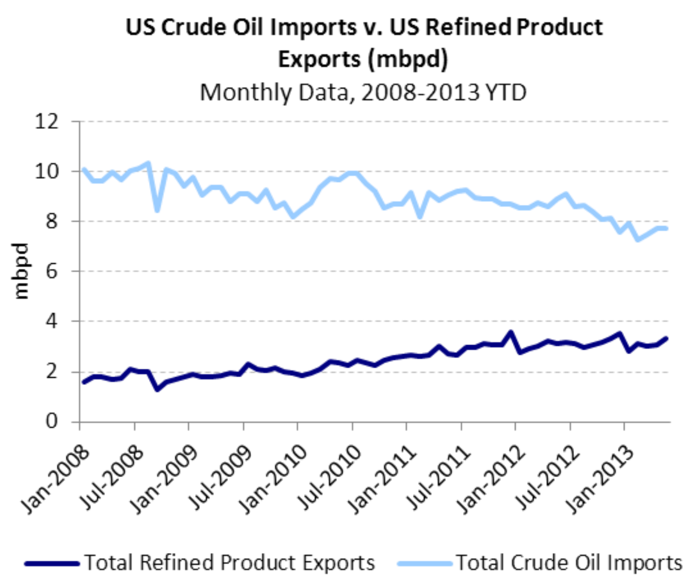
US Crude Production Helping Drive Dynamic Clean Market

Shale oil leading to surge in US clean exports

With United States crude oil production rising to levels unseen in 22 years, the US must find consumers with whom they can place this excess oil. However, the US cannot export any of this crude oil with the exception of limited quantities to Canada due to self-imposed regulatory constraints. Thus the US is left to refine much of this crude and then export it, causing an increase in product tanker movement ex-United States Gulf (USG) to the South American, Central American, and West African (WAF) zones. Although the US oil surge is having a positive effect on US product tanker movement, it is hurting the already weak European refining and product tanker markets, and could prove to have longer-term negative effects on European refiners if current conditions persist.

Dirty imports falling while clean exports gain

The implementation of new drilling methods in so-called "tight oil" formations has increased production for upstream companies in the middle of the US. These changes have created a new dynamic within the US that shows the country is becoming less reliant on foreign oil as crude imports decrease and product exports increase, as shown in the graph below.



Source: EIA

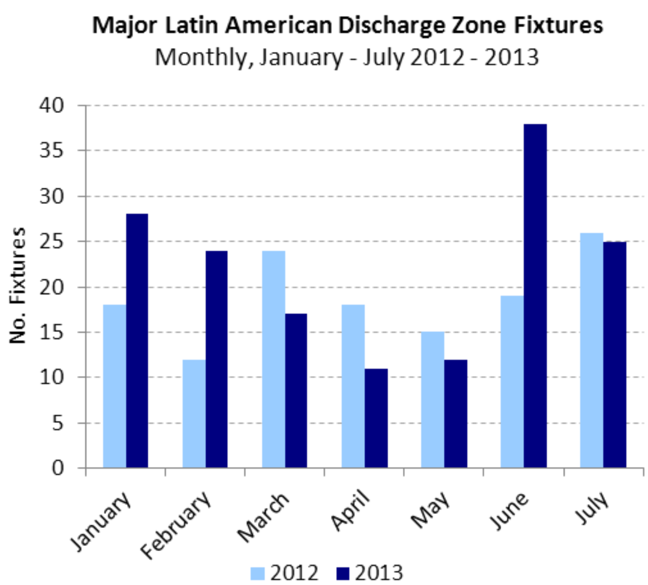
While product tankers ex-US have always played a prominent role in Latin America, the recent strength of US oil production has further increased these voyages. More surprisingly, the US has shown increased product exports to West Africa, from where America has in the past primarily been an importer of crude oil.

US clean exports moving into Africa

European refined product exports, which have been historically dominant in the West African market, are feeling pressure from the strength of the American refining market. While European product tankers still export much more to the West African zone, the juxtaposition of increased US-WAF movement to the diminishing EUR-WAF movement potentially shows the beginning signs of a more permanent displacement. European refineries, with margins of $6.18 a barrel, are struggling to compete against American refineries, which are making $21.17 a barrel according to Reuters. For instance, a manifestation of this has included a 10% decrease in gasoline imports so far this year, down from 175 kbpd from 2012, also according to Reuters.

From January to July of this year, the benchmark MR route USG to CAR saw 83 vessels make the voyage, compared to 53 over the same period in 2012. Another reason for the increase to South and Central America is the loss of 226 kbpd of refining capacity this year, highlighted by the closure of the St. Croix refinery.

US clean spot fixtures to Latin America up YTD in 2013



Source: Poten & Partners

While Africa is forecasted to see refinery capacity increases over the next 5 years, the changes are expected to be negligible, meaning that it will still need to source refined products from places such as Europe and the US. Furthermore, there is hope that macroeconomic growth can be sustained in some parts of the continent, which would help drive demand for crude oil and refined products.

Incremental Refinery Capacity Changes (kbpd)
yoy Change, 2013 - 2018

	Africa	*Europe*	*N. America*	*S. & Cent. America*	*Total*
2013	40	-166	105	-226	1,204
2014	46	48	29	285	311
2015		160	75	60	1,427
2016	95	215		98	2,080
2017	195	214		215	2,014
2018				600	2,031
Total	376	471	209	1,032	9,067
% Change 2012-2017	12.0%	2.8%	1.0%	15.6%	10.3%

Source: IEA

Product supply and demand balances in flux

European refineries, dealing with poor general economic conditions, now have to compete with the US in what has been a strong market (WAF). After already experiencing some refinery closures this year and with others struggling to stay open, Europe may even fall below forecasted levels of refining capacity if market conditions persist. And while European refiners find themselves trying to adapt to other markets by increasing exports to South America to make up for reduction in WAF trading, they could just as easily find themselves displaced by a strengthening US refining sector there as well.

While this dynamic has helped support clean tanker demand, and in turn, rates, the situation is still fluid enough that it is tough to pick specific losers. In any case, it seems likely that US refiners will continue to see higher export volumes and be a competitive force in new regions.

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