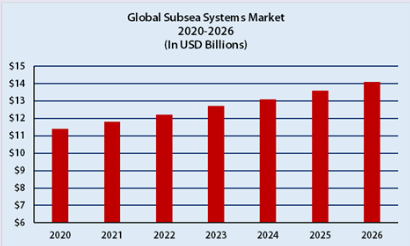
MARKET SECTOR INSIGHTS – MARCH 2022

Subsea Systems Market



“… the global subsea control systems market is expected to witness a CAGR of over 2% during the forecast period of 2020-2025..”

Global Outlook

According to a report by PR Newswire, the global market for subsea systems is projected to reach $14.1 billion by 2026, growing at a CAGR of 3.5% over the forecast period of 2020-2026. As oil prices are gaining momentum after the downturn period, investment in the offshore sector has registered an uptake, which is expected to be one of the major drivers for the offshore oil and gas equipment and services market, and in turn, the subsea systems market, during the forecast period. Moreover, improving viability of offshore projects and rising activity in deep water and ultra-deep-water reserves is likely to promulgate the market. However, the high installation cost of subsea equipment, along with risks associated with offshore drilling and production is expected to hinder market growth.

The value of the subsea systems market in the US was estimated to be $1.7 billion in 2021. China, the world`s second largest economy, is forecast to reach a projected market size of $962.3 million by 2026, trailing a CAGR of 3.8% over the analysis period. Among the other noteworthy geographic markets are Japan and Canada, each forecast to grow at 2.9% and 3.1%, respectively over the analysis period.

Norway and the UK are the key markets for subsea production systems in Europe and are expected to offer several growth opportunities to companies during the forecast period.

Subsea Production Segment Will Dominate the Market

With the rising number of maturing onshore oilfields in recent years, there has been growth in offshore exploration and production (“E&P”) activities. For instance, in the Permian Basin, currently the most important basin in terms of crude oil production, the production from old wells has started to decline and there is little scope for new discovery in these areas.

Increasing deep water and ultra-deep-water activities in the South American, North American, and European regions is driving market growth for subsea production systems. Production from deep water fields is expected to reach 7.6 million barrels per day by 2025 and 9 million barrels per day by 2040. Hence, the demand for subsea production systems is expected to increase, further driving the market.

In December 2019, Chevron Corporation announced plans to develop the Anchor Project in the Gulf of Mexico, which will be the first deep-water and high-pressure project of the oil and gas industry. This project will generate demand for advancement in the subsea control for the high-pressure environment and is expected to drive the subsea systems market during the forecast period.

The oil and gas industry are shifting toward deeper regions in search of oil and gas, to meet the increasing demand. Hence, the subsea production systems share is expected to be the largest among subsea system segments and further drive the market**.**

Subsea Control Systems Market

According to a report by Mordor Intelligence, the global subsea control systems market is expected to witness a CAGR of over 2% during the forecast period of 2020-2025. Factors such as deep-water and ultra-deep-water exploration and production are likely to drive the subsea control systems

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market in the forecast period. However, harsh environmental conditions will make it difficult to install, maintain and replace the subsea control systems, which will have some amount of negative impact on the market during the forecast period.

Oil and Gas Industry Outlook

According to Deloitte's 2022 Oil and Gas Industry Outlook, the oil and gas industry has rebounded strongly throughout 2021, with oil prices reaching their highest levels in six years. Oil demand, and thus mobility, is back to 95% of pre–COVID-19 levels, and oil has escaped its corridor of uncertainty of $40 to $60/bbl without impeding the energy transition. However, while the industry's recovery is better than expected, uncertainty remains over market dynamics in the coming year.

According to the short-term energy outlook released by the US Energy Information Administration ("EIA"), it is estimated that 99.0 million b/d of petroleum and liquid fuels were consumed globally in January 2022, an increase of 6.6 million b/d from January 2021. The EIA forecasts that global consumption of petroleum and liquid fuels will average 100.6 million b/d for all of 2022, which is up 3.5 million b/d from 2021 and more than the 2019 average of 100.3 million b/d. EIA also forecasts that global consumption of petroleum and liquid fuels will increase by 1.9 million b/d in 2023.

Offshore Oil and Gas Pipeline Market

According to a report by Expert market Research, the global offshore oil and gas pipeline market is expected to grow at a CAGR of 7% in the forecast period from 2021-2026 to reach $18 billion by 2026. The industry is driven by the rising demand for crude oil and natural gas, particularly from the Asia Pacific region and the growing demand for economical, safe, and reliable connectivity.

The gas pipeline segment is expected to increase the demand for the offshore pipeline market, owing to increasing discoveries of shale gas and exploration in the North American region. Hence, this is expected to create significant demand for gas pipelines. The report goes on to add that Increasing oil & gas imports in Europe and Asia-Pacific regions through subsea (offshore) pipelines are expected to create huge opportunities for the offshore pipeline market during the forecast period.

Offshore Wind Energy Industry

According to a report by Global Market Insights, the offshore wind energy market is anticipated to grow at a CAGR of over 15% between 2021 and 2027. The ongoing shift from the conventional energy sources to renewable energy technologies due to the implementation of strict environmental policies will positively encourage the market growth. Accelerating offshore opportunities coupled with the development of a robust commercial & industrial sector base will influence product penetration.

Rising investments in the development of deep-sea offshore wind energy projects along with the rapid technological advancements is set to augment the business landscape. The integration of renewable energy sources along with the increasing utilisation of clean energy will continue to drive industry growth. In addition, the private & public expenditure for the development & expansion of utility-scale projects coupled with ongoing identification of the potential sites for offshore wind projects will provide momentum for the overall industry expansion.

Global ROV Market

According to a report by Mordor Intelligence, the global remotely operated vehicle ("ROV") market majorly depends on the offshore oil & gas industry and is expected to grow at a CAGR of 7.6% during the forecast period of 2020 to 2025.

EUROPEAN VALUATIONS

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As offshore activities move into deeper waters, it is becoming extremely difficult for divers to perform the actions at such depths. ROVs provide a unique solution to this problem; a remotely operated underwater vehicle that can be operated by a crew on the surface to carry out underwater tasks. With a rise in the number of offshore activities around the world, the ROV market is steadily growing.

-Economic Impact of Coronavirus-

The Covid-19 pandemic has created the biggest global crisis in generations, sending shock waves through health systems, economies, and societies around the world. Faced with an unprecedented situation, governments are focused on bringing the pandemic under control and reviving their economies.

Impact on Manufacturing and Services

Manufacturing activity has rebounded strongly following sharp declines at the start of the Covid-19 pandemic. Yet, the sector—much like the larger macroeconomy—has also been challenged by significant supply chain disruptions, workforce shortages and soaring costs. This has hampered growth in some segments, even as the longer-term trend lines have remained encouraging.

Likewise, services sectors around the world including IT, IT enabled Services ("ITeS") and retail have also rebounded strongly, but the worst hit travel sector is still reeling, which has been exacerbated by the periodic spread of newer variants.

Consumer Demand

The consumers who drive the global economy have remained surprisingly resilient as the Covid-19 pandemic pushed inflation to 40-year highs, made certain goods scarce and upended the job market. But now a geopolitical storm in the form of Russia's invasion of Ukraine is testing anew their appetite and ability to spend.

Energy and food prices, both key forces behind inflation, may be pushed even higher by the escalating Russia-Ukraine conflict. That will ripple back to households across Europe and the US, where shoppers have already faced sticker shock on everything from cars to avocados. In addition, borrowing costs have already begun to rise as central banks pare back emergency pandemic stimulus "We are entering recession-like spending behaviour without a recession," said Marshal Cohen, chief retail industry adviser at NPD Group, describing a phase when consumers begin to think twice about making purchases.

Already, shoppers' willingness to splurge shows early signs of fading. Growth in US consumer spending has slowed in the last few months as government aid programs end and inflation makes it harder to stretch a paycheck. An increasing share of low-income Americans are already worried about paying bills on time. Consumer sentiment has soured, now at a decade low in the US and remaining below pre-pandemic levels in Western Europe. Russia's incursion to Ukraine, the biggest ground attack in Europe since World War II, could drag it even lower.

High Global Inflation

According to the IMF's latest World Economic Outlook update, inflation is expected to remain elevated for longer than in the previous forecast, driven by war-induced commodity price increases and broadening price pressures. For 2022, inflation is projected at 5.7 percent in advanced economies and 8.7 percent in emerging markets and developing economies—1.8 and 2.8 percentage points higher than projected in the January World Economic Outlook update. Although a gradual resolution of supply-demand imbalances and a modest pickup in labour supply are expected in the baseline, easing price inflation eventually, uncertainty again surrounds the forecast. Conditions could significantly deteriorate. Worsening supply-demand imbalances— including those stemming from the war—and further

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increases in commodity prices could lead to persistently high inflation, rising inflation expectations and stronger wage growth. If signs emerge that inflation will be high over the medium term, central banks will be forced to react faster than currently anticipated—raising interest rates and exposing debt vulnerabilities, particularly in emerging markets.

Global Economic Forecast

According to the latest IMF World Economic Outlook update, global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than in the January World Economic Outlook update. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term.

Crucially, this forecast assumes that the conflict remains confined to Ukraine, further sanctions on Russia exempt the energy sector (although the impact of European countries' decisions to wean themselves off Russian energy and embargoes announced through March 31, 2022, are factored into the baseline), and the pandemic's health and economic impacts abate over the course of 2022. With a few exceptions, employment and output will typically remain below pre-pandemic trends through 2026. Scarring effects are expected to be much larger in emerging markets and developing economies than in advanced economies—reflecting more limited policy support and generally slower vaccination—with output expected to remain below the pre-pandemic trend throughout the forecast horizon.

Unusually high uncertainty surrounds this forecast, and downside risks to the global outlook dominate—including from a possible worsening of the war, escalation of sanctions on Russia, a sharper-than-anticipated deceleration in China as a strict zero-COVID strategy is tested by Omicron, and a renewed flare-up of the pandemic should a new, more virulent virus strain emerge. Moreover, the war in Ukraine has increased the probability of wider social tensions because of higher food and energy prices, which would further weigh on the outlook.

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EUROPEAN VALUATIONS

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