Market Comments

The oil market development

The oil price surged in September, ending the month at close to US$ 83 bl, up by nearly US$ 6 bl since end August. IEA oil demand growth estimates for 2018 and 2019 were unchanged at 1.4 and 1.5 mb/d in their September report. OECD commercial stocks rose by 7.9 mb in July to 2824 mb, a level that has been quite stable since March this year. US inventories have grown as exports have eased. US production has been running at 11 mb/d for a couple of months and lack of infrastructure could be a hindrance to further expansion.

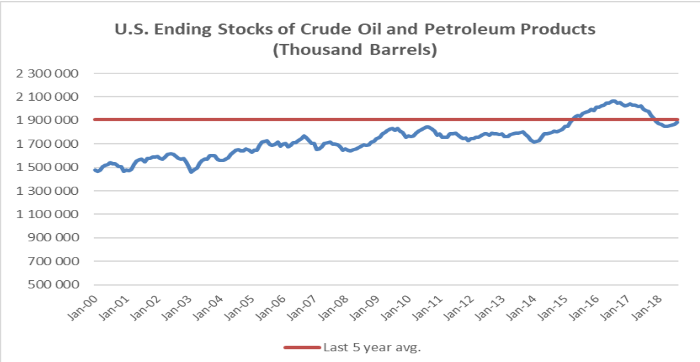
There are concerns that high oil prices will result in weaker economic growth and slower oil demand into 2019. However, just now much focus is on the concerns that OPEC and Russia can't or won't fully offset lost Iranian output due to the US sanctions. OPEC production in September is estimated at 32.85 mb/d, up 90,000 b/d from August. Russian production for September is estimated at 10.4 mb/d, the highest level on record. However, the changing composition of oil supply is causing a shortage of Brent-linked oil grades in the market. It is believed that this gap is more than 1 mb/day, possibly as large as 2 mb/d. This has caused a strong rally in Brent prices as well as of related Middle East grades. We believe the current oil price rally is predominantly fear driven and not backed by fundamentals.

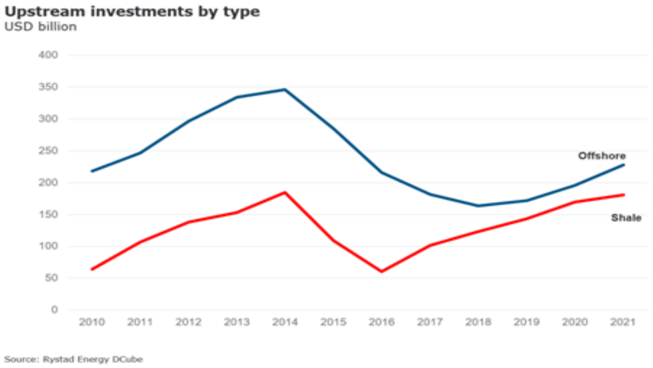
Offshore investment increasing

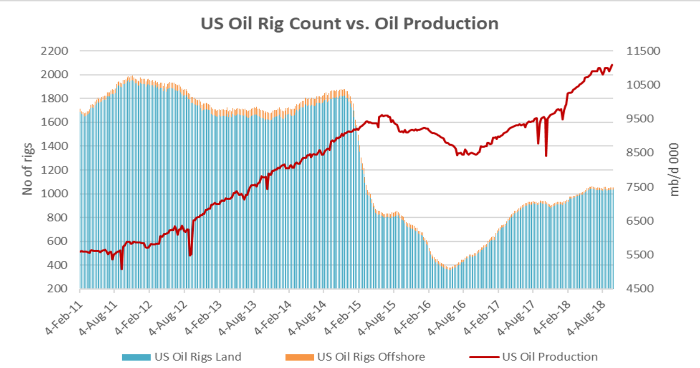
The increase in offshore spending is continuing at the same time as logistical challenges are slowing down the growth in the shale sector and thus the gap between offshore investments and shale investments is increasing in favor of the offshore industry. This increase in offshore spending is according to Rystad due to 50% growth in number of offshore projects sanctioned in 2017 and a similar growth in 2018, reaching close to 100 offshore projects to be sanctioned in 2018. In Norway, SSB reports offshore investments to increase by 16% from USD 17 billion in 2018 to USD 20 billion in 2019. The growth will impact globally and we have seen drilling day rates improving, not only in harsh environment, but also in more benign areas.

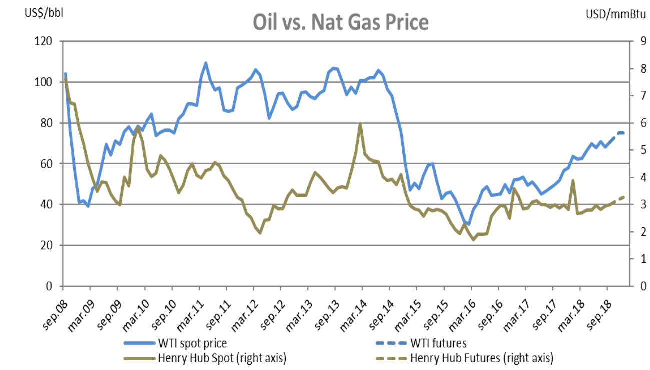
Transocean's acquisition of Ocean Rig can been seen as a sign of this, since Ocean Rig has a fleet exposed not only to the North Sea, but also to Brazil and West Africa.

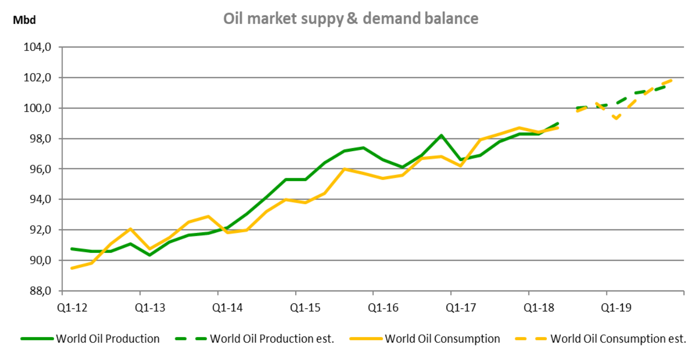
BORR is activating four new jackups, seemingly without a firm contract in place, indicating a strong believe that utilization and rate improvements are imminent.

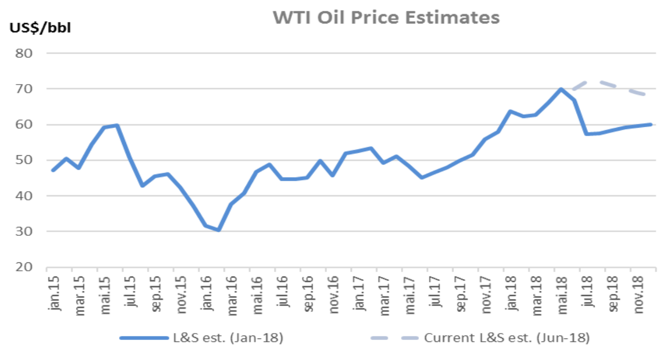












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