

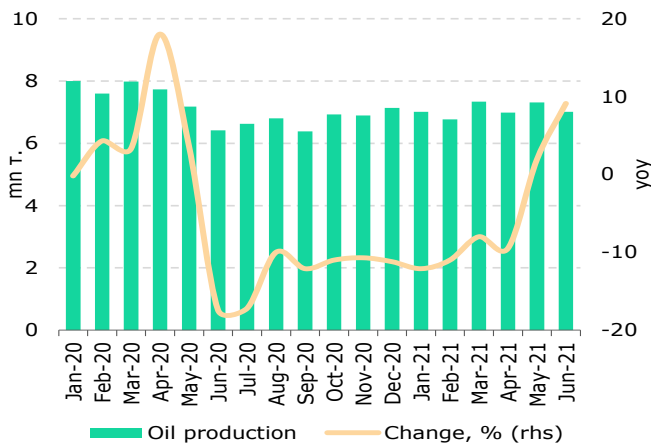
August 20, 2021

Amidst of an increase in the average oil price by 58% yoy in 1H2021 to \$65 per barrel and a decrease in oil production by 5.3%¹ yoy, revenues from oil exports from Kazakhstan for 6M2021 decreased by 10.9% yoy to \$13.4 bn. Along with it, investments in oil sector in 1H2021 demonstrated a drop of 38.1% yoy. Taking into account the recent lowering of the oil output forecast by the Ministry of Energy of the Republic of Kazakhstan for 2021 from 86 mn tons (+0.4% yoy) to 85.3 mn tons (-0.5% yoy), the recovery of the oil industry in 2H2021, as well as its impact on the overall economic growth of the Republic of Kazakhstan, will depend on the level of global oil prices. In the second half of this year, oil prices are expected to remain at the level of 60-70 \$/barrel, supported by an improvement in the global balance of supply and demand. As of 1H2021, global oil consumption increased by 5.9% yoy, while supply partly driven by the OPEC+ agreement, decreased by 2.8% yoy. As a result, the decline of excess reserves of oil and petroleum products continued and their level returned to pre-pandemic values.

Under the impact of OPEC + quotas, oil production in Kazakhstan decreased by 5.3% yoy in 1H2021, but in June, oil output was higher by 9.1% yoy.

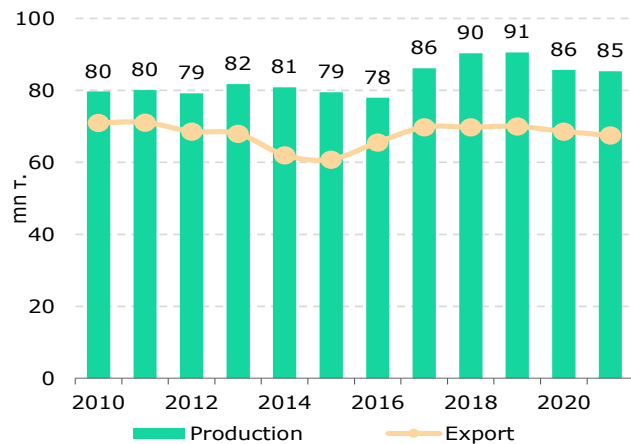
Oil production in Kazakhstan decreased by 5.3% yoy in 1H2021. During the six months of this year, 42.4 mn tons of oil and gas condensate were produced. However, in June, the oil output was already higher by 9.1% compared to the output of June last year. At the same time, as per the OPEC+ quotas for Kazakhstan, oil extraction in the republic will increase slightly in the second half of this year. In line with the latest forecast of the Ministry of Energy of the Republic of Kazakhstan, the total volume of production of liquid hydrocarbons (oil and gas condensate) in 2021 will be 85.3 mn tons, which implies a decrease of 0.5% yoy.

Fig. 1. Oil output, Republic of Kazakhstan



Source: BNS

Fig. 2. Oil production and export, Republic of Kazakhstan



Source: BNS, Ministry of Energy of RK

Oil output in Kazakhstan for the second year in a row, averages circa 7.2 mn tons per month, less than 86 mn tons per year and corresponds to the production of 2017, while in 2018 and 2019, oil output peaked more than 90 mn tons per year. The decline of oil output in Kazakhstan results from the imbalance of the global oil market caused by the shale boom in the United States. Oil supply turned out to be far in excess and prices averaged \$55 per barrel since 2015 while previously the prices were \$100 per barrel and more. In 2020, the situation worsened due to the pandemic, which provoked a sharp drop in energy demand. This year, thanks to the efforts of the OPEC+ countries and the gradual easing of quarantine restrictions, the situation began to improve.

Kazakhstan joined the agreement on limiting oil production under OPEC+ in 2016. The most significant decrease in output under the agreement occurred in 2020 when oil output immediately decreased by 5.4% or 4.9 mn tons. Oil output limits were slightly eased due to the associated production of gas condensate, which accounted for 15% of total output in 2020 (13% in 2019), and on which OPEC+ restrictions did not apply.

¹ Including gas condensate

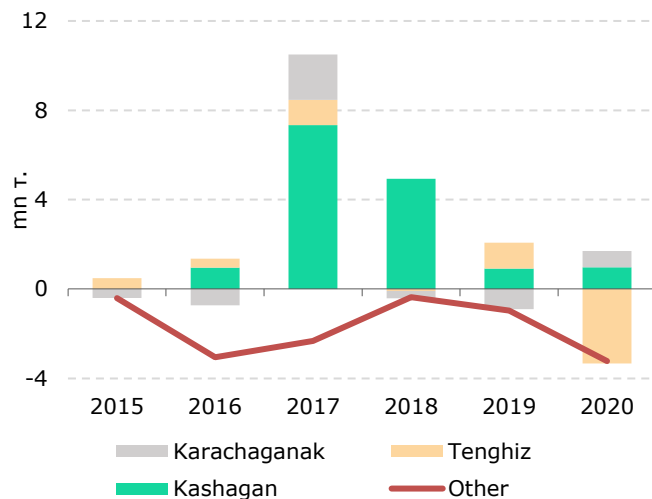
Kashagan continues to increase oil production

Since the launch of the Kashagan field in the autumn of 2016, the production of hydrocarbons at this field has been the main driver of the increase in total oil output in Kazakhstan. From 1 million tons produced in 2016, oil production increased to 8 mn tons in 2017, but since 2018, the increase in oil extraction has slowed to about 1 mn tons per year. In 2020, Kashagan has already produced 15.1 mn tons of oil with an increase of 1 mn tons per year. In its turn, oil production at the Karachaganak field increased by 0.7 mn last year. While there was a sharp decline in output at Tengiz by 3.4 mn tons, extraction at other smaller fields decreased by another 3.2 mn tons.

By the results of 2020, the three largest oil fields accounted for 62.5% (53.6 million tons) in the structure of oil output in Kazakhstan. Thus, 30.9% of the total volume was extracted at the largest of them – Tengiz. The next largest producer is Kashagan, where 17.6% was extracted. Karachaganak was in third place in terms of oil production with 14%.

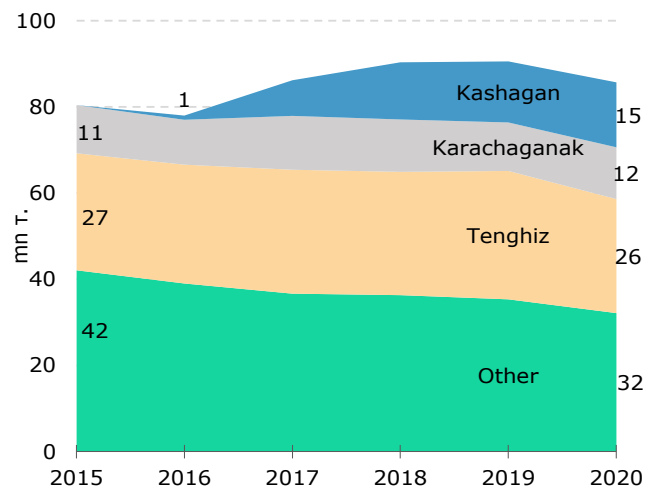
At the end of June this year, the Ministry of Energy of the Republic of Kazakhstan adjusted the forecast for oil production for 2021 downward to 85.3 mn tons. The previous forecast assumed a slight increase in production in 2021 by 0.4% yoy to 86 mn tons. According to the Minister of Energy, the forecast was revised taking into account restrictions but did not explain which ones. As a result, the decrease in oil extraction this year will be 0.5% compared to 85.7 mn tons produced last year. At the moment, it is still unknown what the production will be in the context of the fields. In January-July, oil output at Tengiz amounted to 15.9 million tons, at Kashagan 8.7 million tons, on Karachaganak 6.7 million tons.

Fig. 3. Change in oil output volumes by fields



Source: BNS, Ministry of Energy of RK

Fig. 4. Dynamics of oil production by fields



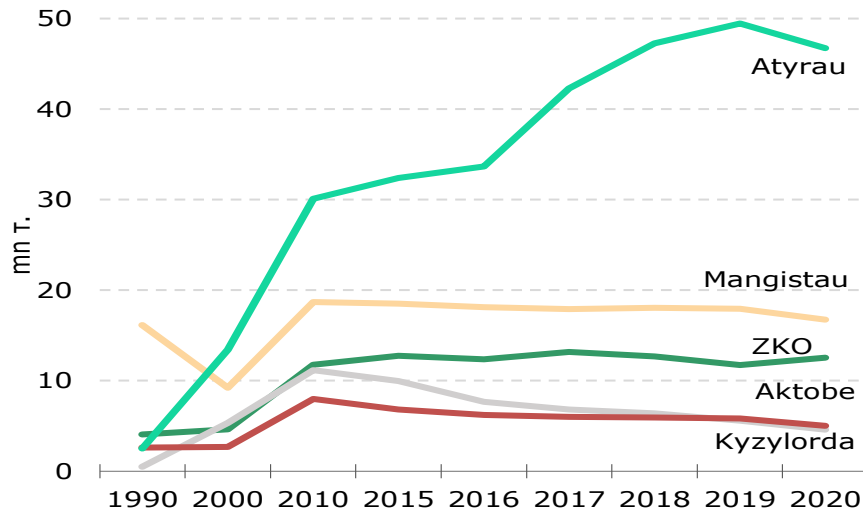
Source: BNS, Ministry of Energy of RK

An increase in oil production in the Atyrau region, a decrease in other regions

Currently, almost all regions of the republic have passed the peak of production of liquid hydrocarbons. The most significant reduction in outturn is noted in the Kyzylorda region – by 2.4 times since 2010 to 5 mn tons by the end of 2020. In the Aktobe region, output decreased by 40% from the peak in 2010 to 5 mn tons, in the West Kazakhstan and Mangistau regions – a moderate decrease by 5-10% from the peaks in 2017 to 12.5 mn tons and 16.7 mn tons (peak 2010), respectively. The decline in output in these regions is due to the depletion of deposits, deterioration of production conditions, and a decrease in the profitability of investment costs against the background of lower prices for "black gold".

The only area where oil production is growing and more than covers the reduction in other regions is the Atyrau region – an increase of 55% compared to the 2010 level to 46.7 mn tons (the share of 54.5% in the national volume). At the same time, the Atyrau region accounts for more than 60% of all hydrocarbon reserves in Kazakhstan and two major fields are being developed – Tengiz and Kashagan, which have significant potential for further increasing output. Thus, by 2025, the region is expected to increase oil production by 28% to 60 mn tons.

Fig. 5. Oil output by region

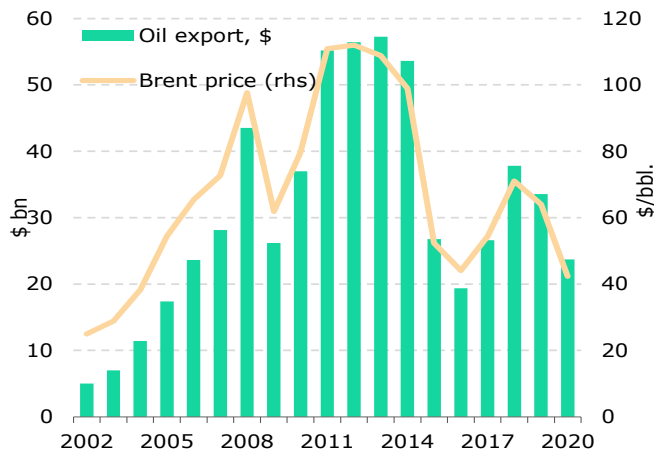


Source: BNS

Oil export revenues decreased in 1H2021

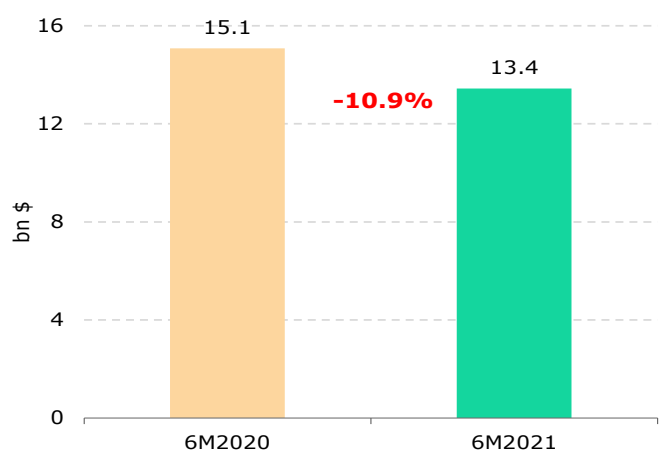
Against the background of a 33.9% drop in the average annual price from \$64 to \$42.3 per barrel, oil exports from Kazakhstan decreased by 29.4% in 2020. Revenue from oil sales decreased from \$33.6 billion in 2019 to \$23.7 billion (- \$9.9 billion) and was at a four-year low, Kazakhstan received a smaller amount of export revenue only in 2016 – \$19.4 billion. Meanwhile, Kazakhstan's total commodity exports in 2020 decreased by \$10.8 billion, thus the decline in the country's total exports was almost completely due to a drop in export revenue from oil sales.

Fig. 6. Export earnings and oil prices



Source: BNS, Bloomberg

Fig. 7. Decrease in oil export revenues, \$ (6M2021)



Source: BNS

For the first 6M2021, the volume of revenue from oil exports from Kazakhstan decreased by \$1.6 billion or 10.9% yoy to \$13.4 billion, in physical volume, it was exported 11.4% yoy less. At the same time, the average price of Brent crude oil in 1H2021 was at the level of \$64.6 per barrel, which was about 58% higher than \$41 per barrel in the same period of 2020. Thus, the impact of the increase in oil prices has not yet affected the increase in export revenues, which probably indicates a lag in the adjustment of export prices to market prices.

Based on the forecast of the Ministry of Energy, according to which the volume of hydrocarbon exports this year will amount to approximately 67.5 million tons (79% of the production volume) and the high probability of maintaining hydrocarbon prices at \$60-70 per barrel, revenues from the export of "black gold" in the second half of the year may grow and compensate for their decline in 1H2021, and the total annual income from oil exports may amount to approximately \$30 billion (\$23.7 billion in 2020).

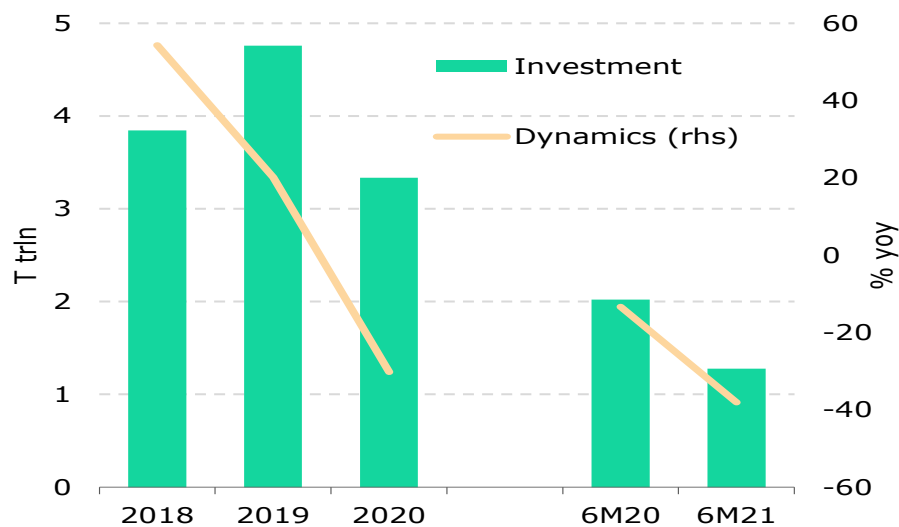
Investments in oil sphere continue to decline

Despite the significant increase in market prices for oil, the decline in investment in the oil-producing industry of Kazakhstan has not yet been overcome. In 1H2021, investments in oil extraction decreased by 38.1% yoy from T2 trillion in 1H2020 to T1.3 trillion in 1H2021. In 2020, investments in fixed assets in the republic's oil production fell by 30% yoy, against their growth by 20% yoy in 2019. Such a significant decline occurred both due to quarantine restrictions and as a result of the deterioration of the investment attractiveness of the oil industry due to the growth of general economic uncertainty.

At the global level, a similar picture was observed. Thus, in 2020, as evidenced by the data of the International Energy Agency (IEA), the volume of investments in "upstream" projects in the world decreased by 31%, which is close to the 30% drop that occurred in Kazakhstan. The IEA forecast for the current year assumes an increase in investment in output in the world by about 8%.

The situation with investments in the oil industry of Kazakhstan may begin to improve in the second half of this year: according to the expectations voiced by the Prime Minister of the Republic of Kazakhstan, the volume of investment development at Tengiz this year will reach T2.4 trillion (+24% yoy), and at Karachaganak T142 billion (+17% yoy).

Fig. 8. Investments in oil production in Kazakhstan



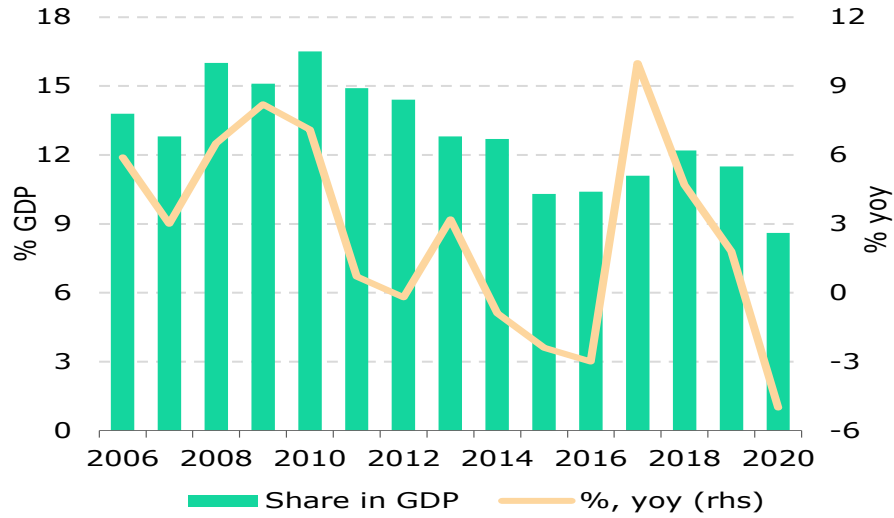
Source: BNS

The share of the oil and gas sector in the economy

Based on data for 2020, the oil and gas sector experienced a decline in output by 5% yoy, which led to a decrease in the weight of this sector in the GDP structure to 8.6% (11.5% in 2019). The factors that influenced the decline in output of the oil and gas production sector last year were lower oil prices along with a reduction in production in accordance with the OPEC+ agreement. The share of the oil and gas sector in GDP has decreased to a minimum for the entire 15-year period for which relevant statistics are available (Fig. 9). The GDP of the republic in 2020 in real terms decreased by 2.5%, Kazakhstan has not experienced such a deep economic downturn since the late 90s.

Taking into account the sectors of oil refining, wholesale trade of oil and petroleum products and other works and services, the share of the oil and gas sector in the economy of Kazakhstan corresponds to 18.6%, which indicates a significant dependence of the economy on this industry. For comparison, in Canada, the share of the oil and gas sector is at the level of more than 10% of GDP, in the Russian Federation 15.2% of GDP, in Norway about 18% of GDP, in the UAE about 30% of GDP.

Fig. 9. The share of the oil and gas sector in GDP

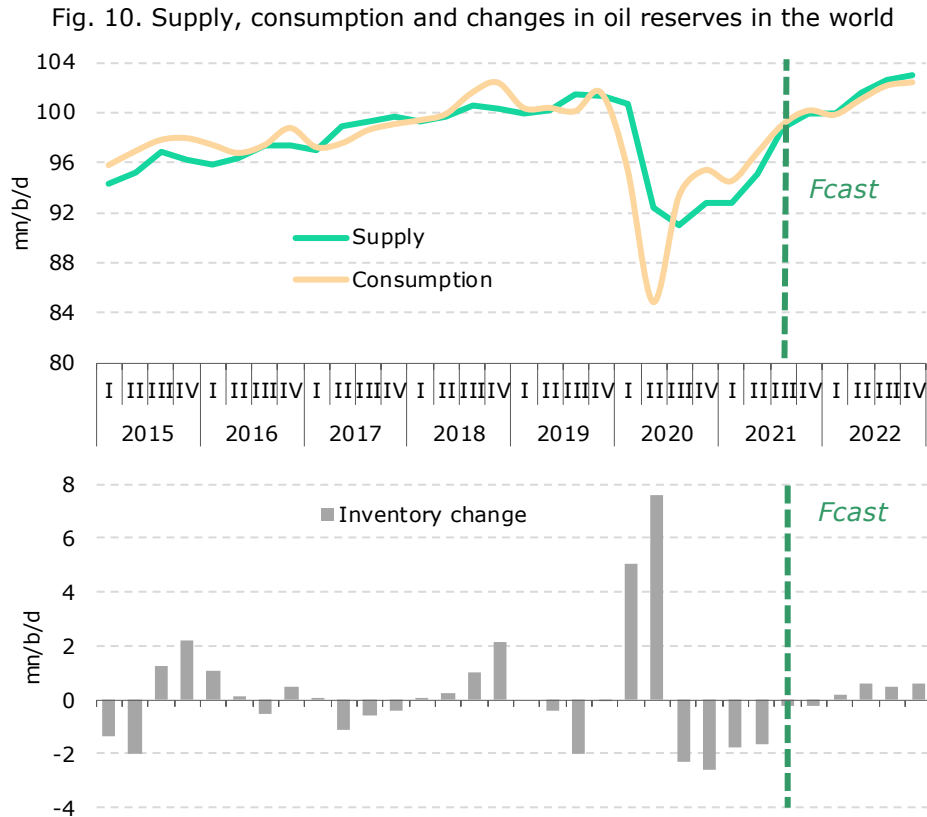


Source: BNS

The situation on the world oil market in the first half of 2021

Oil demand growth continues to outpace supply

The recovery in oil demand, supported by the increasing vaccination coverage of the population in the first half of this year, led to an increase in oil consumption in the world to 96.7 mn \$/barrel, which was only 3.6% lower than the pre-crisis indicator of 2019. At the same time, at the peak of the decline in the second quarter of 2020, the consumption of hydrocarbons was 15.5% lower yoy. In its turn, the supply of oil (excluding reserves) grew at a more moderate pace and in the second quarter amounted to 95.1 mn \$/barrel – 5.6% lower than pre-crisis values.



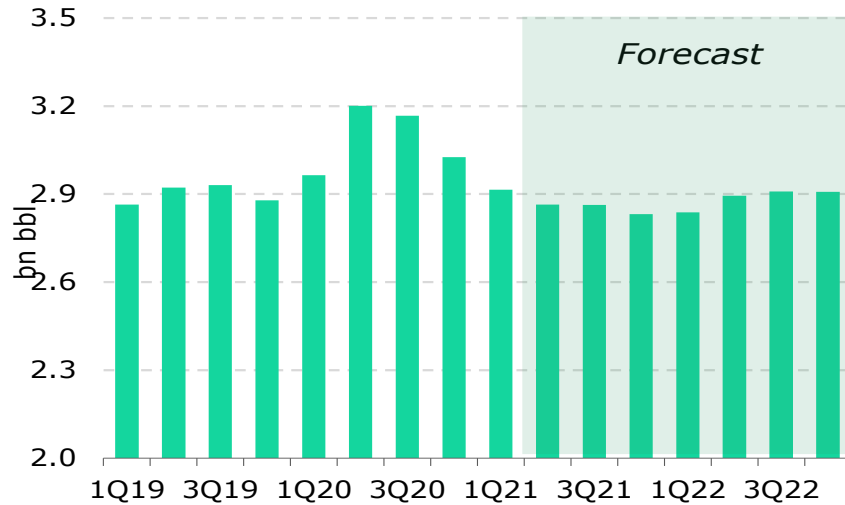
Source: EIA

The consistent excess of oil demand over supply has formed a deficit (excluding reserves), which has been observed for the fourth consecutive quarter, but with a tendency to decrease. In the second half of this year, according to the US Department of Energy, as demand decreases seasonally, the current deficit will decrease to a minimum of about -0.2 million \$/barrel, compared to -1.7 million \$/barrel in the second quarter.

Oil and petroleum products reserves have returned to pre-crisis levels

Against the background of a shortfall of supply and an expansion of demand for oil in the global market, the volume of commercial reserves of oil and petroleum products in the countries of the Organization for Economic Cooperation and Development (OECD) in the second quarter of this year fell to 2.86 billion barrels (2.90 billion barrels on average in 2019), which characterizes the state of reserves as balanced. Based on the forecast of the US Department of Energy, the volume of commercial reserves of oil and petroleum products in the OECD countries will decrease slightly by the end of 2021, after which they will begin to grow slowly as the volume of hydrocarbon production increases. The level of commercial reserves of oil and petroleum products in the United States, to which oil traders attach high importance, also decreased and reached pre-pandemic levels by the end of June this year.

Fig. 11. Oil reserves in OECD countries



Source: EIA

The recovery in oil consumption is most significant in Asia and the US

The recovery of demand for hydrocarbons by regions and countries of the world in the post-pandemic period is taking place at an uneven pace. In the OECD, which consists mainly of developed countries, oil consumption in 1H2021 increased by 4.2% compared to 1H2020, while in the US consumption increased by 7.8% yoy, and only by 1.2% yoy in Europe. In its turn, a faster pace of demand recovery is observed in the Asian region – in China, the consumption of liquid hydrocarbons in 1H2021 it increased by a significant 9.1% yoy, in other Asian countries – by 9.2% yoy, particularly, in India, the growth was 9.8% yoy. Thus, despite higher vaccination rates in developed countries, oil consumption grew more strongly in less developed countries.

Given that the OPEC countries have made the significant efforts to reduce the volume of oil supply, the cartel's oil production decreased by 4.8% compared to 1H2020, while oil output in the Russian Federation decreased by only 3% in the same period, but, for example, Canada increased oil extraction by 3.5% yoy. Oil production in the United States decreased by 3.3% yoy.

Fig. 12. Demand and supply of hydrocarbons by country

Global demand	2019	2020	1H2020	1H2021	Change	
					mn. bbl.	%
OECD	47.5	41.9	41.4	43.1	1.7	4.2%
incl. USA	20.5	18.1	17.7	19.1	1.4	7.8%
Europe	14.2	12.4	12.2	12.3	0.2	1.3%
Non OECD	53.4	50.4	48.9	52.5	3.6	7.4%
incl. China	14.8	14.4	14.0	15.3	1.3	9.1%
Other Asian countries	14.0	12.8	12.5	13.6	1.1	9.2%
World total	100.9	92.3	90.3	95.6	5.4	5.9%

Global output	2019	2020	1H2020	1H2021	Change	
					mn. bbl.	%
OECD	31.6	30.8	31.2	30.5	-0.7	-2.1%
incl. USA	19.5	18.6	18.9	18.3	-0.6	-3.3%
Canada	5.5	5.3	5.3	5.5	0.2	3.5%
Non OECD	69.1	63.5	65.4	63.3	-2.0	-3.1%
incl. RF	11.5	10.5	10.9	10.6	-0.3	-3.0%
China	4.9	4.9	4.9	5.1	0.1	2.4%
OPEC	34.7	30.7	32.1	30.6	-1.5	-4.8%
World total	100.6	94.2	96.5	93.9	-2.7	-2.8%

Source: EIA

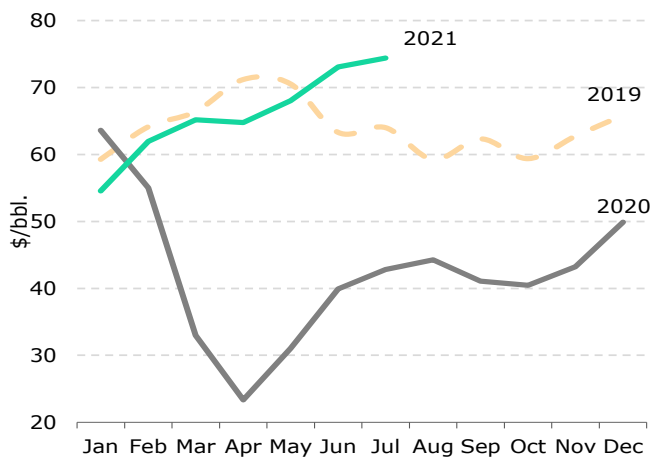
Most market participants expect the price of Brent above \$60 per barrel in 2H2021

To date, the quotes of "black gold" have been continuously growing since October 2020, while the average monthly price of Brent crude oil has increased by almost \$20 per barrel from \$54.6 in January to \$74.4 in July (+36.4%). As a result, the price of oil has already exceeded pre-crisis indicators. In addition to the fundamental factors of supply and demand, the growth of oil prices is significantly influenced by high liquidity in the market.

According to the Bloomberg consensus forecast, the average annual price of Brent oil in 2021 will be \$67 per barrel, which corresponds to current quotes and generally pre-crisis indicators. In 2020, the average annual price of Brent oil was \$42.3 per barrel – the minimum since 2005, respectively, the growth this year may be almost 60% compared to last year's level.

The OPEC+ countries, despite the gradual increase in the volume of oil supply, reserved the right to possibly suspend the increase in produced volumes, which was probably dictated by the need to insure against entering the Iranian oil market in the event of the lifting of sanctions against this country. Thus, oil producers have a proven tool for regulating the supply of oil in the market, which can reduce the damage in the event of another wave of a pandemic, which may again cause a drop in energy demand. Given the expected reduction in US oil production this year (Forecast by the US Department of Energy) and the relatively effective control of the global oil market by OPEC+, it is highly likely that oil prices will remain at current levels close to \$70 per barrel in the near future.

Fig. 13. Brent prices (monthly average)



Source: Bloomberg

Fig. 14. Oil price forecast, \$/bbl Brent

Organization	2021	2022
Gov-t of RK	50.0	50.0
IMF (blend)	58.5	54.8
WB (blend)	55.7	58.7
EIA	68.6	66.7
Bloomberg	67.0	67.4
Moody's	65.0	63.0
Fitch	63.0	55.0
S&P	65.0	55.0

Source: Bloomberg, Respective organizations' publications

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