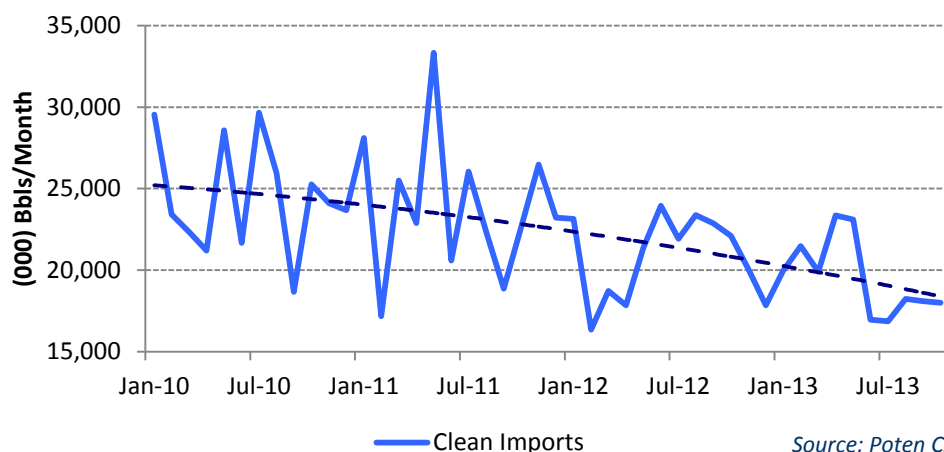


## European Clean Product Exports

**European refinery outlook is bleak, driving down rates for the Europe to US Atlantic Coast benchmark.**

Refinery utilization rates in Europe have been steadily trending lower as crack spreads have declined, challenging owners to turn a profit. European refineries have struggled to remain competitive as high Brent prices have impaired profitability resulting in fewer product exports. There are currently 748,000 bbls/d of refinery capacity that is either for sale or under strategic review (i.e. facing possible closure). Since 2009, approximately 7% of European refineries have closed, and Bloomberg notes that there is still a 15% overcapacity in the market, with additional closures likely.

## US Clean Imports from Europe

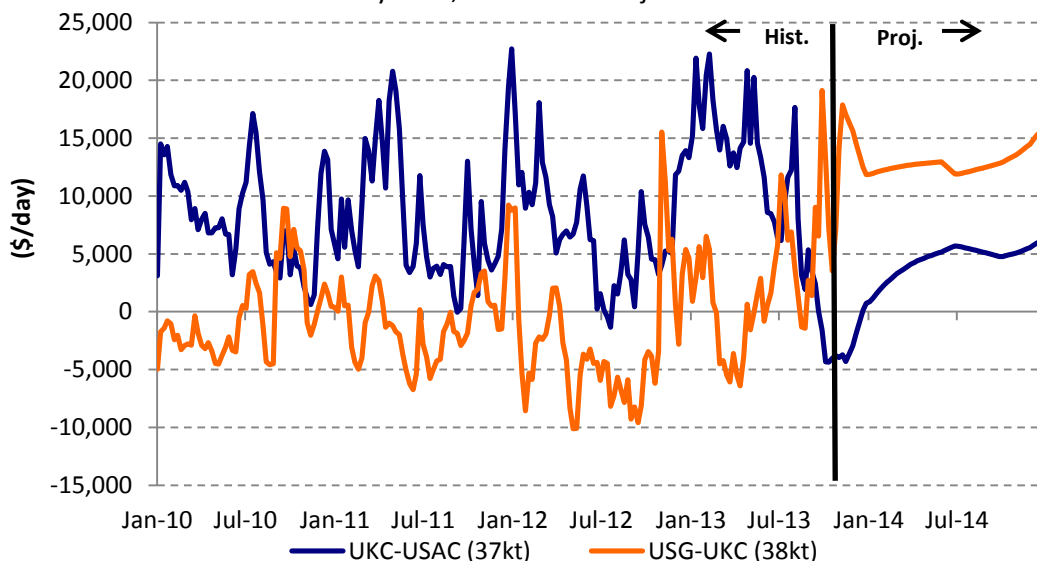


**European refiners are optimized for gasoline exports to the US, which have been declining.**

In addition, European refiners are dependent on a core export market for gasoline. This market has suffered as US domestic refinery throughputs increased following the explosion of tight inland grades of crude. US refiners are running at high utilization rates and offsetting the need for European gasoline imports. The UK Continent – US Atlantic Coast trade (TC2), was once the fronthaul voyage for clean product tankers has now been trading flat at WS70 for most of this quarter. However, freight rates for the transatlantic voyage rose sharply at the start of this week to WS100. Time charter earnings at these levels amount to \$3,500; still a far cry from the \$11,700/d that a Medium Range (MR) tanker can command for US Gulf exports. The recent increase from WS70 to WS100 appears to be driven by a shortage of tonnage in the European load region as ballasters have been repositioning away from the Continent to the US Gulf.

## Historical MR Rates and Forecast

Weekly Data, 2010-2014 Projected

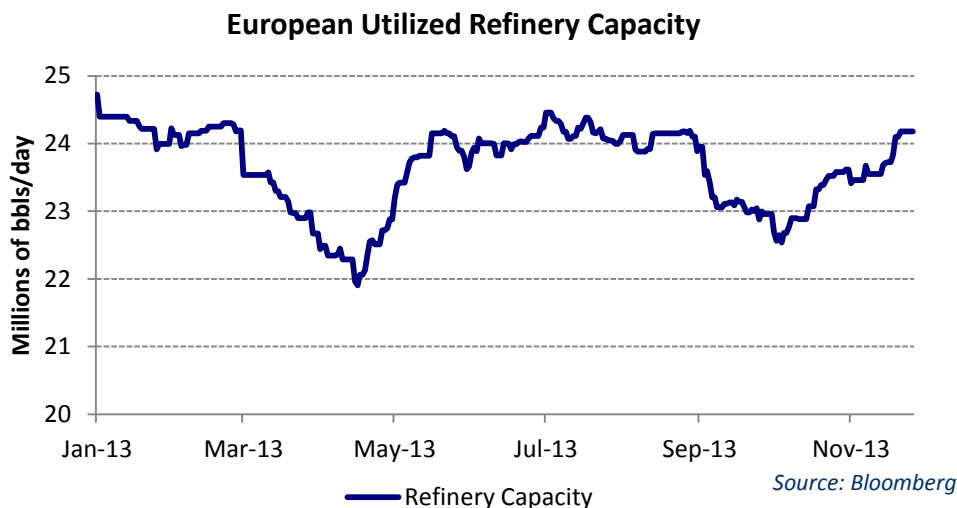


*TC14 has traded at a premium to TC2 since September of this year as US distillate exports have risen.*

### US Gasoline stocks fell to an annual low last week.

In spite of the robust US Gasoline inventory levels throughout most of the year, last week's inventory levels hit an annual low which has driven some of the recent cargo volumes. However, this rally is expected to be short lived as inventory builds are forecasted to increase following refinery restarts on the US Atlantic Coast. In addition, owners may reconsider the decision to ballast away from the region going forward. As can be seen in the following chart, European refinery utilization rates have risen following the end of the turnaround window, increasing volumes available for export.

Turnarounds on the Continent are ending, driving up export volumes.



Cheap natural gas and access to inland crude grades will ensure US refiners' ability to operate at high levels for the foreseeable future. According to a report released by Valero, it costs a refinery \$1.11/bbl for natural gas feedstocks in the US compared to \$2.77/bbl in Europe, a substantial premium for producers. As the US supplies more of its own clean product requirements, European producers will be challenged to efficiently compete. The growing refinery capacity in the Arabian Gulf and Far East will further reduce export markets available for the European refiners, which does not provide an optimistic outlook for an already suffering market.

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