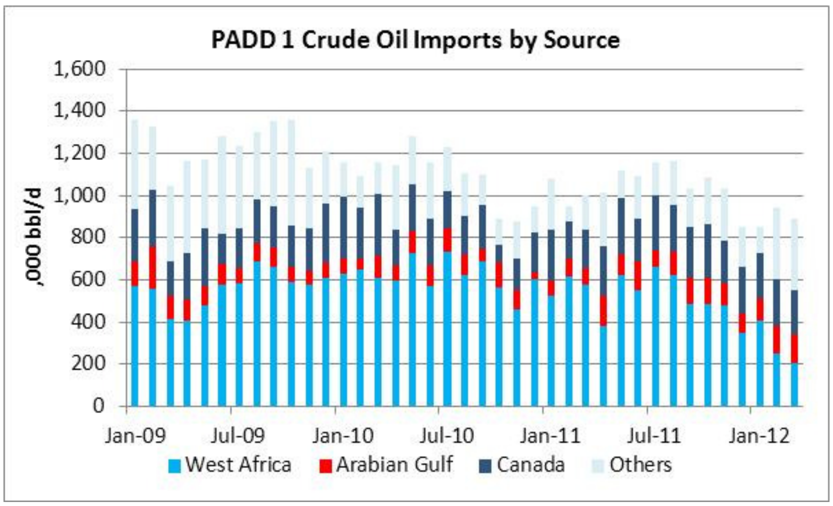
PADD 1 Crude Imports Poised to Rebound

At first glance, crude oil import data for PADD 1 (representing the US East Coast) might suggest that volumes are in the midst of a steady decline that might continue for many more months. As the chart below shows, PADD 1 crude imports were near their 5-year lows in March, the most recent monthly data available. In fact, imports into this crucial bellwether of the US economy are down nearly 250 thousand barrels per day since summer 2010. These developments might appear to suggest the type of gloom and doom that many have been anticipating, but a closer look at the data reveals that this is not necessarily the case.



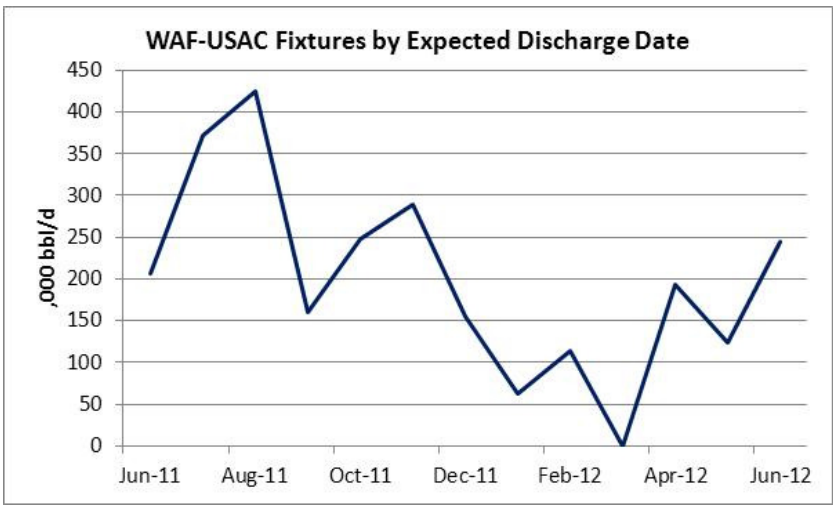
Source: EIA, Poten

Recent news suggests that imports might continue to fall – PADD 1 crude oil imports are down, and especially so for imports coming from West Africa. These light/sweet West African barrels had become the preferred crude input for several Northeast refiners, who lack the de-sulphurization capacity to process heavier, sourer crudes. As acknowledged by the market, the region has seen multiple refinery shutdowns, as poor margins have forced refinery owners to shutter or sell unprofitable facilities. As a result, West African crude imports have suffered: PADD 1-bound imports from Angola and Nigeria, two of the largest suppliers of this region, fell by more than 150 thousand barrels per day, or by well over 50%, from December 2011 to March 2012.

The Brent-Dubai price spread may provide a partial explanation for this trend. Front-month Brent's premium over Dubai peaked at approximately $7 per barrel in July of last year (during the Libya crisis), before falling to less than $1 per barrel in December. This fall in the light sweet premium improved the economics of sending West African barrels to Far East destinations, versus heavier and sourer Middle Eastern blends. So at the same time that PADD 1 refineries traditionally demanding West African barrels began to scale back their purchases, Asian buyers were able to take advantage of the improved economics of bringing those same barrels to their refineries. The spot fixture data backs up this assessment: spot WAF-East volumes increased from 645 thousand barrels per day in the second half of 2011 when the Brent/Dubai spread was falling, to 884 thousand barrels per day in the first half of 2012.

PADD 1 imports from West Africa look set to recover, however. First, Delta Airlines has announced that it will restart the idled 185 kbd Trainer refinery by Labor Day of this year. Second, seasonal utilizations, turnarounds, and stock changes appear to be reverting to general trends, suggesting improved crude imports.

Finally, the chart below organized spot fixture volumes for voyages from West Africa to the US Atlantic Coast by expected discharge dates. Spot fixtures are a subset of total volumes, but they do provide an interesting leading indicator for overall import levels. From zero reported spot fixtures for March discharge, fixture volumes have increased sharply and expected June 2012 PADD 1 imports ex-West Africa could exceed June 2011 levels.



Suezmaxes handle an overwhelming majority of spot crude oil volumes between West Africa and the US Atlantic Coast, so the combination of renewed imports, plus cyclical demand recoveries and refinery restarts should support Suezmax tanker demand. It waits to be seen whether incremental demand will strain available tonnage, but demand should pick up in the coming months.

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