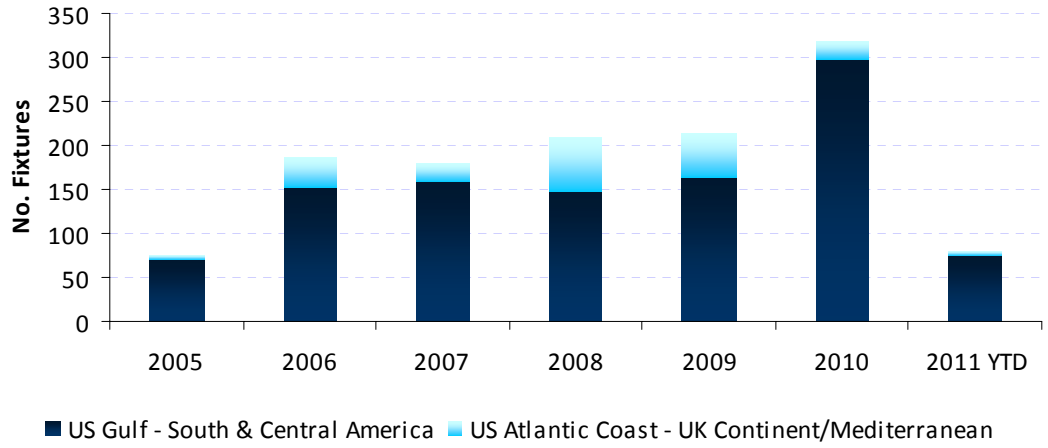
Living the Clean Sheen Dream

In recent weeks clean product tanker markets have experienced a resurgence of sorts on the back of several different factors. It would be easy to attribute improved earnings to a broader tanker market rising amid ongoing turmoil in the Middle East, but there is more to this story. Specifically, a brewing development that may seem surprising to some is likely an important driver of the current clean market: surging U.S. refined product exports. That may sound strange to anyone familiar with the longer term trend of an increasingly displaced domestic refining market, but recently released EIA data tells the story. Domestic refined exports, particularly to South American and Latin American countries, are significantly increasing. The question on everyone's minds now is what is causing the phenomenon, and how long can it last.

The chart below paints a clear picture regarding product exports from the U.S. Gulf bound for foreign locations aboard MR vessels. Total MR fixtures originating in the U.S. bound for foreign discharge have steadily increased for the last 5 years (with 2007 being a slight exception) and the trend seems to be growing. The last year stands in stark contrast to preceding years showing a nearly 30% increase in total clean MR fixtures loading in the U.S. for discharge abroad. Additionally, the current year already stands on pace to match if not exceed last year's levels.

MR Fixtures Loading USA 2005-2011 YTD



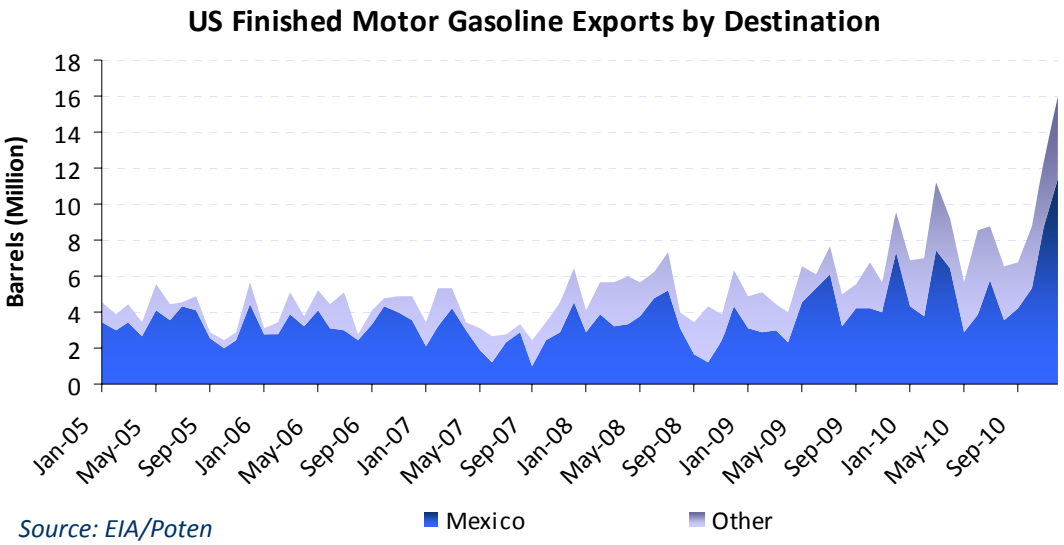
Source: Poten

I'm an F-18 bro

Several causes can be cited for the growing export trend. Economic weakness in the United States is a primary driver for this phenomenon. As retail demand for gasoline and industrial demand for diesel wanes, real physical demand from developing countries will naturally attract market share and surplus U.S. domestic supply. Interestingly however, another more recent development is contributing to the phenomenon as well. Several weeks ago we discussed the historically-unprecedented growing divergence between the Brent and WTI benchmark crude oil contracts. It appears the biggest winners emerging from the price divergence are Midwestern U.S. refiners with access to cheaper-priced WTI crude oil. Midwest refining utilization running nearly 10% in excess of the national average and scheduled annual maintenance being pushed back also demonstrate an industry scrambling to take advantage of the current lucrative margin environment. A surplus of refined products is a natural result of this dynamic.

WINNING!

The graph above exhibits the growing trend of domestic gasoline exports. This chart correlates closely with larger Brent-WTI crude oil price spreads, with exports increasing dramatically during periods of larger price divergence. Assuming that weak economic conditions and a sustained Brent-WTI price divergence are contributing to increased exports, there may not be reason to believe the increasing clean MR export trade to South and Latin America is about to go away. With many analysts predicting sustained wide WTI-Brent spreads, this condition may persist for some time. In fact, U.S. refiner Valero reportedly said recently that it closed forward hedge contracts in a nod to acknowledging that WTI discounts will remain relatively wide for some time. Should that forecast prove correct, the clean MR market will likely continue to experience strength on the back of climbing domestic product exports.



Source: EIA/Poten

I've Got Tiger Blood Man and Adonis DNA

Sometimes a confluence of events effect tanker rates for better or for worse. To the delight of clean market owners, it appears the widening benchmark spreads and weak domestic U.S. economic conditions are providing a bit of respite in what's otherwise been a sobering period for product tanker earnings. So long as domestic American refiners can capitalize on the wide spread that currently exists between Brent and WTI contracts, conditions should remain favorable for clean tanker markets. Domestic surplus gasoline, distillate, and various clean products will continue to find their way to the terminals of markets competing with the U.S. for world energy supplies.

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