Opinion

Tanker Shipping

Drewry Maritime Research

BALTIC INDICES

Baltic Clean Tanker Index
Baltic Dirty Tanker Index

June	July	August
● ↓	↑ ↓	↓ ↓

BSPA

Aframax
MR Product

June	July	August
↑ ↑	● ●	↓ ↓

Source: Baltic Exchange, Drewry Maritime Research

View product page

04 Sep 2017

Hurricane Harvey - A mixed bag for tanker market

The tanker market will register trade flow changes as a result of TS (Tropical Storm) Harvey striking the prime energy hub in the US. As an immediate consequence, we foresee increased gasoline imports to the USAC from Europe due to a gasoline shortage in the domestic market, leading to firm MR rates on the TC2 route. Refined product exports from the USG will halt and trade partners of the world's largest net-exporter will need to find alternative suppliers in the short-term.

Energy infrastructures offline

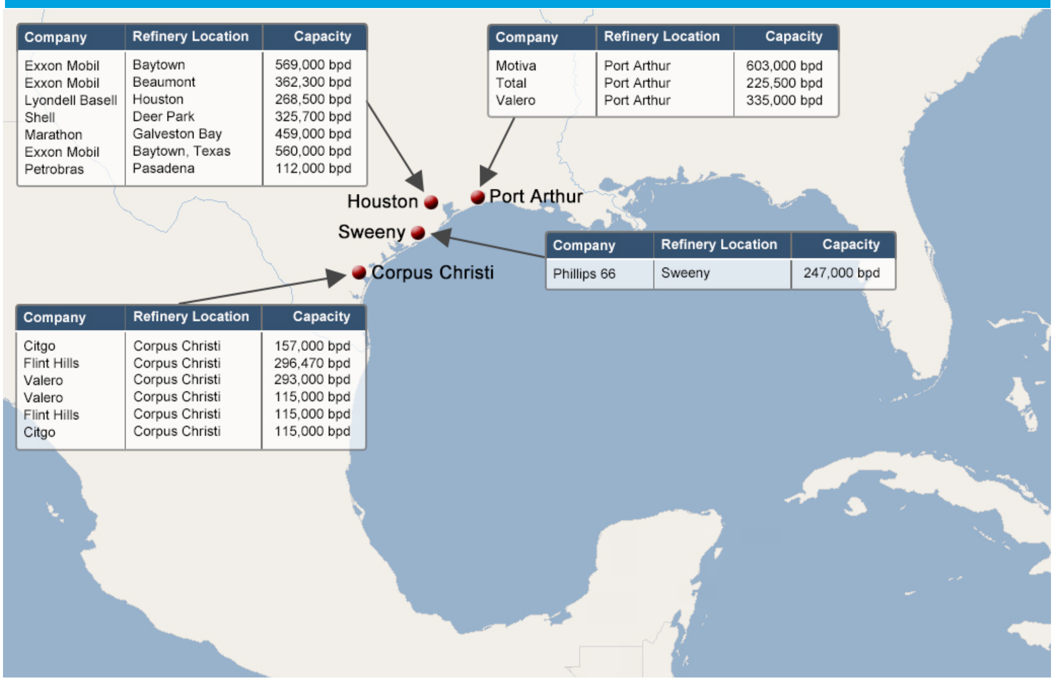
Energy infrastructure and port terminals in the USG have been shut down and evacuated since 24 August, serving as a precautionary measure before Harvey made landfall on 25 August. As of 28 August, 19% of oil production and 18% of the natural gas production of the US were shut down. Additionally, all six refineries in the Corpus Christi area and four refineries in the Houston/Galveston area were shut down. A combined refining capacity of 2.2 mbpd, which constitutes 43.2% of the overall Texas Gulf coast refining capacity, and 11.8% of the country's refining capacity, has been taken offline. The refineries in Corpus Christi, which have been closed since August 24, are expected to resume their operations by the first week of September, provided they have sustained no major damage.

Meanwhile, more than 10 oil and gas terminals have also been closed. However, the Louisiana Offshore Oil Port (LOOP), a major oil import terminals, is largely unaffected. The vessels scheduled to discharge or load crude in the USG region at the affected ports will have to wait until the port operations normalise, which will lead to temporary port congestion and delays.

Aframax rates to firm slightly; larger vessels to take a dip

The USG region is a net importer of crude, and in May 2017, 3.4 mbpd of crude was imported, whereas only 0.7 mbpd was exported. If the refineries take more than a week to resume their normal operations, crude imports will take a hit, which in turn will hurt the rates for larger crude tankers. However, the impact on the tanker market will be offset to a certain extent by an increase in the US crude exports. Prolonged refinery outages will lead to an increase in the crude inventory and reduce prices in the domestic market. This will open the arbitrage window to export crude from the USG, supporting Aframax rates. Although there will be no exports until the port operations normalise, the Aframax rates in the Caribs have already started firming in anticipation of improved demand in the weeks ahead.

REFINERY OUTAGES IN GULF OF MEXICO DUE TO HURRICANE HARVEY



Company	Refinery Location	Capacity
Exxon Mobil	Baytown	569,000 bpd
Exxon Mobil	Beaumont	362,300 bpd
Lyondell Basell	Houston	268,500 bpd
Shell	Deer Park	325,700 bpd
Marathon	Galveston Bay	459,000 bpd
Exxon Mobil	Baytown, Texas	560,000 bpd
Petrobras	Pasadena	112,000 bpd

Company	Refinery Location	Capacity
Motiva	Port Arthur	603,000 bpd
Total	Port Arthur	225,500 bpd
Valero	Port Arthur	335,000 bpd

Company	Refinery Location	Capacity
Phillips 66	Sweeny	247,000 bpd

Company	Refinery Location	Capacity
Citgo	Corpus Christi	157,000 bpd
Flint Hills	Corpus Christi	296,470 bpd
Valero	Corpus Christi	293,000 bpd
Valero	Corpus Christi	115,000 bpd
Flint Hills	Corpus Christi	115,000 bpd
Citgo	Corpus Christi	115,000 bpd

Source: Bloomberg, Drewry Maritime Research, US Department of Energy

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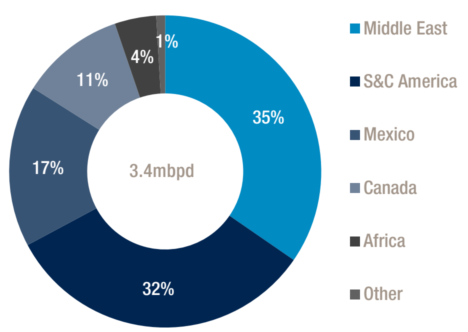
Net negative impact on the US product trade

The diesel exports to Europe and Latin America will be stalled for a few weeks until the refineries are up and running. The MRs, which were principally employed in transporting refined products from the USG to Latin America, will also take a hit due to reduced exports. Overall, the product tankers exporting refined products from the USG will see reduced employment and a dip in freight rates for a few weeks before the export-oriented refineries in southern Texas resume their normal operations. However, if the damages are severe and refineries take time to come back online, the importers of the US products will tap into other distant markets to fulfil their requirement. For example, Latin American countries might turn to Europe and the Far East for gasoline requirements. Similarly, Europe might have to depend on Asian suppliers for diesel. This will increase the tonne-mile demand and support the product tanker rates. On the other hand, the United States Atlantic Coast (USAC) is dependent on imports from Europe and the USG to meet its gasoline demand. With the supply disruptions in the USG and resultant tight supply, we expect a drawdown of inventories and an increase in the arbitrage trade from Europe. Thus, MR rates on the transatlantic TC2 route (North West Europe-USAC) could become firm in the short term.

Long-term fundamentals unchanged

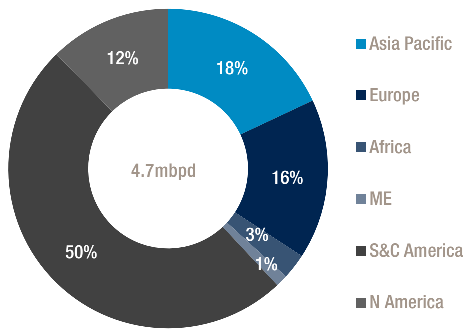
TS Harvey's impact on shipping and trade mainly depends upon the amount of time required to bring energy infrastructure back online to resume their normal operations. We expect the oil rigs in the Gulf of Mexico, refineries, ports and terminals to resume their normal operations in a week, and we expect no long-term material impact on the trade of crude oil and refined products. We do not expect any material changes in the supply-demand dynamics of tankers in the long run.

US CRUDE IMPORTS 2016



Source: Drewry Maritime Research, EIA

US PRODUCTS EXPORTS 2016



Source: Drewry Maritime Research, EIA