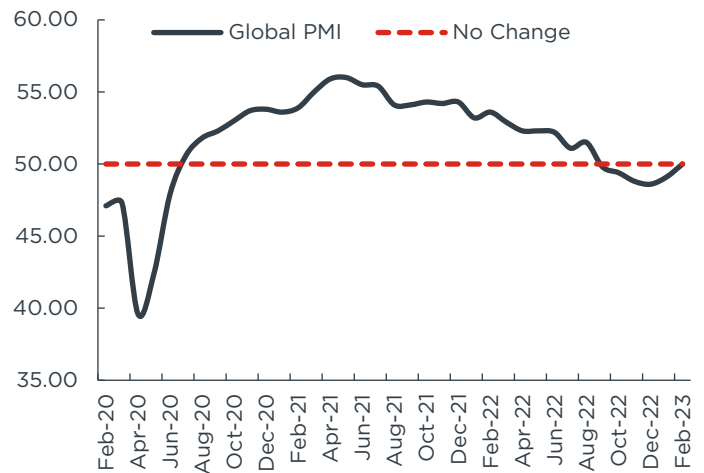
While the scarring impact of the COVID-19 pandemic and the effects of the Russia-Ukraine conflict has been primarily responsible for the global growth slowdown in the past two years, the rising threat of geopolitical fragmentation is one of the causes of the more recent downturn, according to the IMF. Different countries are aligning to form economic blocs for specific interests, going against the existing economic and political systems that promote globalisation. More recent notable examples include (1) alliances arising from the trade restrictions in response to the Russia-Ukraine conflict, (2) trade tensions between the US and China, and (3) BRICS nations working on developing a new reserve currency backed by hard assets such as gold or oil. Trade fragmentation and reduced capital flows pose more significant risks to the world economy. Indeed, the IMF stated that the longer-term cost of trade fragmentation alone could range from 0.2% of global output in a limited fragmentation scenario to c.7.0% of global GDP in a severe scenario – roughly equivalent to the combined annual output of Germany and Japan. Overall, the increased global fragmentation could erode the gains from international cooperation, hampering wealth and security. We highlight that this is likely to significantly impact (1) most of Asia, which could suffer due to heavy reliance on open trade; (2) emerging economies which would no longer benefit from technology spillovers that have boosted productivity; and (3) lower-income consumers in advanced economies which could lose access to cheaper imported commodities.

Figure 1: Global economic growth



Source: IMF, Statista, Cordros Research

Figure 2: Movement in global PMI



Advanced Economies Struggle to Keep up the Pace

Consumer spending continues to keep the United States' (US) domestic economic activities intact, even as high borrowing costs limited growth in Q1-23. According to the Bureau of Economic Analysis (BEA), real GDP in the US decelerated in Q1-23, settling lower at 1.1% q/q in Q1-23, relative to a growth of 2.6% q/q recorded in Q4-22. We understand that the slowdown in the review period primarily reflects a downturn in private inventory investment and a significant slowdown in non-residential fixed investments (+0.7% q/q vs Q4-22: +4.0% q/q) amid rising interest rates and tightening credit conditions. That said, consumer spending (+3.7% q/q vs Q4-22: +1.0% q/q) accelerated, supported by the resilient labour market and rising wages, which helped offset lingering inflationary pressures. On a year-on-year basis, the economy grew by 1.6% y/y in Q1-23 (Q4-22: +0.9% y/y | Q1-22: +3.7% y/y).

Figure 3: US economic growth trend (y/y)

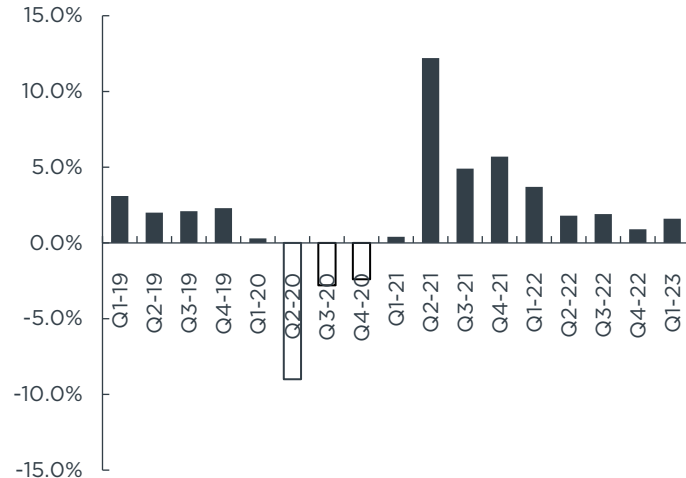
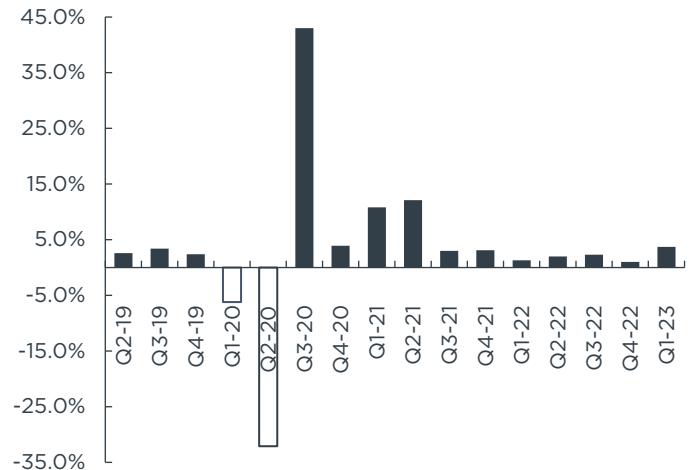


Figure 4: Trend in the US personal consumption expenditure



Source: BEA, Cordros Research

Elsewhere, the Euro Area economy grew marginally by 0.1% q/q in Q1-23 (Q4-22: 0.0% q/q). Nonetheless, the outturn was below expectations (+0.2% q/q) as economic activities in the zone remain constrained in line with the lingering effect of (1) a tight monetary policy stance by the ECB, (2) elevated price pressures, and (3) weakening consumer confidence. Among the regional bloc's most significant countries, growth stagnated in Germany (0.0% q/q vs Q4-22: -0.5% q/q) but expanded in France (+0.2% q/q vs Q4-22: 0.0% q/q), Italy (+0.5% q/q vs Q4-22: -0.1% q/q), and Spain (+0.5% q/q vs Q4-22: +0.4% q/q). On a year-on-year basis, the Euro Area grew slowly by 1.3% y/y (Q4-22: +1.8% y/y).

In the United Kingdom (UK), data released by the Office for National Statistics (ONS) shows that the economic activities in the UK remain tepid, as real GDP stalled at 1.1% y/y in Q1-23 (Q4-22: +1.1% y/y). We highlight that the outturn signals the lingering effect of industrial actions on economic activities amid a gradual recovery in the service sector. Analysing the breakdown, gross fixed capital

formation (+1.3%y/y) expanded, due to growth in business and governments, while public expenditure (-2.5% y/y) declined. On a year-on-year basis, the economic growth eased, settling lower at 0.2% y/y in Q1-23 (Q4-22: +0.6% y/y).

Figure 5: Euro area economic growth trend (y/y)

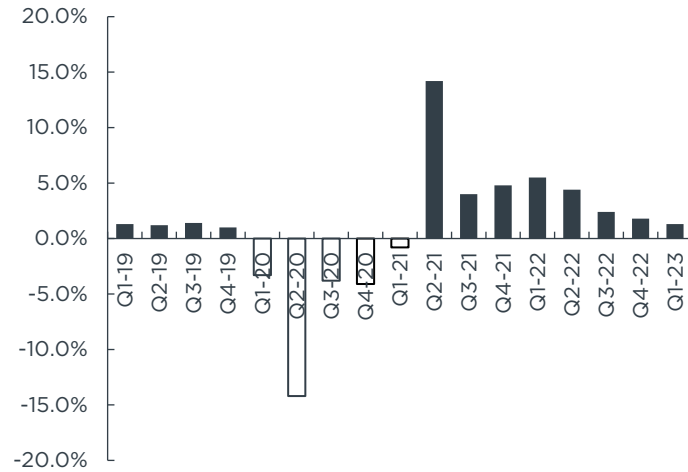
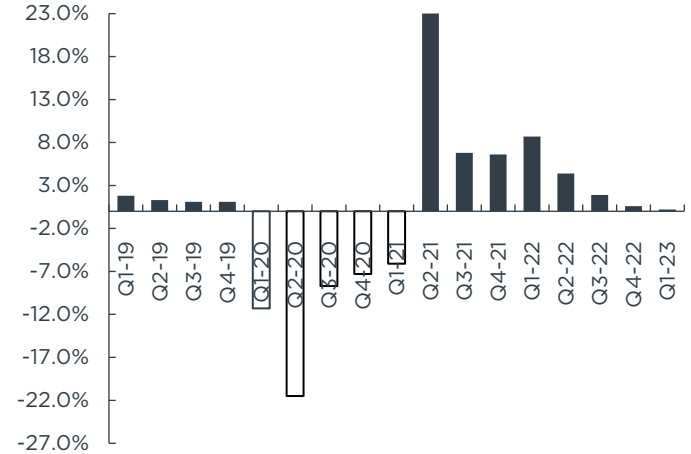


Figure 6: UK economic growth trend (y/y)



Source: IMF, ISM, Cordros Research

Emerging Economies Remain Resilient Amidst Mounting Risks

According to China's National Bureau of Statistics (NBS), the world's second-largest economy grew by 4.5% y/y in Q1-23 (Q4-22: +2.9% y/y) – the highest growth print since Q1-22. While demand did not rise to market expectations, the solid start in 2023 still synchronised neatly with the boost in consumer spending as the government ended its three years of strict COVID-19 restrictive measures. That said, we highlight that the property sector remained in the woods as property investments declined by 5.8% in the review period. On a quarter-on-quarter basis, the Chinese economy expanded by 2.2% (Q4-22: 0.0% q/q).

In Russia, economic growth remains depressed, declining by 1.7% y/y in Q1-23 (Q4-22: -2.7% y/y). We highlight that the outturn represents the fourth consecutive quarter of contraction and reflects the impact of global sanctions on the economy due to the Russia-Ukraine conflict. Accordingly, growth remains subdued across the wholesale and retail trade sectors amid a gradual recovery in the manufacturing and agriculture sectors.

Economic growth in Brazil expanded by 4.0% y/y in Q1-23 (Q4-22: +1.9% y/y), primarily driven by high consumer spending (+3.5% y/y) in line with the increase in real wages and higher credit availability. At the same time, government expenditure rose by 1.2% y/y (Q4-22: +0.5% y/y), while the growth in gross investments settled lower at 0.8% y/y (Q4-22: +3.5% y/y). On a quarter-on-quarter basis, economic activities expanded by 1.9% q/q in Q1-23 (Q4-22: -0.1% q/q), reflecting the highest growth print since Q4-20 (3.4% q/q).

Figure 7: GDP growth in emerging and developing economies

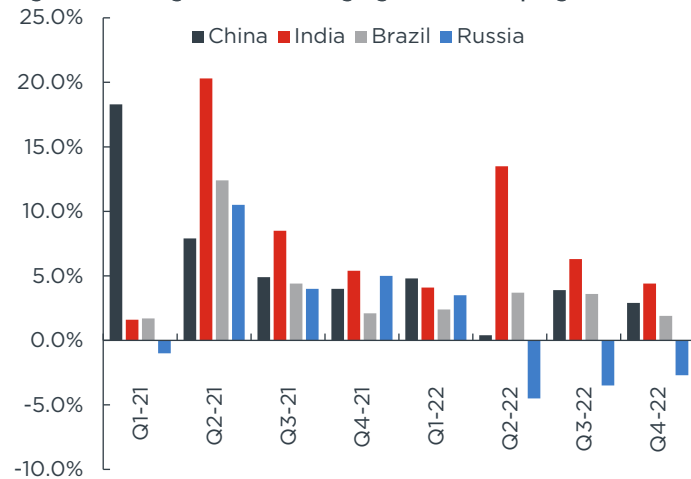
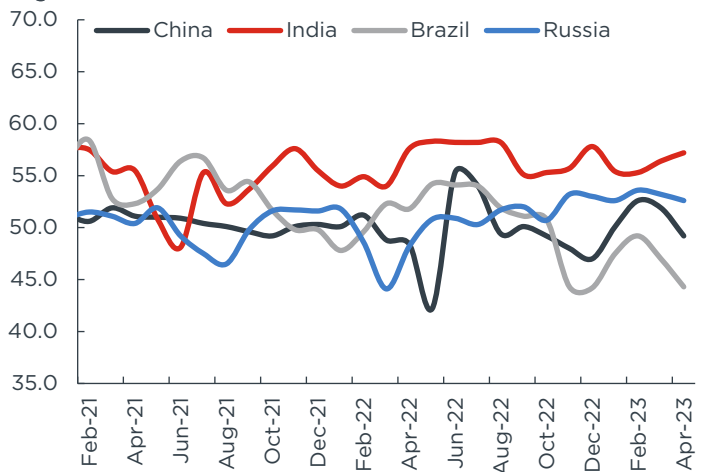


Figure 8: Selected EMDEs PMI



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

Elsewhere in Sub-Saharan Africa, according to the National Bureau of Statistics (NBS), the Nigerian economy maintained its positive growth path in Q1-23. However, the growth momentum slowed compared to the prior quarter, settling lower at 2.77% y/y (Q4-22: 3.52% y/y). In our view, the slow growth was primarily due to the impact of the cash scarcity that accompanied CBN's naira redesign drive. Besides from that, we think the moderate growth was also partly driven by election uncertainties in the review period and the lingering increase in production costs. Accordingly, the non-oil sector grew slower by 2.77% y/y in Q1-23 (Q4-22: 4.44% y/y), while the oil sector contracted by 4.21% y/y (Q4-22: -13.38% y/y).

In Ghana, economic growth increased to its highest level since Q4-21, expanding by 4.2% y/y in Q1-23 (Q4-22: 3.2% y/y). The breakdown provided showed that domestic economic activities in the review period was primarily driven by the Services (10.1% y/y vs Q4-22: 7.6% y/y) and Agriculture (4.8% y/y vs Q4-22: 3.6% y/y) sectors. However, Industries contracted further by 3.2% y/y (Q4-22: -1.0% y/y), amid steep declines in the construction and water supply sub-sectors.

Meanwhile, in South Africa, economic growth slowed by 0.2% y/y in Q1-23 (Q4-22: +0.8% y/y), in line with the lingering effect of (1) sustained electricity shortages, (2) external demand slowdown given heightened global uncertainties, and (3) operational inefficiencies of state-owned enterprises. Meanwhile, on a quarter-on-quarter basis, economic activities expanded by 0.4% y/y (Q4-22: -1.1% y/y), avoiding a technical recession, primarily driven by the improvement in government spending (+1.2% q/q vs Q4-22: -0.7% q/q) in the review period.

In the same vein, economic growth in Angola moderated to 2.6% y/y in Q4-22 (Q3-22: +3.9% y/y), primarily driven by the decline in the oil sector (-5.2% y/y vs Q3-22: +2.7% y/y). We attribute the crash in the oil sector to capacity constraints amid weaker demand and depressed refining margins. Meanwhile, the non-oil sector (+5.2% y/y vs Q3-22: +4.4% y/y) recorded gains, strongly supported by growth in manufacturing, construction, and trade sub-sectors.

Figure 9: Selected SSA GDP growth

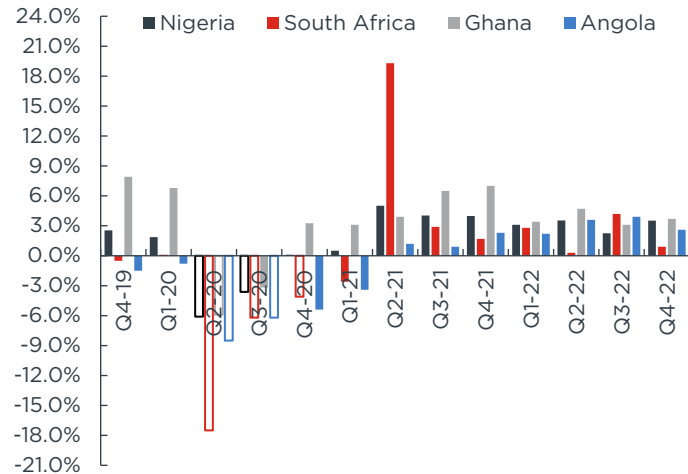
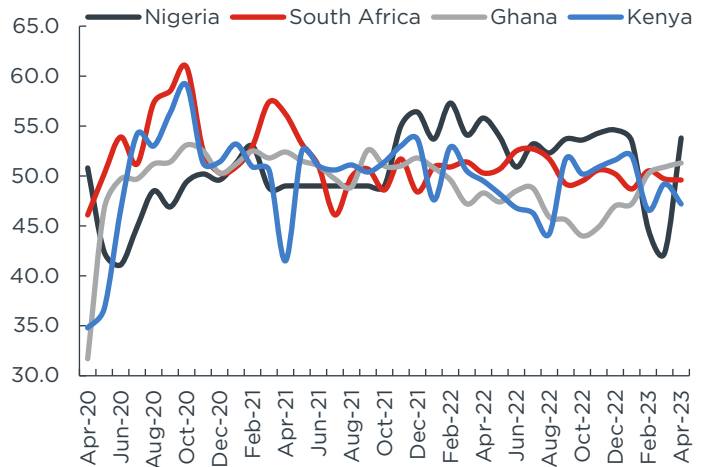


Figure 10: Selected SSA economies' PMI



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

Global Central Banks Appear to be Reaching the Peak of Rate Hikes

The global central banks have slowed the pace of interest rate increases since the beginning of 2023FY and appear to be reaching the peak of the current monetary policy tightening cycle. The preceding has been primarily due to the heightened uncertainties regarding financial system stability and moderation in inflationary pressures. Remarkably, the FOMC (+75bps), ECB (+150bps), and BoE (+150bps) increased their key policy rates slowly year-to-date as of June. At the May policy meeting, the forward guidance by the systemic global central banks suggests we are now nearing the peak of monetary policy tightening, and halting interest rate increases will likely dominate H2-22. Notably, the forward guidance as indicated by the US Fed's dot "dot plot" suggests that a HOLD stance is likely to dominate H2-23, although the key policy rate may rise to 5.6% by year-end, implying two more 25bps hikes to a target range of 5.50% - 5.75% at subsequent meetings.

More specifically, at its June policy meeting, the Federal Open Market Committee (FOMC) voted to maintain the target range for the federal funds rate at 5.00% - 5.25%, stating that it allows the Committee to assess additional information and its implications for monetary policy. Like the previous meeting, the FOMC highlighted that in determining the extent of additional policy firming that may be appropriate to return inflation to 2.0% over time, the Committee would take into account the (1) cumulative tightening of monetary policy, (2) lags with which

monetary policy affects economic activity and inflation, and (3) economic and financial developments.

On the other hand, in June, the European Central Bank (ECB) voted to increase the interest rates on the main refinancing operations, marginal lending facility, and deposit lending facility by 25bps each to 4.0%, 4.25%, and 3.50%, respectively. The Committee stated that the rate increase reflects the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission. That said, the Governing Council highlighted that its future decisions would ensure that the key interest rates will be brought to sufficiently restrictive levels to achieve a timely return of inflation to the 2.0% medium-term target and will be kept at those levels as long as necessary. Thus, we anticipate the ECB will likely increase the key policy rates further at its next meeting before embarking on a HOLD stance at subsequent meetings. Indeed, we understand that the ECB's President, during a news conference, stated that the ECB had more ground to cover and would likely continue raising rates in July.

Elsewhere, the Bank of England (BoE), at its June policy meeting, increased the key policy rate by 50bps to 5.0% - its 13th consecutive rate hike and the highest level since September 2008. In influencing its decision of a bigger rate increase, the Committee stated that there had been a significant upside in recent data indicating more persistence in the inflation process. Indeed, we highlight that the headline inflation was unchanged at 8.7% y/y in May while the core inflation (7.1% y/y vs April: 6.8% y/y) accelerated to a 31-year high. Besides from that, the Committee stated that the second-round effects in domestic price and wage developments generated by external cost shocks are likely to take longer to unwind than they did to emerge.

Meanwhile, in June, the People's Bank of China (PBoC) lowered the Loan Prime Rate (LPR) after nine consecutive months of keeping it steady at 3.65%. The bank lowered the one-year LPR by 10bps and reduced the five-year rate to 4.2%. The preceding aligns with our long-held view that the bank will loosen its monetary policy stance further, prioritising economic growth amidst disappointing economic data pointing that the economy's post-COVID recovery is losing steam. Besides that, we understand that the government plans to deploy additional measures targeting areas of the economy, particularly the real estate sector, which makes up a significant portion of GDP.

Away to Sub-Saharan Africa (SSA), the South African Reserve Bank raised its key repo rate by 50bps to 8.25% in its May policy meeting, representing the tenth consecutive rate hike and the highest level since May 2009. We note that the recent hike translates to a 475bps increase since November 2021, when the apex bank commenced its current tightening cycle. Elsewhere, the Monetary Policy

Committee of the Bank of Ghana (BOG) has increased its key monetary policy rate by a cumulative 250bps year-to-date to a record high of 29.50%. However, as of the May policy meeting, the Committee voted to keep the policy rate constant at 29.50%, citing that the underlying inflationary pressures are easing, as the BOG's core inflation measure declined for the fourth consecutive month. There has also been a significant moderation in headline inflation from the beginning of the year. Along the same line, while the cumulative interest rate increase by the Central Bank of Egypt was 200bps year-to-date, we highlight that the Bank held the overnight deposit rate steady at 18.25% at the May meeting. According to the Committee, the decision was driven by the deceleration in headline and core inflation amid the cumulative impact of rate hikes since March 2022.

Table 1: Macroeconomic indicators across selected countries

	US	Euro Area	UK	Japan	China	India	Brazil	Russia
YTD rate decision	+75bps	+150bps	+150bps	Unchanged	-10bps	+25bps	Unchanged	Unchanged
Latest Inflation Rate	4.00%	5.50%	8.70%	3.20%	0.20%	4.25%	3.94%	2.50%
Unemployment Rate	3.70%	6.50%	3.80%	2.60%	5.20%	7.70%	8.50%	3.20%
Equity Market (YTD return)	+14.5%	+7.5%	+0.3%	+27.4%	+3.7%	+6.2%	+7.9%	+29.8%

Source: IMF, Bloomberg, Cordros Research

Global Economy to Remain on Course for a Pervasive Slowdown

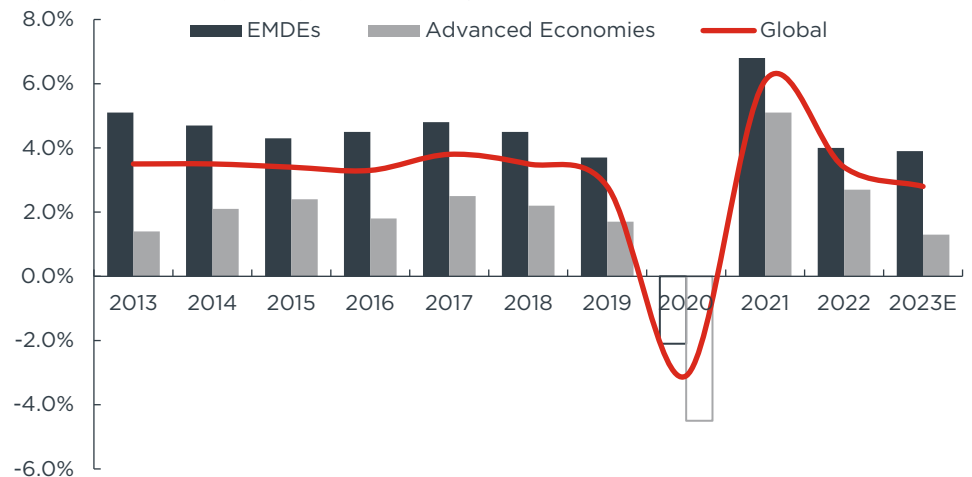
Given the spillover of challenges from the prior year into the current year, we expect global growth to keep decelerating. Inflationary pressures have persisted, albeit less aggressively, in weakening consumer demand, while elevated borrowing costs have constrained investments. At the same time, regional bank failures in the US have heightened the uncertainties regarding global financial stability amid international central banks maintaining monetary tightening cycles, though less aggressively. Additionally, we expect pressures from many emerging economies facing debt issues exacerbated by the high global interest rates.

Overall, the International Monetary Fund (IMF) revised its global growth forecast downwards to 2.8% y/y in 2023FY (2022FY: 3.4% y/y), down from the 2.9% growth projection at the start of the year. In our view, the downward revision reflects the emergence of recent issues adding to the existing woes.

Further out, monetary policy rates are expected to peak in H2-23, in line with the weak growth momentum and heightened financial stability uncertainties worsened by the regional banks' wobbles. However, given current guidance from systemic global central banks, we do not envisage the return to an accommodative monetary policy stance until 2024E, as inflation rates are not expected to return to central banks' targets soon. Overall, as mentioned earlier, the FOMC is expected to pause further rate increases as early as its next policy meeting in June. Elsewhere, the ECB is likely to embark on a further 25bps

increase apiece in the key interest rates at its June and July policy meetings, after which it is expected to consider halting additional interest rate increases over the rest of the year. Along the same line, we expect the BOE to favour one more rate hike in June and a possibility of further increase at the August policy meeting before embarking on a HOLD stance for the rest of the year. **Overall, these expectations are likely to provide succour to emerging markets which have witnessed an exodus of fund outflows and external debt refinancing constraints in the wake of global interest rate increases.**

Figure 11: Trend in global growth and projection



Source: IMF, Cordros Research

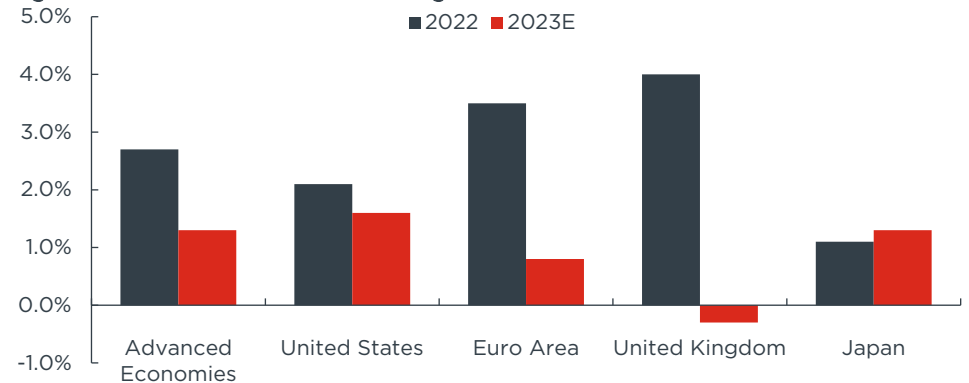
Across Advanced economies, growth is expected to weaken further, primarily driven by (1) tighter financial conditions, (2) persistent inflationary pressures, and (3) weak domestic and external demand. **Consequently, the IMF forecasts growth in advanced economies to slow by 1.3% y/y in 2023FY (2022FY: 2.7% y/y).**

For the United States, we believe growth will be subdued over the rest of the year as the recent financial sector turmoil could exacerbate tight credit conditions and add to the existing woes in the economy. Simultaneously, we highlight that weak residential and non-residential investments will remain critical drags on overall growth momentum as the elevated borrowing costs and recent layoffs continue to undermine business activities. **On a balance of factors, the US economic growth is projected to moderate to 1.6% y/y in 2023FY (2022FY: 2.1% y/y).**

In the same vein, growth momentum in Eurozone is expected to remain weak as economic activities are expected to be dampened by the lingering effects of (1) tighter financial conditions, (2) elevated price pressures, (3) weak external demand, and (4) supply chain issues arising from geoeconomic fragmentation. Across the major countries in the region, we expect growth slowdown across France (+0.7% y/y vs 2022FY: +2.6% y/y), Italy (+0.7% y/y vs 2022FY: +3.7% y/y),

and Spain (+1.5% y/y vs 2022FY: +5.5% y/y) and a decline in Germany (-0.1% y/y vs 2022FY: +1.8% y/y) as the lingering energy crisis exposes the manufacturing sector to vulnerabilities, with potential spillover effects on consumers and businesses. **Overall, the IMF projects the region to grow by 0.8% y/y in 2023FY (2022FY: 3.5% y/y).**

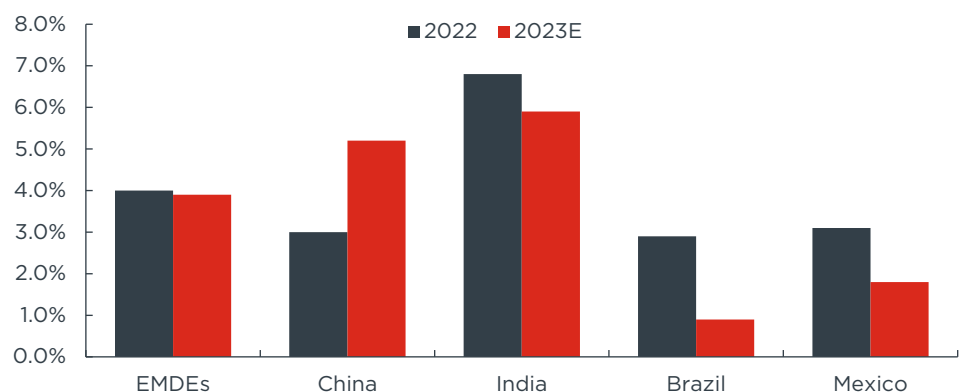
Figure 12: IMF's advanced economies growth forecast



Source: IMF, Cordros Research

For emerging markets and developing economies, we expect growth to settle higher at 3.9% in 2023FY relative to 3.3% y/y in 2022FY, bolstered by China's reopening after two years of intermittent COVID-19 lockdowns. Notably, the Chinese economy is expected to expand in 2023FY (+5.2% y/y vs 2022FY: +3.0% y/y) in line with the increased consumer demand and low base effects in the prior year. Nonetheless, we envisage the economic growth pace to remain low compared to the pre-pandemic levels average (+6.5% y/y), given that the post-reopening boost to consumption expenditure has not been up to expectations amid the lingering property sector crisis. **Meanwhile, we expect the growth in Sub-Saharan Africa (SSA) to be weighed down by South Africa and resource-intensive countries. In particular, growth in resource-rich countries is expected to slow down, given the relatively low commodities prices compared to the prior year.** As a result, according to the IMF's estimates, SSA economies are projected to grow by 3.6% y/y in 2023FY (2022FY: +3.9% y/y).

Figure 13: IMF's emerging economies growth forecast



Source: IMF, Cordros Research

Crude Oil.

Crude Oil.

Market Recalibration Finally on Course

- Oil prices surged on global economic conditions
- Market to remain unbalanced
- Short-term risks are tilted to the upside
- 2023FY Brent crude price forecast: USD80.00/bbl

While the crude oil market has remained generally volatile, as expected, oil prices have maintained a downtrend so far in 2023. The global benchmark crude price, Brent, is down by 11.2% YTD (as of 4 July) to USD76.25/barrel, 40.4% off the 14-year high (USD127.98/barrel) attained in March 2022. Oil prices weakened following concerns about (1) the impact of global economic conditions on oil demand; (2) financial instability in US and Europe in March; and (3) tight monetary policy stances across most nations, given spiralling inflation.

Amid the aforementioned, we witnessed pockets of short-lived recoveries, particularly in March and April, driven by China’s reopening and a surprise production cut announcement by OPEC+. However, on the latter, we note that oil prices failed to sustain the rally that accompanied the surprise decision delivered in early April, as fears of worsening global demand dampened the market’s outlook on prices. Thus, oil prices have remained rangebound at the pre-April OPEC cut levels.

Figure 14: Crude oil prices in 2023 (USD/bbl)

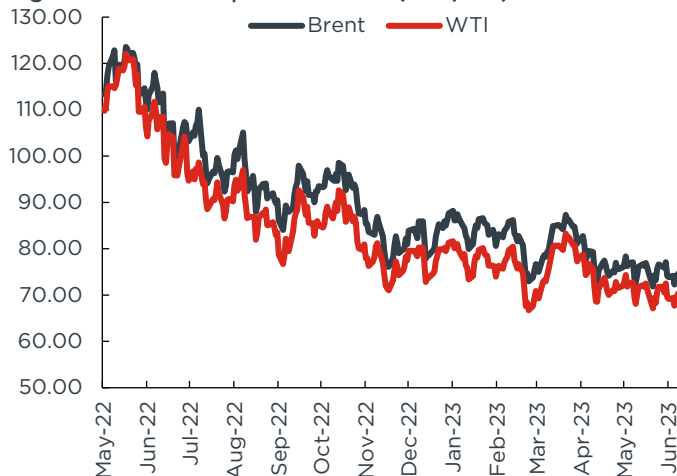
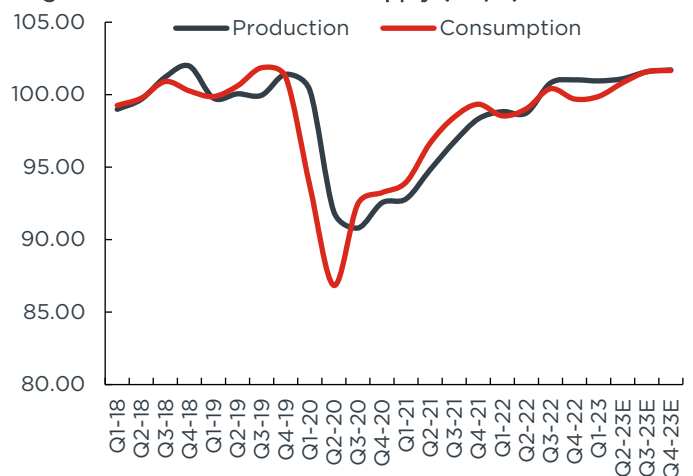


Figure 15: Global demand and supply (mb/d)



Source: Bloomberg, EIA, Cordros Research

Global demand has yet again fallen below expectations as the rising interest rates and the effects of the Russia/Ukraine crisis on industrial activity outweighed the impact of the reopened Chinese economy. As such, global consumption as of May declined by 0.4% and is c. 1.4% below the pre-pandemic level. Factoring in the persistence of China’s consumption amid the sluggish pace of OECD demand

growth, the previous 1.2% growth forecast for 2023FY demand is revised upwards to 1.6%.

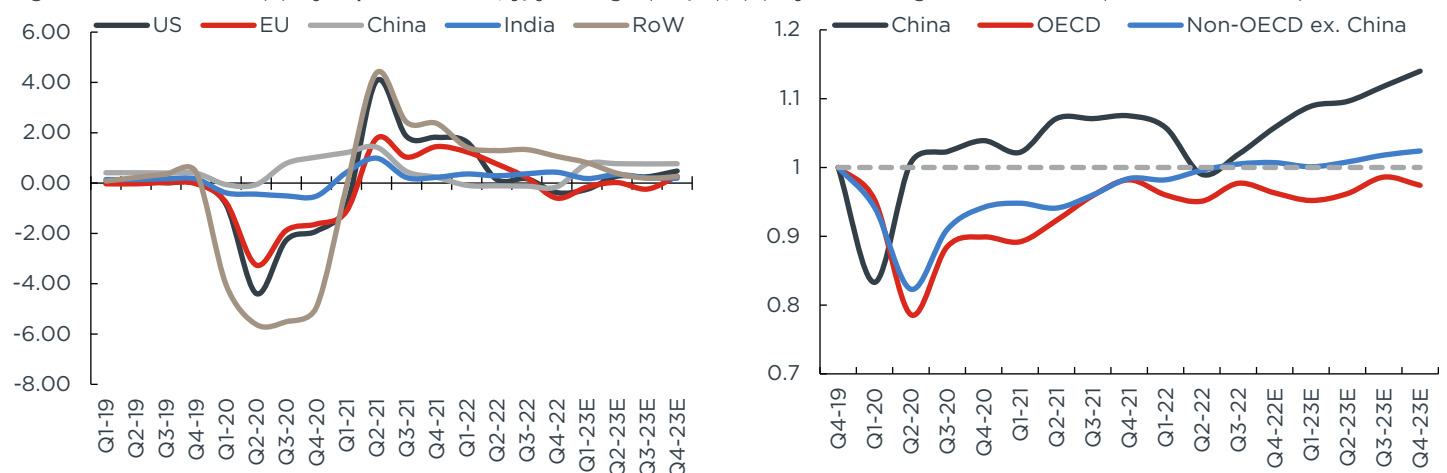
On the other hand, we maintain our expectations for supply growth for 2023FY, with a slight upward revision of the current estimate to +1.5% (previously: +0.8% y/y). We remain convinced that increases from non-OPEC+ producers - notably the US - will support oil output growth and counterbalance a drag in supply from OPEC and its allies, driven by lower production from member countries.

Considering the current market dynamics, future expectations and factoring speculative effects, we expect the Brent crude price will average USD80.00/bbl. in 2023FY (Initial forecast: USD92.00 | 2022 average: USD102.77/bbl.).

Market Balance: Slow Demand Tightens Balance

Demand: Oil consumption so far in 2023 has fallen short of expectations as the reopening of China's economy failed to deliver the much-anticipated growth in demand numbers to pre-pandemic levels, with rising interest rates presenting as a counteracting factor. The US Energy Information Administration (EIA) estimates global crude oil consumption at 99.87 mb/d as of May 2023, translating to a 0.9% decline from the 2022 level (100.76 mb/d). While China's oil consumption has grown by 0.51 mb/d (+3.2%) so far in the year, having reached an all-time high in February (16.07mb/d), the overall non-OECD demand only grew by 0.1%, dragged by slower consumption from Eurasia (-8.4% y/y). Whereas OECD demand declined by 2.1%, as tight monetary policy stances and the Russia/Ukraine crisis weighed on activity and dampened consumption, particularly in Japan (-20.8%) and Canada (-12.4%) even as demand increased in the US (+2.5%) and Europe (+1.3%).

Figure 16: Oil demand (a) by top consumers, y/y change (mb/d); (b) by World regions and China (indexed at Q4-19)



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

A sizeable portion of the current demand was driven by increased travel, coming off a steep Q4-22. With the economy reopened from tight COVID-19-related restrictions, travel in China picked up and influenced a substantial consumption of gasoline and jet fuel, supporting crude oil demand. Generally, using the US as a proxy, we witnessed a significant pick up in air travel, following a 34.0% increase in international passenger flights. We expect this trend to be sustained through the year and contribute to oil demand outturn in 2023FY.

Figure 17: China's oil products consumption

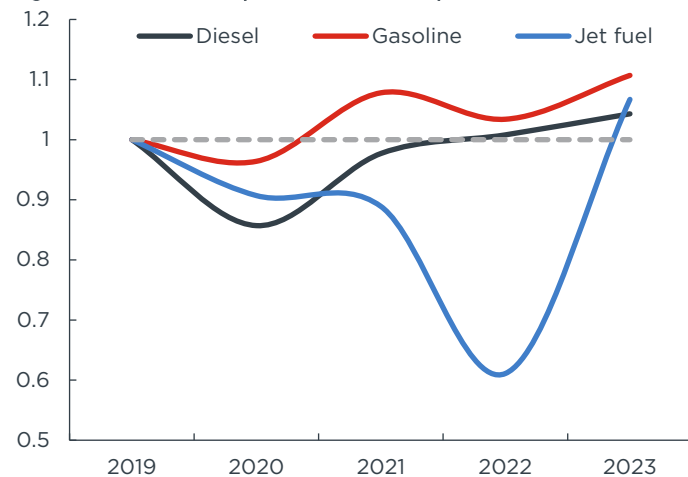
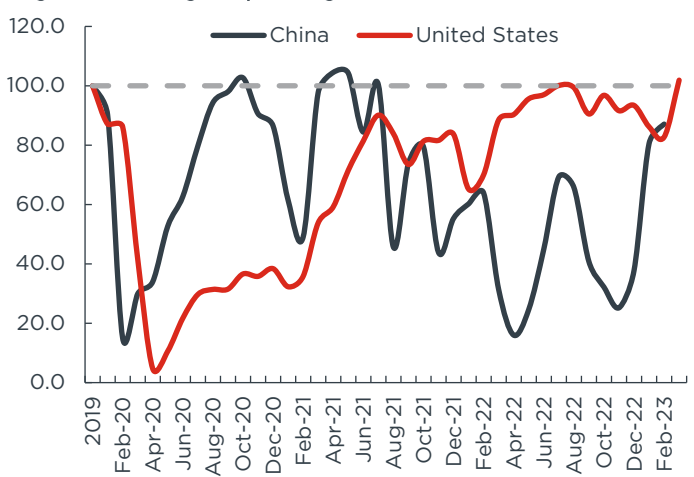


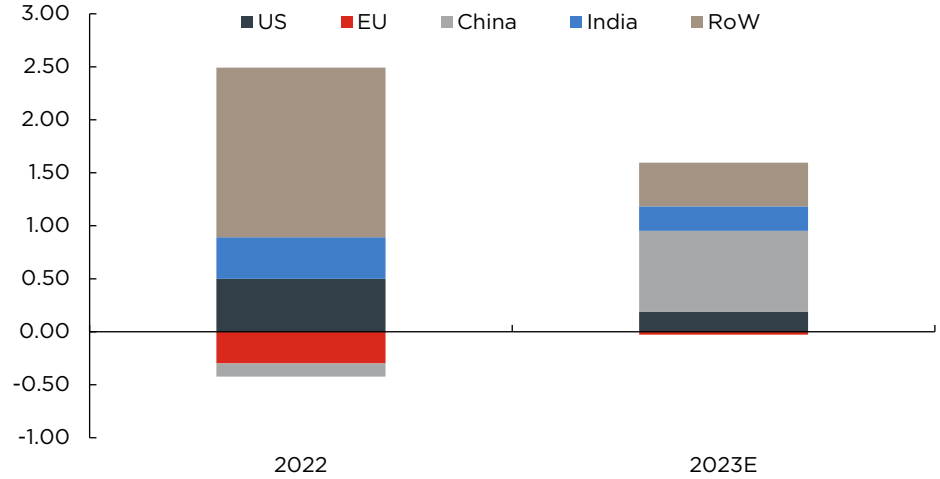
Figure 18: Change in passenger air travel



Source: IEA, World Bank, Cordros Research | Index showing the rate of change from 2019

Reiterating our stance from the start of the year, we expect that consumption in China will be paramount for crude oil demand to rebound to pre-pandemic levels (101.76 mb/d). We maintain that the recovery in China will account for a sizeable portion of any expected increase in global oil demand, especially as we believe that recession fears and tight financial conditions will dampen activity further and drag demand in OECD countries. As earlier stated, the rebound in travel (and related sectors) will remain an upside for oil demand at least through 2023. In addition, EIA numbers indicate that the rest of the growth in oil consumption will be contributed by EMDEs (mainly Asian countries). Consequently, non-OECD demand is expected to rise by 1.51 mb/d (+2.8%) by year-end, with China contributing c. 30.0% of the outturn; China's oil demand is expected to grow by 5.2% in 2023FY. For OECD demand, in addition to sluggish industrial activity slowing consumption, we believe the focus on net-zero carbon emissions will continue to influence the shift to renewable energy sources and inhibit oil consumption in this region. We expect OECD demand to rise slowly by 0.75 mb/d (+1.6%) by 2023 year-end (YE), supported by negligible growth in the US (+1.6%) and Europe (+1.0%). **Overall, oil demand is expected to increase by 1.59 mb/d (+1.6%) in 2023FY (previous projection: +1.17mb/d).**

Figure 19: Oil demand forecast by geography (mb/d)



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

Supply: As of May 2023, oil production increased by 0.5% to 100.79 mb/d, matching our expectations of modest growth following a drop in OPEC+ production (-2.8%) and an increase in non-OPEC production (+2.2%). Specifically, output from OPEC+ dipped by 0.95 mb/d as the coalition’s production yet again remains below the agreed quota (41.86 mb/d) amid new cuts announced in the year. So far in the year, OPEC+ production is on average c. 2.00mb/d below the agreed quota, with the major shortfalls stemming from Russia (0.88 mb/d), Nigeria (0.72 mb/d) and Angola (0.40mb/d). Again, this brings to the fore discussions on the effectiveness of the bloc’s production cuts, as a sizeable part of the group can barely raise production to match their required quotas. Notably, only the Middle Eastern producers – save for Iraq and Azerbaijan – are meeting their current quotas.

Figure 20: Total production (mb/d)

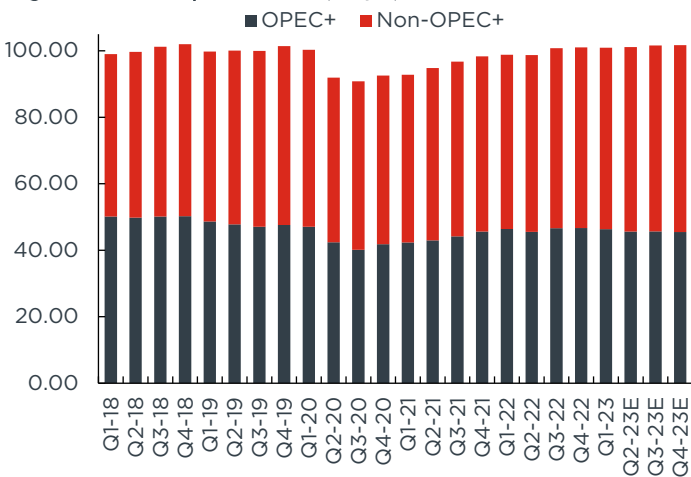
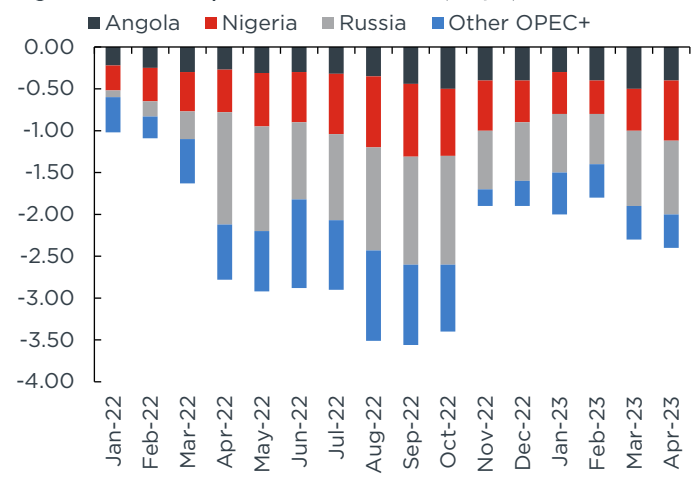


Figure 21: OPEC+ production shortfall (mb/d)

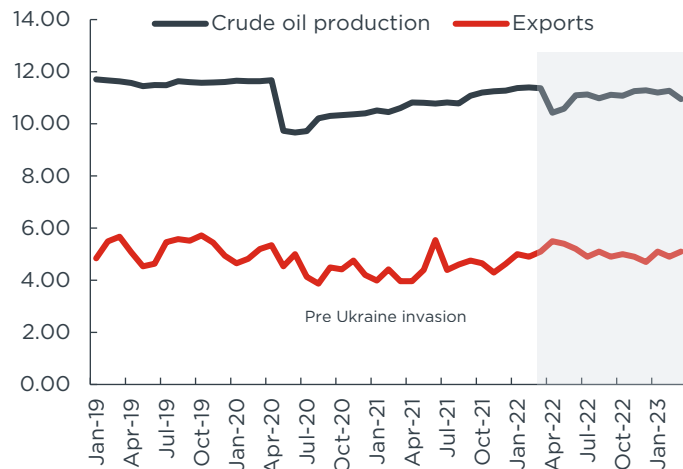


Source: EIA, IEA, World Bank, Cordros Research | Other OPEC+ includes Azerbaijan, Bahrain, Brunei, Malaysia, South Sudan and Sudan

Russia’s production remained below pre-invasion levels by 0.82 mb/d (7.3%) and is 0.47 mb/d short of its 2022 level (10.98 mb/d), highlighting the under

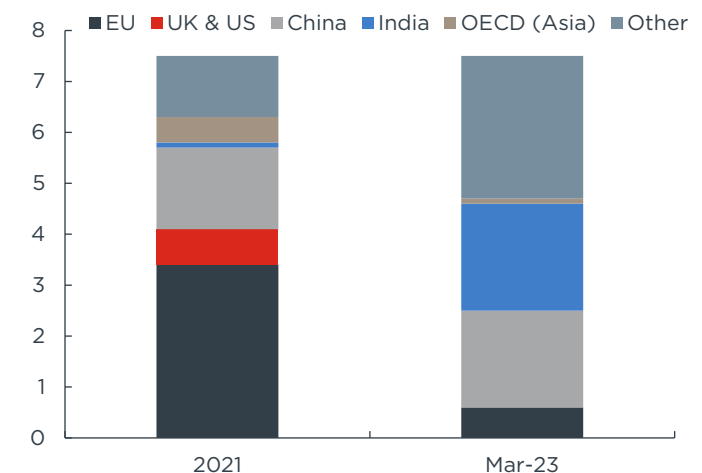
effectiveness of the sanctions from the G7 and other EU countries. For clarity, while Russia's exports to the aforementioned countries have dipped significantly, we have witnessed a pick-up in its sales to EMDEs in Asia, which has neutered the effects of the lower patronage from the G7 and EU to a significant degree. To achieve this and circumvent the price embargoes placed on their product, Russia has employed avenues outside the usual maritime channels to sell their products to parties not participating in the sanctions. This has effectively been at the expense of fellow OPEC+ members, who have had to battle with the two-tier market that has emerged since the embargoes came into force. Given how strenuous its current arrangement is, Russia's crude trades at a sizeable discount (-12.4%) to Brent; amid a 0.50 mb/d production cut from March to June 2023 which may have been done to reduce the need for refining following its current less efficient distribution. As such, Russia's oil revenues are down markedly. According to the International Energy Agency (IEA), Russia's oil revenue is down by c. 27.0% y/y, while tax receipts from its oil and gas sector are down by 64.0% y/y as of April 2023. However, further screening of Russia's revenue data indicates a 12.7% m/m increase in the country's oil exports revenue, implying that Russia may be boosting its output and producing above its quota to support its oil revenue.

Figure 22: Russia's production & exports



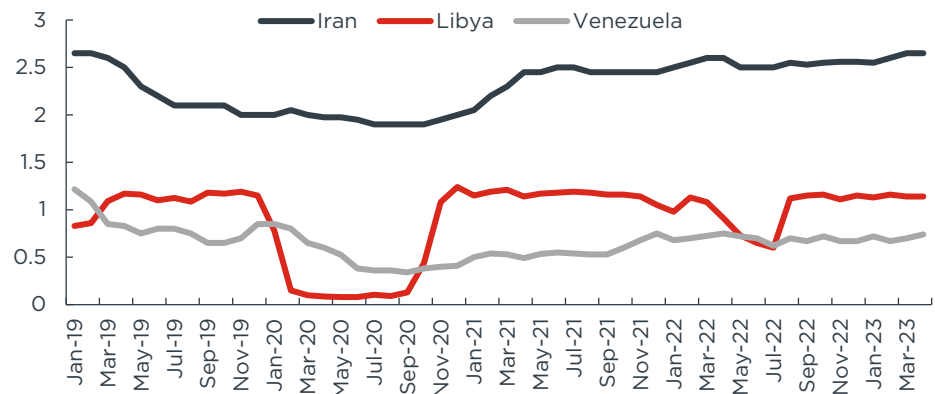
Source: EIA, IEA, World Bank, Cordros Research

Figure 23: Oil exports from Russia by region/country



Meanwhile, production among OPEC countries exempted from the cuts highlighted recovery. Notably, Iran surpassed the three-year high production level (2.60 mb/d) attained last year, as its production rose to 2.65 mb/d as of May, driven particularly by exports to China. Libya's production has averaged 1.14 mb/d year-to-date (as of May), 0.9% less than its 2022 year-end value (1.15 mb/d) but 16.2% better than its 2022 average (0.98 mb/d), highlighting an overall increase amid the lingering geopolitical tensions. Venezuela's production also increased to 0.74 mb/d, its highest level since it hit 0.75 mb/d in April 2022.

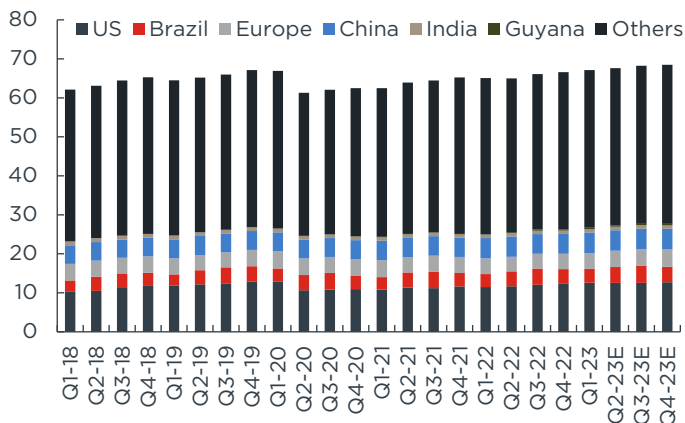
Figure 24: Iran, Venezuela & Libya production (mb/d)



Source: EIA, Cordros Research

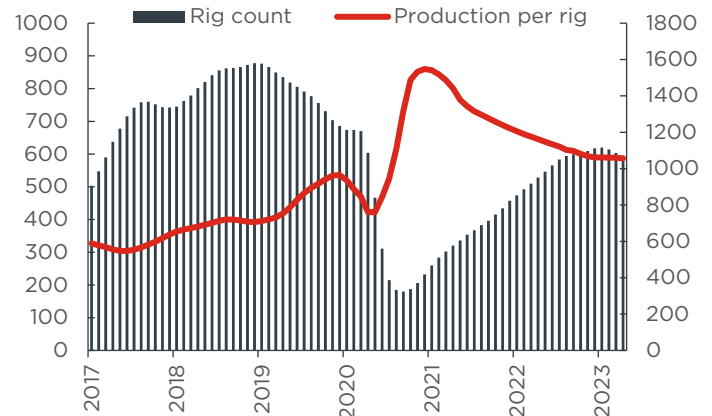
As noted earlier, the increase in the overall global supply was influenced by non-OPEC producers, particularly the US. Production in the US grew by 0.27 mb/d (+2.2%) as of May to 12.42 mb/d, having hit a post-pandemic high of 12.59 mb/d in March. While this is good at first glance, sustainability is a concern, as active rig counts have declined by 0.5% year to date, reflecting the lower oil prices. The number of drilled but uncompleted wells has also declined, indicating a poor signal to future production. Asides from the effects of lower oil prices on new investments, the US shale industry faces other challenges that have constrained future production. Such challenges include the sharp increases in the cost of labor and other key inputs; and the limited capacity of oil field services, especially fracking fleets. Outside the US, we cite higher production numbers, notably from Brazil (+0.24 mb/d to 3.71 mb/d), Europe (+0.41 mb/d to 4.34 mb/d), China (+0.16 mb/d to 5.21 mb/d) and India (+0.06 mb/d to 0.91 mb/d). Notably, Guyana's production has continued to ramp up since the country's first oil fields commenced production in 2022, with its output currently at 0.36 mb/d.

Figure 25: Non-OPEC+ oil production (mb/d)



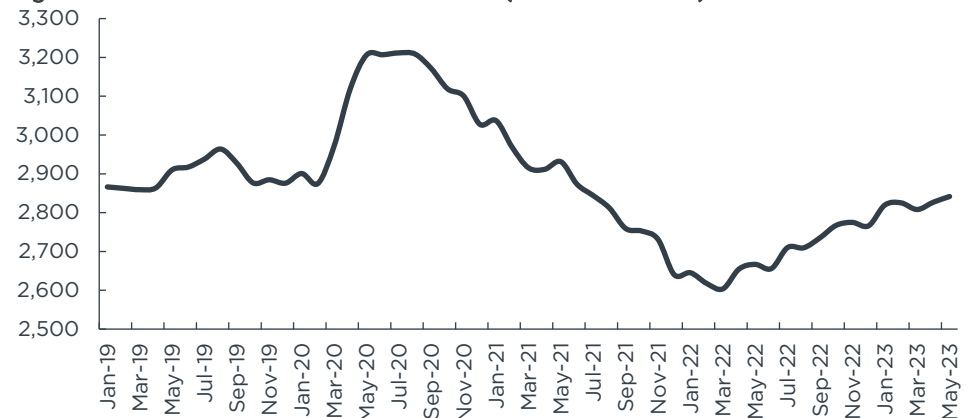
Source: Baker Hughes, EIA, Cordros Research

Figure 26: US oil rig count (units) and well productivity (bbl/d)



Global oil inventories touched their highest level in 18 months in January, supported by increases in both the OECD (+57.10 mb/d) and non-OECD (+13.00 mb/d) and a decline in oil on water (-17.20 mb/d). However, observed oil inventories declined as of the latest available data in March, having steadied in February, as a 56.00 mb/d decline in OECD stocks outweighed a surge in oil on water and a slight increase in non-OECD stocks. Overall, global oil inventories as of March declined by 7.90 mb/d.

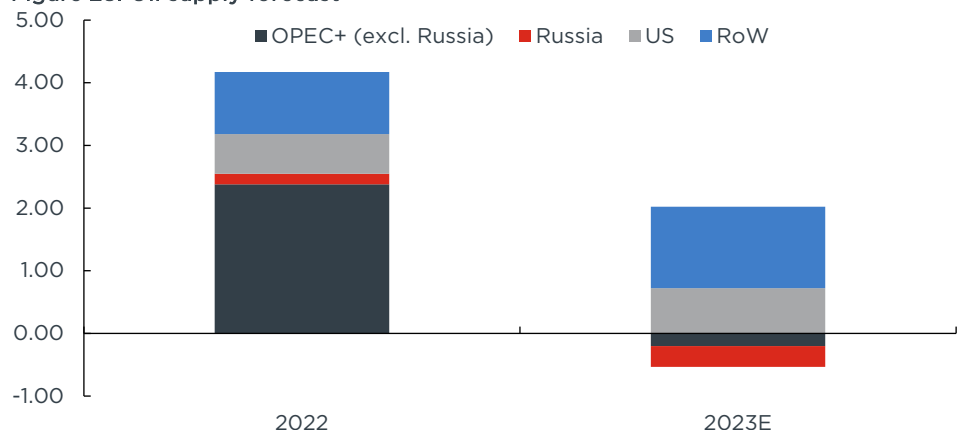
Figure 27: OECD commercial oil inventories (in million barrels)



Source: IEA, World Bank, Cordros Research

The overall expectation for supply for 2023FY still points to a slight increase of 1.52 mb/d (+1.5% y/y), supported by further increases from non-OPEC+ producers - US (+0.72 mb/d), Guyana (+0.11 mb/d), Canada (+0.16 mb/d) and Norway (+0.29 mb/d). OPEC+ production is not expected to move significantly from current levels following current production cuts, reiterating our expectations of a marginal drop in overall output from the group. Accordingly, the EIA forecasts a 0.65 mb/d decrease in OPEC+ crude oil production. With Russia having little to no difficulty finding new buyers for its crude oil, Russia's expected production decline is lowered to 0.37 mb/d (Previously: 0.80 mb/d).

Figure 28: Oil supply forecast

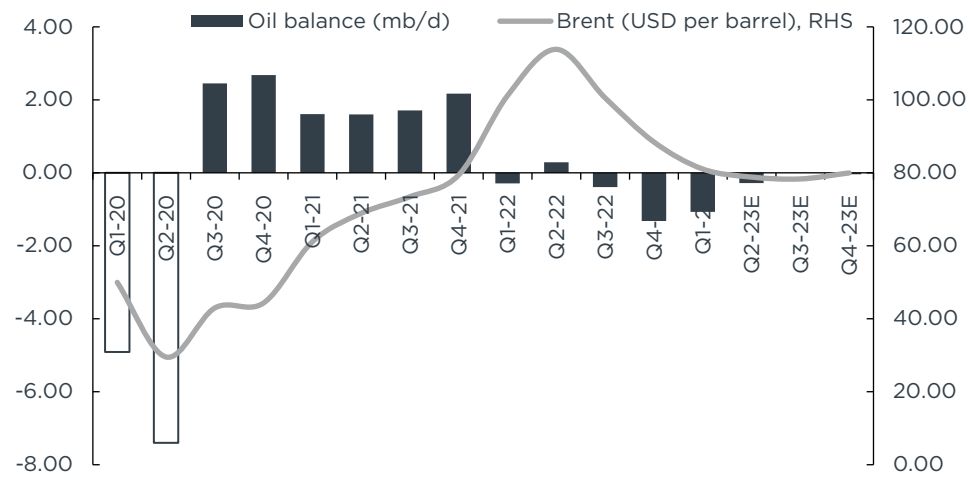


Source: IEA, World Bank, Cordros Research

Price Forecasts & Risks

Considering all the factors discussed above, we now expect the price of Brent crude oil to average USD80.00/bbl in 2023FY (2023 year-end: USD84.80/bbl). Our expectations align nicely with estimates from the EIA (USD79.54/bbl) and IEA (USD79.00/bbl).

Figure 29: Oil balance



Source: IEA, World Bank, Cordros Research

A weaker-than-expected crude oil production growth and the strength of China's reopening represent the largest potential tailwinds for oil prices for the rest of the year. We note that certain factors, such as (1) the transition from fossil fuel to renewable energy sources; and (2) weaker US shale production due to lower investments as producers prioritise profitability over expanding capacity amid rising cost pressures, may cause production, particularly from non-OPEC producers to veer off current expectations. This would coincide nicely with the OPEC+ current keenness for higher prices. In the same vein, a stronger-than-expected consumption from China, particularly from the oil-intensive sectors as it rebounds from its economic slowdown last year, may also push oil prices to higher levels than expected.

For the downside risks, we cite weaker global economic conditions and its effects on energy demand and stronger-than-expected oil exports from Russia. On the former, the possibility of interest rates remaining elevated amid the elevated inflationary environment would drag oil demand and cause prices to fall. On the latter, we note that despite the current sanctions from the EU and G7, Russia's drive to increase its revenue from oil exports may translate to higher-than-expected supply levels.

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