HC INSIDER

OIL

Annual Review and Outlook 2018-19: Oil

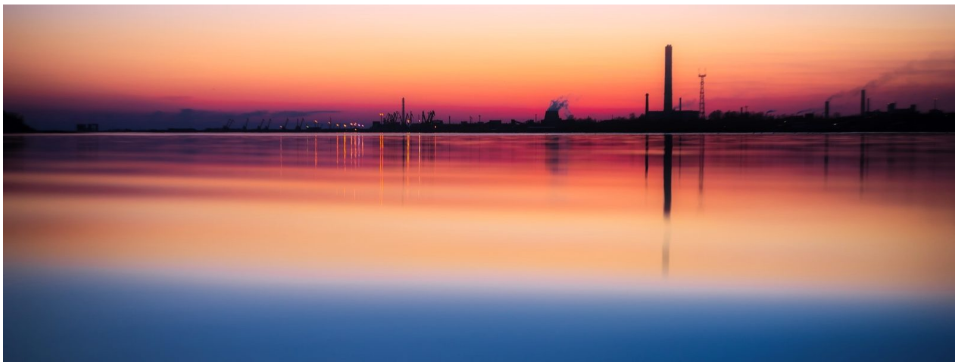
The oil space was marked by change in 2018, with trading companies shifting focus to asset-backed business and big producers moving into trading, driving talent reshuffles across the industry

Oil trading operations had a tough year in 2018. The return of benchmark crude futures to backwardation after a long period of contango caused stress for companies tied into storage plays and drove competition for spot crude higher. This highly competitive environment, against a backdrop of price volatility, caused many businesses to re-think how desks are structured and set the stage for pockets of market consolidation, driving counter-seasonal hiring activity.

The disruption of traditional hiring patterns was most visible in the third quarter of 2018, with no summer recruitment lull and some front-office talent bypassing potential bonuses in order to start 2019 on a fresh page. Management teams were also affected, with leadership changes or reshuffles spotted at almost every big trading house. There are a number of ways in which such changes at companies including Trafigura, Gunvor and LITASCO could be read, but the general understanding is that it represents a ‘generation shift’, as trading houses have been promoting traders to global management positions.

Salaries and benefits were key areas of discussion at established businesses in 2018, and notably among the majors. Front-office staff attrition continued to fall at companies including BP, Shell and TOTSA over the year. This trend has caused some to wonder if it is linked to trader remuneration packages, as attrition in the middle and back offices has remained at a recognisable level. These issues divided the market over the year and led some to ask whether the lack of front-office attrition could prevent the next trading superstars from rising up. The year’s hiring trend was driven by difficult trading conditions and raises the question of whether the market environment in 2018 was an anomaly or an indicator of lasting structural change. This question will be an important one for businesses to answer from a planning perspective in 2019.

On the talent demand side, 2018 was marked by increased interest in candidates with backgrounds in M&A, origination and analysis/data science, with appetite driven by a focus on proprietary assets, clients and data. We expect this trend to continue in 2019 as companies work to consolidate their positions in response to the market environment. The consolidation seen over the year led to the stagnation of base salaries, with many higher-paying businesses either going through mergers or closing operations. High-performing traders are still being well remunerated and will continue to be so into 2019.



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Difficult market conditions have driven all desks to focus on cost reduction in an effort to improve – or at least maintain – margins. The adoption and development of new technology was unprecedented in 2018 as companies realised its cost-cutting potential. Traditional risk, credit and operations profiles changed following the market crisis of 2009, with staff in such roles being seen as deal facilitators rather than 'internal policemen'. The spread of new technology is bringing further change, driving a need for talent with solid transformation, change-management and process-optimisation skill sets. We have seen some big companies following this path cutting trade-settlement costs by up to 50pc. While this trend naturally causes some casualties, it also offers interesting opportunities for market entrants and unique collaborations between traditional rivals. The introduction of Blockchain-based platforms is something that could further affect middle-and back-office talent demand. The growing use of platforms including VAKT and komgo, which streamline post-trade and trade-finance documentation processes, respectively, may reduce the need for people in such roles.

We saw firm demand for trade and logistics talent for the growing US export market in 2018. Continued high production levels from the Permian basin in west Texas and rising liquidity in the WTI Houston market created opportunities for candidates with solid experience in international crude markets and the movement of oil from logistically constrained areas. US crude exports have risen rapidly since the country's 40-year ban was lifted at the end of 2015 and are expected to continue rising. The growth of this market has also driven foreign producers, European trading houses and Asian and Latin American national oil companies (NOC) to set up shop in the US. Smaller trading companies have also been establishing a presence as exports rise, in order to better understand the range of crude grades, refinery demand patterns and pricing. We expect activity around the US export market to continue growing in 2019.

Candidates valued employer reputation and job security above potential remuneration upside in 2018. This is likely to continue into 2019, with trading talent attaching a premium to businesses with deep pockets and physical assets. Asset-backed traders with big refiners or producers showed a reluctance to change positions, as the market environment dampened appetite for involvement in asset-light operations. The prospect of making money from a blank sheet of paper for a percentage of P&L appears to have lost its attraction for the time being.

Push for physical assets

Trading operations focused on pure speculative plays continued to suffer from the effects of algorithmic trading in 2018, with those working on a technical basis having their trades disrupted by computer-driven strategies. This, along with a changing crude market structure and general price volatility, has been one of the key pressures on companies with paper trading at the heart of their operations. We expect this trend to continue in 2019, and for candidates to maintain their preference for asset-backed businesses.

The pain being felt by third-party traders is something that asset-backed companies have been turning to their advantage. NOCs, major upstream operators and big consumers have been establishing and developing trading operations for the first time. Key examples of companies following this trend include ExxonMobil, Saudi Aramco, ADNOC, Maersk Oil Trading, JX Nippon and Tupras, with the big names involved confirming that the current trading environment is one in which asset-backed businesses have a clear advantage. The setting up of new trading operations by producers and consumers has been driving demand for front-office talent. We expect this trend to continue in 2019 as businesses build out trading desks.

Trading houses with an eye on the trend away from pure third-party activity continued to take physical positions in oil supply chains in 2018. This was seen in Vitol's move to secure long-term supply arrangements with Middle East crude producers and its intention to take a physical position in the US crude export market. It was also seen in Trafigura's downstream business Puma Energy expanding its operational base and planning for an IPO. These midstream and downstream moves on the part of trading houses clearly demonstrate the drive to asset-backed business, which we expect to gather pace in 2019.

The push for asset ownership drove activity in the financing talent segment in 2018, with salaries for debt-and equity-focused positions rising at banks. Candidate interest in the asset-investment business has risen as private equity, sovereign wealth funds and private offices have returned to the energy and natural resources sector. The funds' re-entry follows the realisation that asset-backed business is once again offering solid returns and confirms an outlook for increased front-office hiring activity.

Marine fuel reboot

The International Maritime Organisation's upcoming IMO 2020 regulation is something that continued to cause market uncertainty in 2018. The rule, which will require ocean-going vessels to burn fuel with a sulphur content no higher than 0.5pc – rather than the traditional 3.5pc –as yet lacks a coordinated response from the shipping industry.

In 2018 it became clear that the response to IMO 2020 will be provided by the refiners, with many of the big names pledging to make new low-sulphur fuel blends available ahead of the 1 January 2020 regulation change. While this presents a practical solution to the problem, it also means deep reorganisation for the marine fuel sector. As the blending of the new low-sulphur fuels will likely involve the addition of middle distillates, or their straight use in the form of marine gasoil, teams dedicated to fuel oil are expected to merge with middle distillate desks in many instances, causing some talent attrition. IMO 2020 will have far-reaching effects across the barrel, and the crude market is likely to see increased demand for grades suited to the production of IMO-compliant fuels.

We received a number of enquiries in 2018 from shipping companies that are planning to bring oil trading talent in-house in response to the fact that fuel procurement is set to become a more complex business. Shipping operations expressed interest in candidates with long track records in fuel oil, middle distillates and risk management and companies are expected to seek those who rank role stability and steady trade flow above big commissions.

Human Capital's global oil team will be in London for IP Week from 25 February. If you would like to meet to discuss any of the issues outlined above, please feel free to contact us using the details below.

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