Market Comments

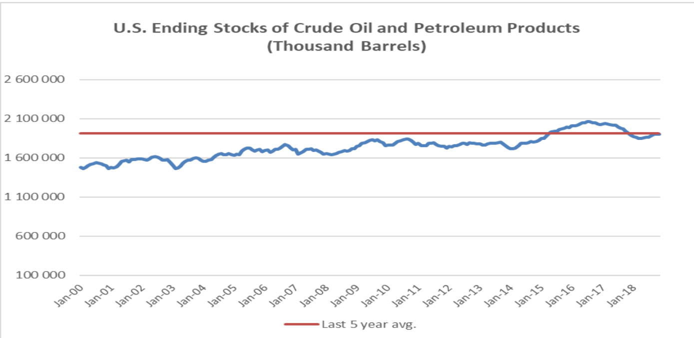
The oil market development

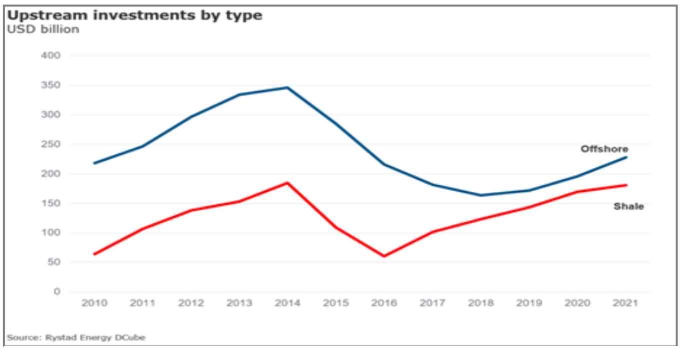
Oil prices registered sharp falls in November with Brent at just below US$ 59 bl at the end of the month and WTI some US$ 9 lower. The softness is attributed to a combination of factors, not least the exemptions to the US sanctions against Iran, allowing several crude thirsty Asian nations to continue buying Iranian crude. Other factors are softer global macroeconomic outlook, growing trade tension between the US and China, higher crude inventories and record high production from the US, Russia and Saudi Arabia. According to the IEA global oil production in October was up by 2.6 mbd on a year ago and 3Q18 OECD commercial stocks rose by 58.1 mn bl. Comments from the Saudi oil minister that Saudi will not cut alone ahead of the December 6 meeting did not boost sentiment. Gone are earlier concerns related to steeply declining Venezuelan output and below quota production by some other OPEC producers.

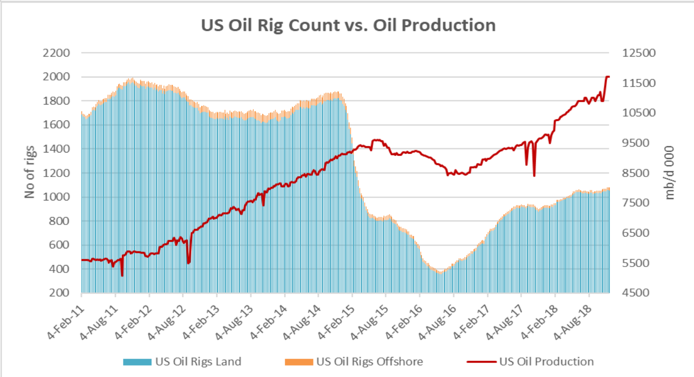
Lack of pipeline capacity in the US is restricting exports, but next year several infrastructure projects should improve the flow from inland production to coastal refining centers with export facilities. We expect the OPEC meeting next week to result in cuts of around 1 mbd per day including cuts by Russia and that the reductions, if adhered to, will support prices. Yet, the supply tightness seen earlier this year has eased and the price curve has again tilted into contango.

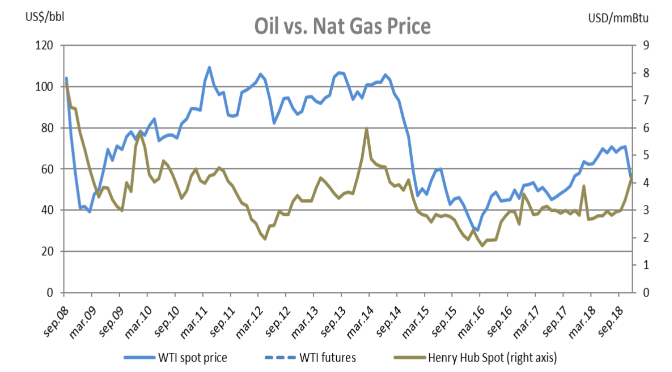
Offshore investment increasing

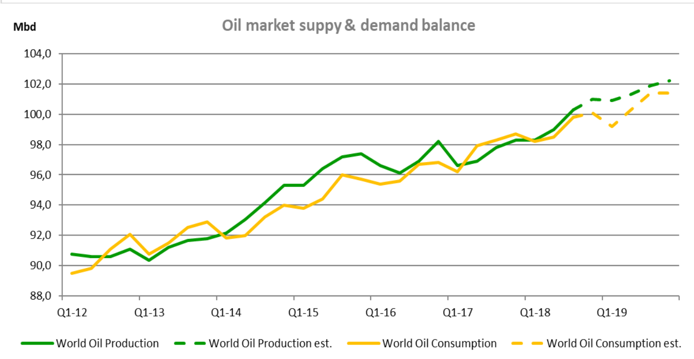
Leading Offshore Indices continue upward in 2018, however oil price uncertainties remain. The offshore drilling rig industry has seen improvements in a number of key indicators and last quarter working rig utilization reached 70% (with 475 active rigs), up 3% y-o-y. However, outside niche sectors such as harsh environment floaters, day rates have remained depressed. Global utilization for the OSV sector has averaged around 60%, however, the oversupply situation remains significant and the industry might face another “tough” winter. We continue to monitor reactivations, the “stranded” and the “laid up” fleets closely. The North Sea term rates for AHTS are steady from last month at around £17,000/day, but PSV >900m2 are lower at £8,500/day. In Brazil the Term rates for PSV >900m2 are lower at $16,000/day. In West Africa, the term rates for PSV >900m2 firmed to $12,000/day. Rates for subsea units have increased slightly. The subsea EPC backlog seems to have stabilized, but at levels 50% below the peak in 2014, the market is however forecasting a further rise in subsea tree awards in 2018 and 2019 as compared with the 189 awards in 2017. Only 43 newbuilding orders where placed H1 2018, which is a 10% decrease on an annualized basis from 2017.

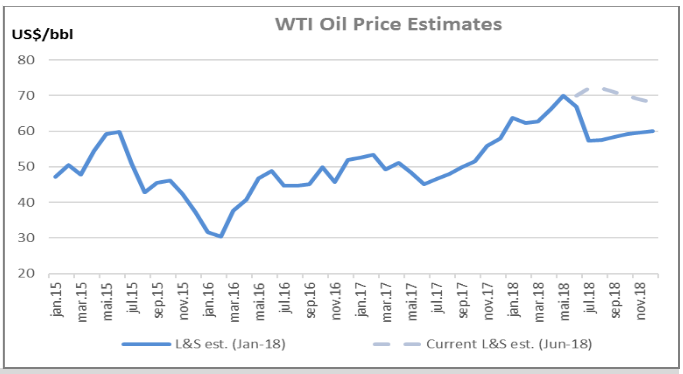












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