

Macroeconomic Analysis

Round 1.4 a huge success: it shows big appetite for investment in Mexican deep waters

Arnulfo Rodríguez / Carlos Serrano

- **Given the favorable results from the auction process of Round 1.4, the prospects for big reservoir discoveries in deep waters will give the biggest boost to investment and oil production under the Energy Reform. These were the first auctions of deep water fields. Some of the world most important players will invest in them.**
- **As we previously anticipated, all of the four blocks in the Plegado-Perdido area were successfully auctioned. As for the rest of the six blocks located in the Salina Basin, four of them ended up with a winning bid. This result surpasses market expectations.**
- **Discoveries of commercial reservoirs in all of the eight blocks successfully tendered could bring an investment of around USD 52 billion over the next ten years.**
- **Moreover, the tendering process of the Trion farm-out helped Pemex find an investment and operation partner. According to the firm, the discovery of commercial reservoirs in such block could attract an investment of around USD 11 billion. These are excellent news for Pemex and a very positive signal for its business plan.**
- **The finding of sizable commercial reservoirs in the deep waters of Gulf of Mexico is key to increasing overall oil production in Mexico in the medium- and long-term.**

Today, ten blocks of hydrocarbon reservoirs in the deep waters of the Gulf of Mexico were tendered. Prospective resources of nearly 11 billion barrels of crude oil equivalent are contained in such blocks. Eight of the auctioned blocks ended up with a winning bid. As we previously anticipated, all of the four blocks in Plegado-Perdido area were successfully tendered. As for the six blocks located in the Salina Basin, four of them were attractive enough to find winning bids despite both the lack of exploratory wells in such basin and potential technological challenges derived from thick layers of salt. Given these favorable results from Round 1.4, discoveries of commercial reservoirs in all of the eight blocks successfully auctioned could bring an investment of around USD 52 billion over the next ten years.

The Trion block, located in the Plegado-Perdido area, was one farm-out for which Pemex was looking for an investment and operation partner in today's tendering process. According to the firm, the discovery of commercial reservoirs in such block would attract an investment of around USD 11 billion. Since Pemex's partner must invest a minimal amount of USD 464 million before Pemex chips in additional resources, we do not expect the Trion block to hinder the company's path towards achieving a positive financial balance in 2019. Moreover, if discovery of commercial reservoirs is made, the Trion farm-out will help to further increase Pemex's oil production after 2024 or even before.

It is noteworthy that oil production in Mexico could get a big boost several years from now given the prospects for finding sizable commercial reservoirs in the eight blocks that were successfully auctioned today. If such expectations are fulfilled, production costs per oil barrel will go down as the global oil supply glut fades away more rapidly with the support from the OPEC's recent deal to cut production.

Today's very positive results from the auction of deep waters blocks represented a major headway on Mexico's path towards attracting private investment into the energy sector in difficult financial times for international oil companies. Undoubtedly, as Round 1 has come to an end, the Mexican authorities seemed to have learned from past mistakes associated with both the design of contracts and fiscal terms for O&G exploration and production. Nevertheless, there is a lot to be done when it comes to facilitating the gradual development of a local supply chain around highly technologically sophisticated projects like those in deep waters. More involvement from local suppliers in this type of commercial adventures will eventually translate into know-how spillovers and positive contributions to GDP.

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.