

China, 3 April 2019

Mexico and Brazil taking opposite directions in terms of energy policies

- **2019 will be marked by high volatility in the global oil market**
- **Brent crude oil price to average USD 65 in 2019, according to Coface estimates**
- **In Mexico, the financial stress already faced by Pemex might not be contained**
- **Brazil oil policy is expected to have positive knock-on effect in the medium term**

2018 was marked by volatility in the global oil market due to various factors, with supply being notably affected by the US sanctions imposed on Iran and Venezuela, and demand suffering from worries concerning the impact of a trade war and consequences of the past economic cycle peak. For 2019, Coface estimates Brent crude oil price to average USD 65, as the uncertainties that prevailed in 2018 are not expected to dissipate this year.

Both Brazil and Mexico, the largest Latin American economies, appointed new presidents in 2018 and energy policies formed a key part of the election campaigns. In the medium-term, amid the volatile outlook for the global oil market, they appear to be taking opposite directions.

- **In Mexico**, the left-wing President Andrés Manuel López Obrador – a fervent critic of the 2013 energy reform that opened the energy market to private investment – appears to be taking a more defensive stance towards the private sector as far as the oil industry is confirmed. New oil tenders are being suspended for three years, an expensive refinery to curb dependence on imported US fuel is being constructed, and the predominance of the state-owned oil company Pemex over the sector is being amplified, despite its alarming leverage level and the recent downgrade of its credit quality rating. Under a six-year business plan, Pemex's goal is to raise production to 2.48 million barrels per day (bpd) by the end of 2024, though this appears unrealistic given the huge level of investment required to revert the declining tendency in oil production. The international ratings agency Fitch Ratings¹ cited that the company would need an investment between USD 12-17 billion for Pemex to halt declines in production and reserve levels (roughly 1.2% of Mexico's GDP). There is also an increasing fear among the market that the current energy policy could jeopardize the company's fiscal balance, putting the country's sovereign balance at risk.

¹ Fitch Ratings. *Fitch Baja Calificación de PEMEX a 'AA(mex)'; Perspectiva Negativa*. January 29, 2019. Available at: <https://www.fitchratings.com/site/pr/10060977>



P R E S S R E L E A S E

- **In Brazil**, the new right-wing government's plans for the oil industry could lead to a brighter outlook. Oil production seems set to increase in the upcoming years. In its March report, OPEC noted that Brazil would boast the second-largest increase in annual oil output within the non-OPEC camp in 2019, adding 360,000 bpd, only behind US shale. The Resilience Plan should help the state-owned oil company Petrobras further deleverage and should also improve the value generation of the company's investments while creating opportunities for private investors.

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