Weekly Tanker Opinion

POTEN & PARTNERS

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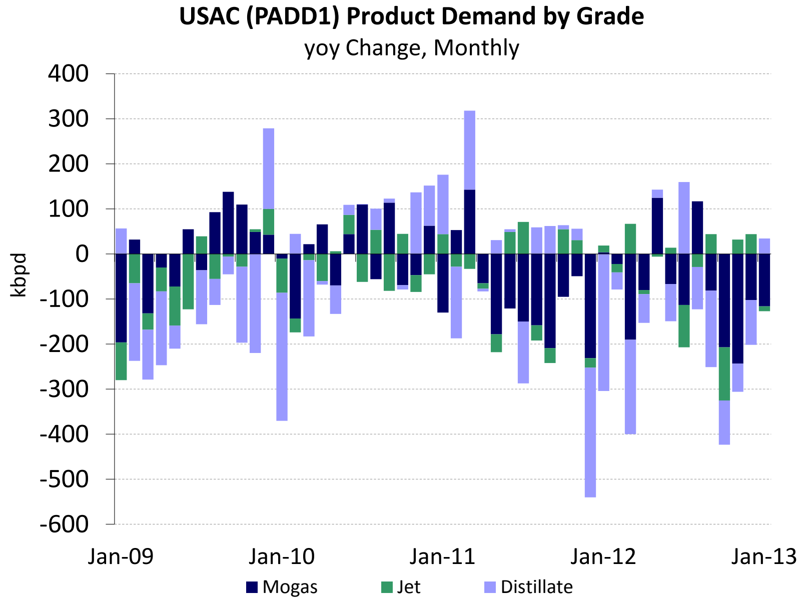
## Distillate Inventory Impact Continues on Atlantic Coast

**Clean product market still recovering from effects of Hurricane Sandy**

The recovery from last autumn's Hurricane Sandy continues in some of the hardest hit areas of the Northeastern United States, and there are likewise lingering effects within the petroleum products market in the region. Unseasonably high motor gasoline prices are receiving considerable attention in the press as blending components for summer grades are in higher demand and contango in gasoline futures markets is narrowing. These high prices have come despite eroding gasoline demand in the area.

**Broader regional trend of declining product demand…**

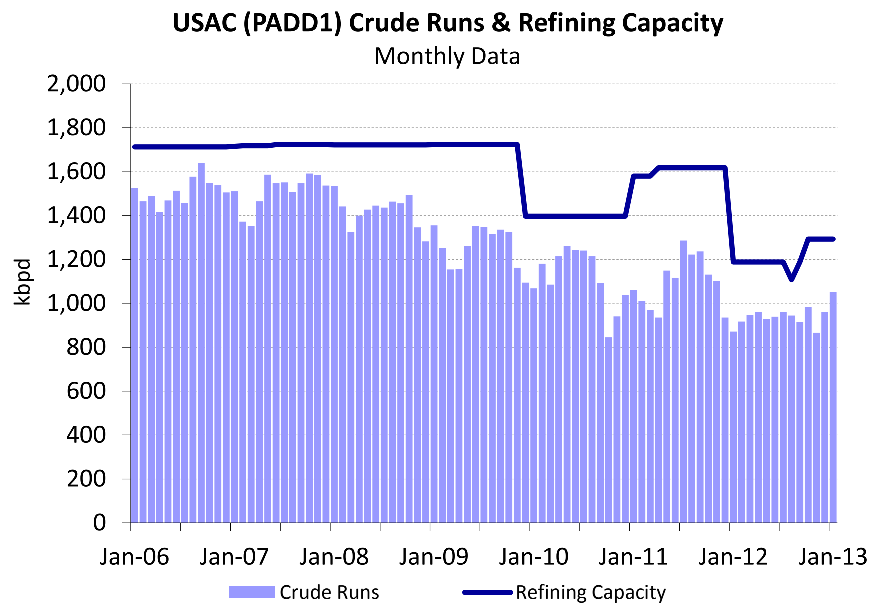



Source: EIA

**…resulting in reduced refinery capacity and utilization**

Declining refining margins, coupled with this slumping regional demand, have inevitably led to a reduction in both local crude runs and refinery capacity. This trend is continuing with the announced closure of Hess' Port Reading refinery, a 70 kbpd fluid catalytic cracking unit, by the end of this month, suggesting little pending relief for area drivers at the pump by way of increased regional products output.

**Refinery closures continue**

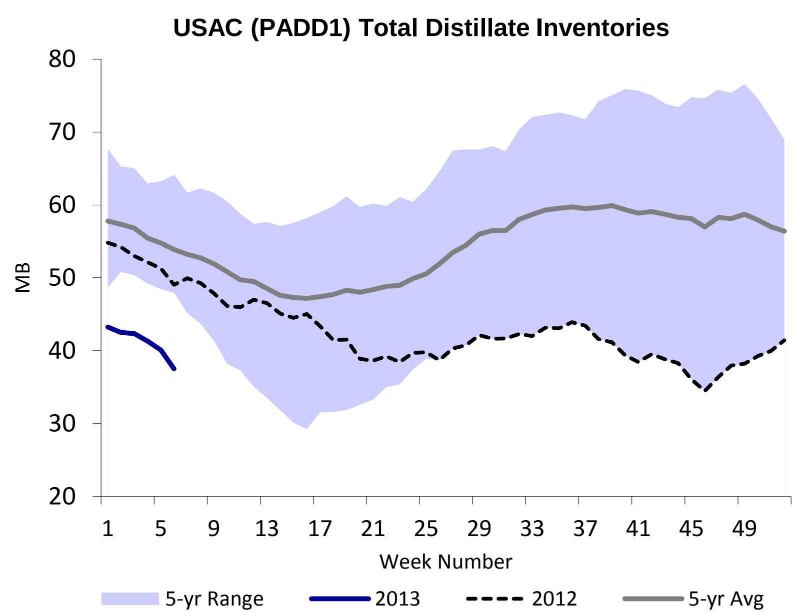



Sources: EIA, Poten

**Demand for distillate was poised to rebound…**

As noted in the aftermath of Hurricane Sandy (see 09 November 2012 *Opinion*), the US Atlantic Coast (PADD1) was primed for a recovery in distillate demand. Inventories already fell well below their usual levels in the second half of last year, not following their usual build before winter. The hurricane then aggravated these low levels and the need to rebuild inventories.

**…a result of already lower inventories coupled with Sandy**

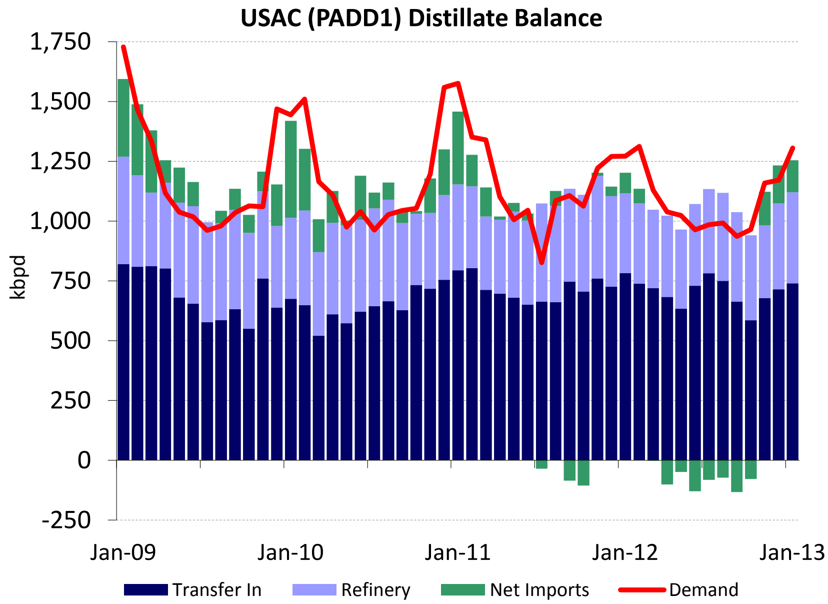



Source: EIA

**Prior exports premature**

The implication was that regional refineries were premature in beginning to export distillates, and PADD1 indeed reverted back to its status as a net importer of distillates shortly after the hurricane. While EIA data is pending, we expect that this trend will persist as inventory replenishment continues.

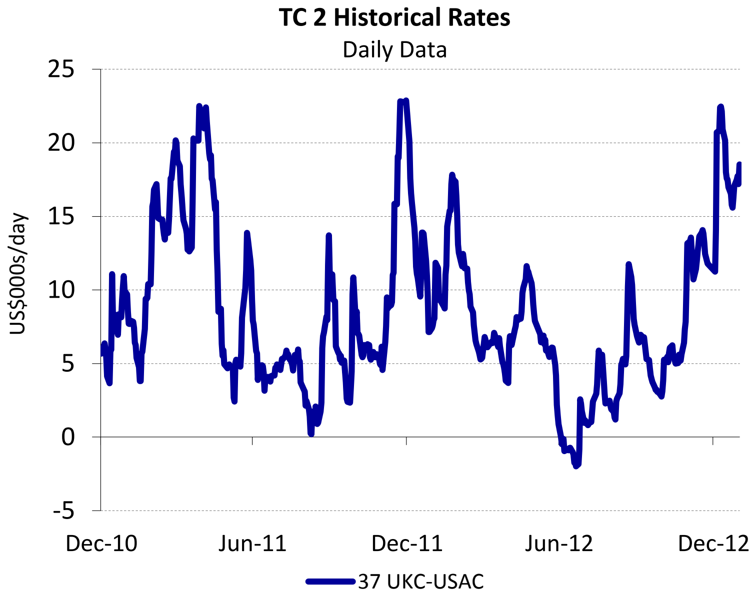
**Distillate imports indeed rebounded**




Sources: EIA, Poten

**Several factors have led to tightening of tonnage in the MR market**

Also as commented on in November, Canada has become the main supplier of distillates to PADD1. This development has become more pronounced with the push to rebuild inventories after Hurricane Sandy, increasing demand for short-haul voyages ex-Canada to the US Atlantic Coast. From an MR supply perspective, tonnage became increasingly tight in UK/Continent due to cross-continent voyages originating in the Baltic and a growing number of naphtha cargoes out of the Atlantic Basin to Asia. Demand for ice class tonnage has further tightened supply. These factors drove the seasonal jump in rates for product tankers from Europe to the US Atlantic Coast.




Sources: Poten, Baltic Exchange

**Rate rise consistent with past seasonal movements**

**While distillate impact not totally wound down, larger issue of declining regional demand looms**

Increased distillate imports should linger another month or two in order to rebuild stocks. Furthermore, the seasonal motor gasoline grade switch paired with Port Reading's impending closure may lead to increased product imports in the near term. PADD1 regional product broader demand fundamentals remain tepid, though, giving no reason to think that product imports into the area will provide a sustainable boost for tanker demand in the foreseeable future.