Analysis

Offshore Oil & Gas Markets: Half Year Review

Offshore oil and gas markets continued to strengthen, with our Clarksons Offshore Index (covering rig, OSV and subsea vessel dayrates) up 18% across 1H-23 to reach 99 points, its highest level since 2014 (101). In this month's *Analysis*, we profile recent trends in project investment, increasing rig & OSV demand, developing fleet supply side constraints and comparisons with previous cycles.

FID Uptick

Despite some softening, energy markets remained generally supportive of offshore activity and project sanctioning. Brent averaged $80/bbl in 1H-23 (14% above 10-year trend): views on the outlook need to balance global economic weakness with support from Chinese demand growth and OPEC/Russian cuts. A total of $68bn of offshore oil & gas project CAPEX reached FID in 1H, up 57% y-o-y and 41% on the ten year trend, with the focus on security of energy supply supportive (offshore oil and gas supplies 16% of global energy, the exciting offshore wind market only 0.4%). Investment in strategic gas projects and in FPSO-developed oil fields in Brazil, Guyana and West Africa remains strong; we expect 13 FPSO contract awards in full year 2023, an 11-year high.

Sector Strength

The rig market enjoyed a strong first half. Our Rig Rate Index is now up by 74% vs start-21, while a 4% y-o-y gain in demand has taken utilisation to 85% (JU: 86%, FL: 84%). Rate improvements continue to be driven by the floater sector (our index has reached 78% of previous peaks), with one fixture agreed at $484,000/day in June (a harsh-environment semi for Australia). Jack-up rates have been steadier, with activity 'cooler' (following robust Middle Eastern fixing in late 2022) but fixtures of >$150,000/day are now typical for high-spec units (Jack-up rates have reached 66% of previous peaks). The OSV sector has built upon the strong progress of 2022, with our OSV Rate Index up 17% in 1H-23 to 161 points, the highest level since late-2014. Gains in demand are continuing but at a slower pace (+1% across 1H-23, vs an 8% rise in 2022). Global OSV utilisation rose to 72% by start-July (the highest level since 2015) but the current balance may be tighter than this 'headline' figure suggests given increasing difficulty reactivating long-term lay-ups (43% of laid-up OSVs have now been in lay-up for ≥ 5 years). Meanwhile, our MSV Rate Index is up by a strong 38% y-o-y to a 10-year high. Along with the PSV sector, MSV rates are closest to previous highs (87% of peak).

Supply Constraints

Constraints in supply continue to impact market dynamics, following the multi-year rebalancing / removal of tonnage during the long downturn. Supply growth remains modest (only small numbers of legacy newbuilds from the "stranded inventory" are delivering: reactivations from lay-up are getting more "tricky"). Some signs of increased newbuilding interest are emerging (e.g. small AHTS supported by NOCs, MSV orders) but given challenges securing finance (banks have ESG focus and "scar tissue" from previous losses), relatively high newbuild pricing and fuel choice uncertainty any uptick in ordering volumes may be gradual. Newbuild prices are approaching previous peaks, while second-hand prices continue to lag (financing costs are a factor). Macro-economic concerns aside, the outlook for offshore markets remains encouraging, with demand well set and supply looking constrained.

Table of the Month

Firm Demand & Supply Crunch Drive Rates Higher

	20-yr Peak	10-yr Peak	10-yr Trough	10-yr avg.	Current (Jul-23)	Current as % of all-time peak
Dayrates						
Clarksons Offshore Index	114	101	44	65	99	87%
Jack-Up Rate Index	208	191	83	116	137	66%
Floater Rate Index	153	153	47	79	119	78%
PSV Rate Index	195	175	76	113	173	89%
AHTS Rate Index	214	164	68	105	151	70%
MSV Rate Index	120	120	45	62	104	87%
Asset Prices						
6th Gen Floater, $m	870	755	100	314	100-175	16%
350' Jack-Up 5-10 yr old, $m	225	225	45	107	80-100	40%
800m2 PSV 5 yr old, $m	68	41	9	20	24	35%
5,000 BHP AHTS 5 yr old, $m	10	10	2	5	5	45%
350' Jack-Up, NB, $m	210	210	120	156	200-220	100%
>900m2 PSV, NB, $m	69	59	31	42	49	71%
Supply & Demand*						
Jack-Up Demand, No.	458	458	301	367	385	84%
Jack-Up Supply, No.	496	496	436	456	450	91%
Floater Demand, No.	289	289	107	175	136	47%
Floater Supply, No.	307	307	155	220	162	53%
OSV Demand, No.	2,993	2,993	1,955	2,372	2,455	82%
OSV Supply, No.	3,591	3,591	3,048	3,444	3,413	95%
Energy Prices & CAPEX#						
Oil Price, $/bbl	137.2	128.0	15.5	71.1	74.8	55%
Gas Price, $/mmbtu	13.5	8.8	1.6	3.4	2.2	16%
Offshore O&G CAPEX, $bn	215	187	51	93	119	55%

Source : Clarksons Research

* All OSV supply and demand statistics basis AHTS >4,000 BHP, PSV >1,000 dwt. # Oil price basis Brent crude price, gas price basis US Henry Hub. Current (Jul-23) offshore O&G CAPEX value basis 2023 full year forecast.

A detailed 1H-23 offshore market review is available on *OIN* & *WOR*, while half-yearly data points for the offshore wind sector will be available on *RIN* next week.

The author of this feature article is Steve Gordon. Any views or opinions presented are solely those of the author and do not necessarily represent those of the Clarksons group.

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