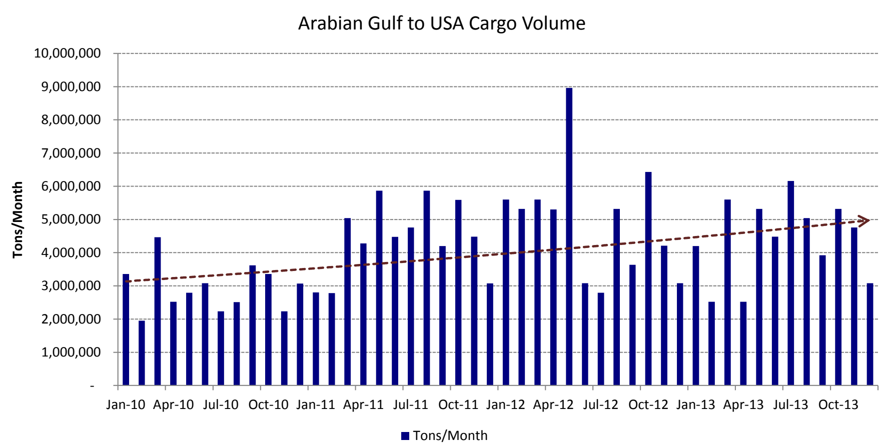
Saudi Arabian Crude and the US Market

Over the past few years US domestic crude oil production has supplanted foreign crude oil imports. To the extent that they possibly can, domestic refiners have shifted to local grades that have trended at an often significant price discount. Interestingly, however, fixture activity on the Arabian Gulf to US Gulf trade route remains robust. In efforts to remain competitive, Saudi Arabia has priced US-bound crude oil at a discount compared to prices posted to Asian customers. The chart below represents total reported spot fixture volume from the Arabian Gulf to the US Gulf. While monthly volumes may experience volatility, it is interesting to note the overall positive trend despite the US domestic shale oil revolution.

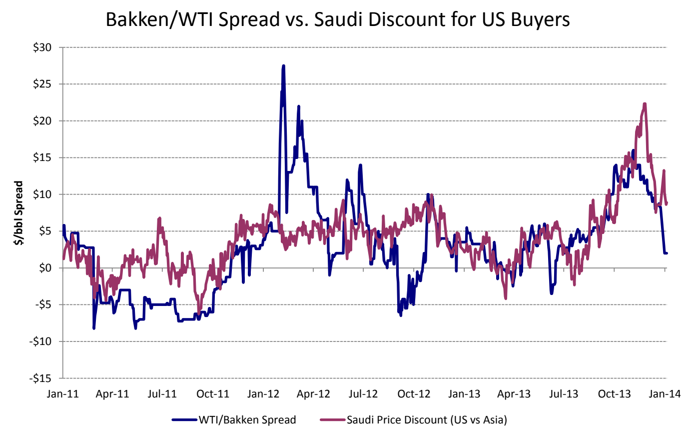
Reported spot market activity from the Arabian Gulf remains on an upward trend since 2010 in spite of rising US crude production.



Source: Poten & Partners

US inland crude grades typically trade at a discount to WTI due to limited transportation options available to bring crude oil to market. In addition, the prohibition of exports limits price parity against to foreign grades. Price benchmarks are not always available, but Bakken UHC prices have been tracked by Bloomberg since production started in significant amounts. As the graph on the next page shows, the price spread between Bakken and WTI has moved in line with the Saudi Arabian discount for US crude buyers in 2013. This correlation hints that traders are actively watching the price spread between Arabian Gulf grades of crude and Saudi sellers are willing to discount to protect their US market share.

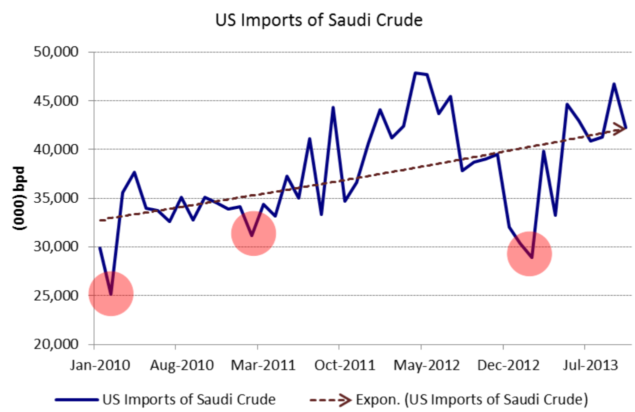
In 2013 the discount for Saudi crude has closely matched the discount of Bakken against WTI.



Source: Bloomberg

Saudi Arabian exports to the US have followed a general upward trend since 2010. The drop in imports during the February to March time period appears to coincide with the refinery turnaround window in the US Gulf; normally between February and March. Crude inventory levels remain high in the US Gulf which has left the region short on spare storage.

EIA Data supports a general upward trend in imports since 2010, although imports have not reached pre financial crisis levels.



Source: EIA

Should crude oil exports from the United States be permitted, the WTI/Bakken spread could be expected to collapse. Additionally, if exports are authorized, US crude oil would find a competitive home in world markets potentially reversing the trend in declining imports and possibly further supporting the movement of Saudi Arabian crude oil to the US.

It remains to be seen if exports from Saudi Arabia continue to follow this trend, but for the time being, demand seems stable for its crude in the US Gulf. If the US imports start to decline, demand could soften in the VLCC tanker segment as tankers make shorter voyages to the Far East.

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