

Rig demand surges with move into deeper waters

Outlook continues to be robust as demand exceeds supply

Jamie Dale

DEMAND for deepwater semi-submersible rigs has surged this year, with daily earnings now in excess of \$200,000 as high oil prices and efforts to increase reserves force oil exploration projects into deeper waters.

Contract duration is also becoming longer as oil companies contract rigs well in advance to ensure availability. Daily earnings commanded an average of \$238,525 for the first half of this year, up 45% compared with a year earlier.

The market outlook remains very robust as demand exceeds supply, with few rigs available for 2008, while there are suggestions that no semi-submersibles are available for the Norwegian market until 2009.

"Semi-submersible utilisation, at 91%, is at the highest levels since 1997," said shipping bank DVB in a recent report on the semi-submersible sector. "Average day rates at \$238,525 are at levels not seen in the past decade."

It added that semi-submersibles were being built with progressively deepwater capabilities and such rigs were expected to be in high demand, irrespective of any short-term market movements.

Researchers at the Rotterdam bank highlighted the sharp rise in the number of subsea wells from 250 to 490.

"Most of the increase has come through wells in water depths exceeding 3,000 ft," DVB said. "As a result the demand for rigs with deepwater drilling capability, drillships and semi-subs is robust."

While oil companies have competed for the few rigs still available, rates have soared, especially for the semi-submersibles rated for working depths of less than 1,500 ft, which jumped 97% to \$234,409 per day in June this year. This represents a higher day rate achieved by the semi-submersibles between 1,500 and 4,000 ft working depth capability.

However, as day rates have increased so have operating costs to an average of around \$45,000. DVB said personnel costs remained the main contributor.



The Petrobras 36 semi-submersible: the group remains the leading rig operator.

Operating costs in the North Sea are 20% higher than the US Gulf of Mexico's \$55,000 per day, while off Norway costs are one-third higher than the rest of the North Sea at \$75,000.

The number of semi-submersibles under contract this year has doubled since March 2000, which has prompted greater demand for newbuildings.

"The current demand environment is

so robust that the owners of newbuildings aim to achieve charter rates that cover operating expenses and ensure that the rig is fully repaid in five years," the bank said.

The report noted that the orderbook had increased from 15 rigs 18 months ago to 41 now on order. Next year, a total of 12 rigs are expected to be delivered, with a further 20 due in 2009. The majority are rigs with a working depth of 10,000 ft.

Brazilian state-owned Petrobras remains the leading rig operator with 24 units. Last year it chartered 25 semi-submersibles at an average charter rate of \$124,816 per day compared with Anadarko, whose six rigs chartered during the same period cost \$254,827.

Meanwhile, DVB continued: "Contract duration and day rates have an interesting relationship in the floater fleet. In recent years, while day rates increased with contract duration, they dropped significantly when the duration exceeded four years."

As a result rig owners stand to gain the highest rates for contracts of between two and three years' duration.

"It would appear that the market is factoring the uncertainty four years into the future associated with the direction of oil prices and the supply demand balance with the growing order book among other factors," said DVB.

Last year the worldwide charter duration averaged 349 days, while Petrobras' contracts averaged 867 days. This compares with Mexican state oil company Pemex, which had seven rigs chartered at \$53,500 per day. However, these averaged the longest charter duration at 1,339 days.

DVB's research and strategic planning unit expects further industry consolidation, such as the merger this year between Transocean and its smaller rival Global Santa Fe.

The new entity now has 70% more units than the next largest operator, Diamond Offshore, which owns 30. For those owners of older generation rigs, DVB warns that, should there be an industry downturn — not considered likely in the coming few years — semi-submersibles of lower specification, such as second and third generation rigs, "could be marginalised when operators have a choice of more advanced equipment".

Global demand expected to bolster rig rates

OPERATORS of semi-submersible rigs should expect daily hire rates to remain robust in the next couple of years as the global demand picture remains healthy, writes Jamie Dale. Petrobras is expected to increase its

semi-submersible fleet in Brazil by 6-10 rigs by 2012. Demand for rigs in the US Gulf of Mexico is expected to remain strong. Rotterdam bank DVB said that in west Africa the supply of rigs is

unlikely to match demand for another year, which will lead to drilling programs in the region being rescheduled. Demand is also growing in Libya, Italy, Israel and the Mediterranean.

Tankers

Charterers' uncertainty helps suezmax hold firm

AFTER the upward volatility of the suezmax trade last week, which gave owners a spring in their step for the first time in months, rates have stayed firm for a second week, based mostly on charterers' uncertainty, writes Mike Grinter in Hong Kong.

Solidifying the market was a firm undertone west of Suez, mainly attributable to uncertainties with regard to barrels out of Ceyhan.

Thanks to this, owners held fast and prevented rates from slipping in an otherwise lacklustre trade.

However, there is a certain date-sensitivity, and some charterers might have to pay a slight premium to cover stems on short notice.

Although not likely to have an immediate effect on the traditional suezmax trades, the announcement yesterday that China had unexpectedly raised petrol and diesel prices by 10% will allow China's main refineries to get something closer to the price they have been paying. Up to now the companies have been selling well below global prices.

Chinese officials are hoping that the price rise will induce increased production and imports in order to avert shortages that have caused queues and widespread shortages.

But the overall global shortage of production facilities means there is unlikely to be any great turnaround for suezmax or any other class of tanker in the short term.

And this is beginning to show up in the books of major tanker operators, OSG being a case in point.

The American tanker operator admitted this week that depressed tanker rates were hitting the bottom line during "challenging times".

But to return to the fortunes of the suezmax trades this week, there is little to report other than the fact that the worst still remains in the past.

For suezmax out of west Africa to the US and Europe, rates moved minimally from those of last week after they had pushed up to W110. At one point, rates reached as high as W115, only to fall back by Thursday to their levels of seven days earlier.

The ships saw a much more dramatic improvement in the cross-Mediterranean and Black Sea trade last week as they surged from a low of W85 to W150.

There were no such surges this week as the trades struggled to hold on to their gains, and fell back as low as W140 before a belated recovery.

Nevertheless, date sensitive fixtures could attract a premium of W5-W10.

Semi-submersible Utilisation (Worldwide)												
June 22, 2007						June 22, 2006					% change	
Rig Type	Contract Rigs	Competitive Rigs	Unemployed Rigs	Utilization	Avg Day Rate	Contract Rigs	Competitive Rigs	Unemployed Rigs	Utilization	Avg Day Rate	Utilization	Avg DR
Semisub												
< 1500' WD	16	20	4	80.0%	\$234,409	14	20	6	70.0%	\$119,255	10.0%	96.6%
1500'+ WD	73	81	8	90.12%	\$220,275	67	80	13	83.75%	\$145,148	6.37%	51.8%
4000'+ WD	52	54	2	96.3%	\$263,029	48	54	6	88.89%	\$201,475	7.41%	30.6%
Total:	141	155	14	90.97%	\$238,525	129	15425	25	83.77%	\$165,305	7.2%	44.29%

Note: Competitive rigs are defined as drilling rigs that are available and can bid for work in the international marketplace. Contract rigs are the number of competitive rigs that are under commercial contract (employed). Source: DVB

Why Baltic Capesize Index jitters may not prove fatal
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ICAP HANDYMAX INDEX 7,422 (-98) 1 Nov 2007

ROUTE	1/11/07	31/10/07
1 Antwerp - Skaw trip Far East	64,000	64,000
2 Canakkale trip Far East	59,750	59,750
3 Japan - SK/NOPAC or Australia RV	70,500	71,500
4 Japan - SK trip Gib - Skaw range	69,000	70,000
5 Antwerp - Skaw trip US Gulf	43,500	43,500
6 USG trip Skaw - Passero	83,000	86,000
Weighted Average	66,156	67,031
Index basis: 45,000 dwt bulk carrier max 15 years, 25t cranes with no grabs, 14k/29.5 ilo, no diesel at sea		

ICAP HYDE SUPRAMAX INDEX 10,555 (-98) 1 Nov 2007

ROUTE	1/11/07	31/10/07
1 Black Sea to Far East	67,500	67,250
2 US Gulf to NCSA/Skaw-Passero	94,000	95,000
3 Far East to Atlantic	73,000	74,000
4 Australia/India (Pac round)	72,000	73,000
Average 4TCs	76,625	77,313
Index basis: 50-52,000 dwt bulk carrier, maximum 10 years old, 25t cranes with grabs, 14k on 30t ilo no diesel at sea		

BALTIC TANKER INDICES 1 Nov 2007

INDEX		
Baltic Clean Tanker Index	812	+4
Baltic Dirty Tanker Index	1,089	+10

For more information on routes or calculations, visit www.balticexchange.com

IMAREX TANKER FUTURES 1 Nov 2007

	Q1 08	Q2 08	Cal 08
TD3 (VLCC AG/IP)	85.33	74.00	76.00
TD5 (Suez Wafar/USAC)	123.00	106.00	116.17
TD7 (Afra X Nsea)	135.00	121.00	127.25

All prices shown in Worldscale. For more information please visit www.imarex.com

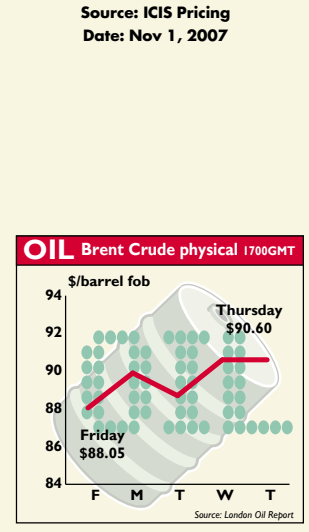
OIL PHYSICAL

	(\$/bbl fob)
Brent (physical)	90.60
21-day Dec	90.15
21-day Jan	89.65
WTI Dec	93.85
WTI Jan	92.65

PRODUCTS (\$/mt CIF ARA)

Premium Gasoline	824-846
15%	
Gasoil (EC)	792.25-794.25
Heavy Fuel (3.5%)	458-463
Naphtha	805-810

Source: ICIS Pricing
Date: Nov 1, 2007



CLEAN

- Baltic to North Spain** — British Ensign, 30,000t, W170, Nov 2. (Projector)
- Ventspils to UK Continent** — Themsestern, 20,000t, W215, Nov 3. (Charterer not reported)
- Vitino to US Atlantic coast** — Arctic Blizzard, 37,000t, W240, Nov 5. (Trafigura)
- Porvoo to US Atlantic coast** — Stavanger Eagle, 37,000t, W200, Nov 7. (Neste)
- Black Sea to Mediterranean** — British Engineer, 30,000t, W200, Nov 3. (Charterer not reported)
- Tuapse to Mediterranean** — Santa Ana, 30,000t, W195, Nov 8. (Clearlake Shpg)
- Tuapse to Mediterranean** — Carlos G, 30,000t, W210, Nov 9. (Charterer not reported)
- Aliaga to Mediterranean** — Trinity, 30,000t, W200, Nov 5. (Litasco)
- UK Continent to US Atlantic coast** — Nord Optimiser, 37,000t, W197.5, Nov 9. (Conoco)
- UK Continent to east coast Mexico** — Stena Concept, 37,000t, W200, Nov 5. (Pmi)
- Lavera to Mediterranean** — NS Pride, 30,000t, \$185,000 lumpsum Nov 3. (BP)
- Skikda to Mediterranean** — Rhone, 30,000t, W185, Nov 1. (BP)



- Nov 13. (Litasco)
- East coast Mexico to US Gulf** — Montego, 70,000t, W180, Nov 7. (Citgo)
- East coast Mexico to US Gulf** — Adygeya, 70,000t, W180, Nov 3. (ExxonMobil)
- Ceyhan to Spain** — Iran Amol, 80,000t, W175, Nov 12. (Repsol)
- Sidi Kerir to Mediterranean** — Monte Umbe, 80,000t, W175, Nov 11. (CSSA)
- Ceyhan to Mediterranean** — NS Creation, 80,000t, W175, Nov 10. (Itchu)
- Marsa Bashayer to East** — Adriatic Sea, 80,000t, W140, Nov 29. (Petco)
- Yanbu to Bataan** — Atlantic Jewel, 262,500t, W56, Nov 21. (Petron)
- Bilbao to Gibraltar** — Mare Ambassador, 30,000t, \$310,000 lumpsum Nov 8. (Charterer not reported)
- Singapore to Singapore** — Kima, 80,000t, \$200,000 lumpsum Nov 9. (SPC)
- Floata to UK Continent** — Lundqvist vessel to be nominated, 80,000t, W145, Nov 11. (ExxonMobil)
- East coast UK to UK Continent** — Lundqvist vessel to be nominated, 80,000t, W145, Nov 13. (ExxonMobil)
- West Africa to St Croix** — Astro Capella, 130,000t, W135, Nov 11. (Hess)
- West Africa to US Gulf** — Scorpio vessel to be nominated, 55,000t, W185, Nov 26. (Sonangal)
- West Africa to Spain** — Genmar Hope, 130,000t, W112.5, Nov 21. (Cepsa)