



## Mexican Oil Production Stabilises

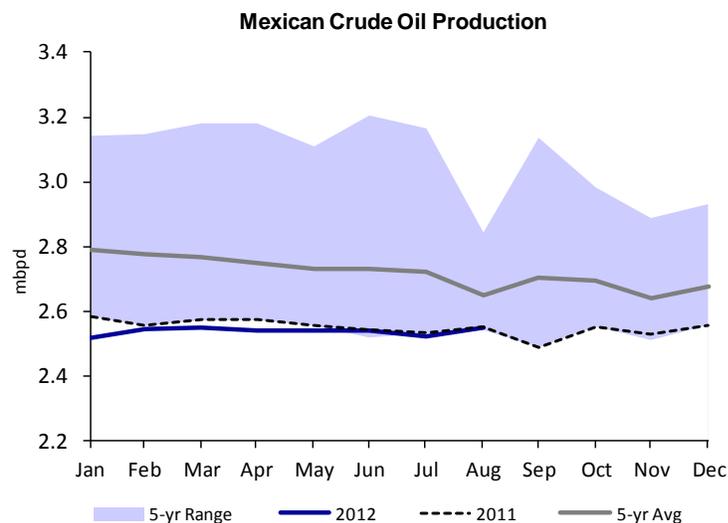
**Mexico has stabilised the production declines**

**Hope that additional investment will drive output gains**

Mexico's state oil monopoly, Pemex, announced today that the company produced 2.550 mbpd of crude oil in August, compared with 2.523 mbpd in July, marking its highest level of output so far this year. The company also reported a 19.9% jump in crude exports from the month earlier, to 1.347 mbpd, with a large jump in exports to Asian and other customers excluding the US and Europe. As the world's seventh largest oil producer, Pemex has managed to slow a dramatic decline in production at its largest aging fields, most notably the giant Cantarell field. In 2008, oil reform legislation opened up the nationalized industry to more private investment, which could help Pemex raise its production towards 3 mbpd by 2018, with an incremental 130-160 kbpd of supply available by 2014, according to the company.

As shown in the following chart, Mexican liquids output has stabilised and is showing signs of potentially rising. Pemex crude oil production is now flat with last year's output, and with the Atlantic hurricane season winding down now, the prospects for maintaining production in September are favourable, aside from any planned maintenance.

**Mexican crude output creeping higher**



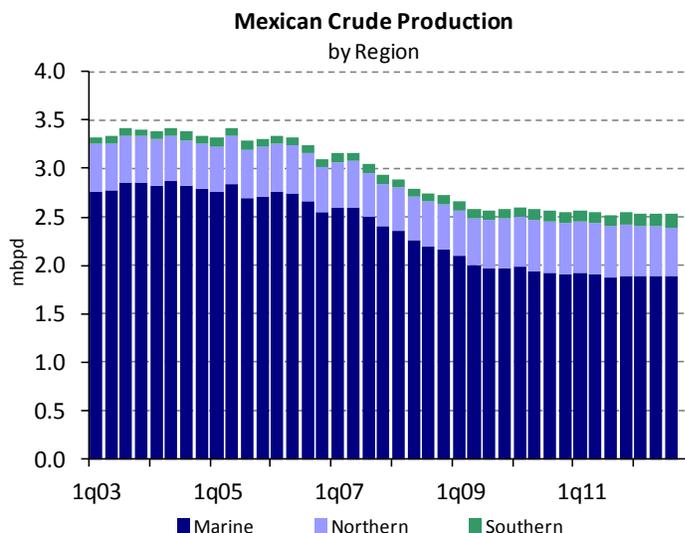
Source: Pemex

As shown in the chart on the following page, Mexican crude production has stabilised near 2.5 mbpd for the past four years, following sharp declines during 2004-09, led by falling output at its key offshore field, Cantarell, in the Marine region. With NGL

production stable near 380 kbpd, total liquids production in Mexico has remained above 2.9 mbpd for the past two years.

**The 2004-09 Mexican crude output declines were dramatic**

**Cantarell and the Marine region were the drivers**



Source: Pemex

**Cantarell output has plunged by 75% since 2004...**

**...but non-Cantarell production rose by 7.4% annually**

**Oil reform to attract more foreign participation**

**New deep-water discovery offers hope**

In fact, output from the Cantarell field has plunged by more than 75% since 2004, from 2,136 kbpd in 2004 to 501 kbpd in 2011, with expectations for only 444 kbpd in 2012, according to the Mexican oil ministry. As a result, Cantarell's share of Mexican crude production has fallen from 63.2% in 2004, to 19.6% in 2011. While Pemex has struggled to find replacements for the Cantarell asset, the Ku-Maloob-Zaap (KMZ) complex has become Mexico's most important oil field, with output of 842 kbpd in 2011, representing 33.0% of all Mexican crude output. Since 2004, when the Cantarell decline accelerated, crude production from non-Cantarell assets has expanded at 7.4% average annual growth rate, with Pemex output flowing from a more diversified mix of fields.

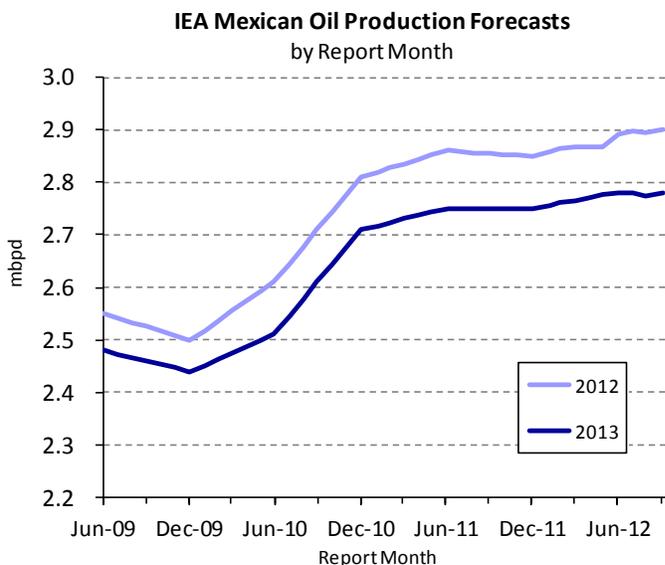
Still, the Mexican oil ministry expects that KMZ's production will peak at 933 kbpd in 2017 and then began to decline, making the ability to develop and exploit new resources more critical, if Pemex is to grow its production and remain an oil exporter. Oil reform legislation in 2008 opened up the nationalized industry to more private investment, and last year, Pemex launched the first round of existing oil field operating contracts for several mature fields in southern Mexico. The company plans to award 22 more contracts for mature fields later this year but major oil companies are more interested in the potential for more lucrative deep water projects. In August, Pemex announced the first discovery of crude oil in the deep waters of the Gulf of Mexico, which confirmed the existence of light crude oil deposits in the Perdido Fold Belt area, just 25 south of the marine border with the US.

Against this guarded optimism over the potential improvement in Mexican oil development, the International Energy Agency (IEA) has only begun to back away from its pessimistic outlook for Mexican liquids production. In its June 2009 Medium-term Oil

**IEA has clung to pessimistic Mexican outlook...**

Market Report (MTOMR), the agency had forecast an average annual decline rate of 3.7% during the 2009-14 forecast period, taking Mexican liquids output to 2.55 mbpd in 2012 and to 2.44 mbpd by 2014. As recently as its June 2011 MTOMR, the IEA expected 2012 liquids production at 2.86 mbpd, then dropping by 3.8% to 2.75 mbpd in 2013. The following chart illustrates the dramatic revisions to IEA forecasts for Mexican liquids output, as production continued to stabilise during the past four years.

**...prompting major revisions**



Source: IEA

**IEA perhaps still too negative**

The current IEA forecast of 2.511 mbpd for 2012 Mexican production is now more consistent with the near-term operating outlook, but the 2013 estimate is still reflective of the 3.7% decline rate methodology. As a publically-listed company, Pemex has offered conservative guidance on potential incremental output of specific fields and how the latest round of concessions is influencing mature field production. Expect more revisions from the IEA.

**Asian refiners expanding Mexican export tonne-miles**

Historically, additional Mexican output would imply higher short-haul voyages to US Gulf refiners, who have traditionally run heavy Mexican grades, but rising Spanish, Chinese and Indian refiner interest in Mexican crudes are adding to tanker demand. In fact, Mexican export tonne-miles jumped by 11.1% year-over-year in 2011, on higher non-US liftings, and are running 8.0% higher in 2012. Tanker owners may want to cheer on Mexican oil development efforts.

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