



POTEN & PARTNERS

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## POTEN TANKER OPINION



### Weathering The Storm

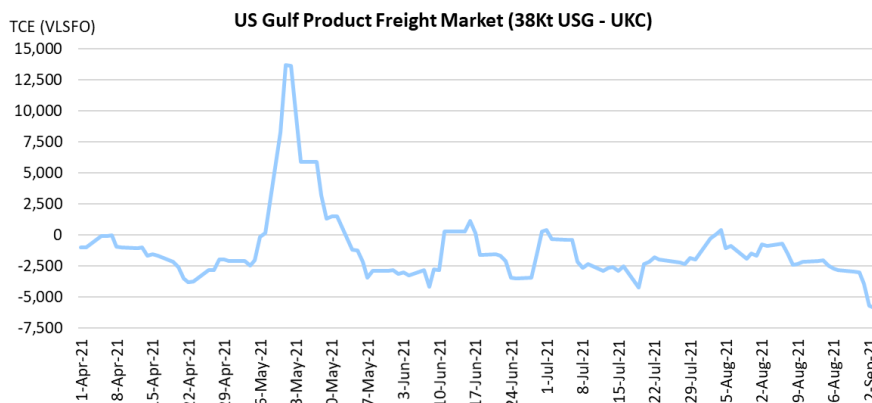
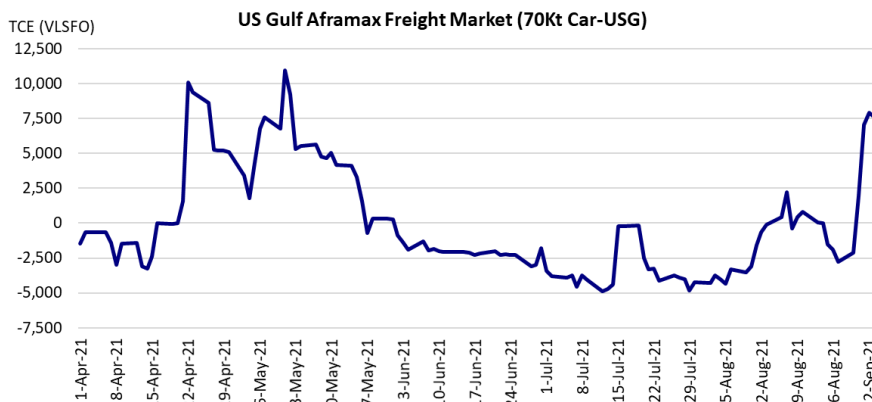
#### Hurricane Ida wreaks havoc on the U.S. Gulf Coast

On August 29, 2021, Hurricane Ida made landfall in Louisiana – the same date as Hurricane Katrina did 16 years earlier. After Katrina, which claimed some 1,800 lives, the U.S. Army Corps of Engineers built the Hurricane and Storm Damage Risk Reduction System. This infrastructure project saved many lives and reduced the water damage. However, Ida, which was of similar strength as Katrina, did create massive wind damage and power outages. The implications for shipping (both international and U.S. flag), could be significant albeit temporary. Some of the main factors that will have an impact on the tanker markets include oil production in the U.S. Gulf, refining outages, (temporary) pipeline closures and damage to port infrastructure in the region.

In preparation for the hurricane, producers shut in 1.8 Million barrels per day (Mb/d) of offshore oil production in the U.S. Gulf of Mexico. According to today's update of the Bureau of Safety and Environmental Enforcement (BSEE), 1.7 Mb/d (93.3%) of production remains offline as the companies assess the damage to their platforms and other offshore infrastructure. Early indications are that the damage to the offshore facilities is limited, and that production recovery could start within a few days and production will return to more normal levels over the next several weeks.

Refining output will likely take longer to return to pre-hurricane levels mainly due to widespread power outages. Some refineries also sustained water damage, which will further delay their recovery. Various analysts are estimating that it could take two to three weeks or up to a month for refineries to restore operations, depending on their location. On Tuesday, the Department of Energy said that about 2.3 Mb/d of refining capacity remained offline. Restoring power to the region is key before refineries can restart operations. Some 860,000 homes and businesses remain without power in Louisiana and more than a third of the gasoline stations in the state were without fuel. The Exxon refinery in Baton Rouge is the only refinery in the region with enough power to restart operations. Because the hurricane disrupted crude supply, Exxon requested and was granted a 1.5 million barrel emergency oil loan from the Strategic Petroleum Reserve.

Key infrastructure was also impacted by Hurricane Ida. Some of the key pipelines, such as the Colonial pipeline - which was shut down as a precaution - have reopened, but with many refineries still out, product pipelines could face a lack of product in the future. Most ports in the region, including the Port of New Orleans and Port Fourchon reopened, although only for daylight operations. Portions of the Mississippi River remain



Source: Poten & Partners

closed due a downed power line. According to the Coast Guard, the Louisiana Offshore Oil Port (LOOP) remains closed as well.

The impact on the tanker market of all these events is mixed. It appears to benefit the crude carriers. Especially Aframaxes were in demand, pushing up rates, as can be seen in Chart 1. A number of vessels were stranded, and the continued uncertainty around the Mississippi River has forced charterers to look for alternative terminals and STS options to discharge vessels. The upcoming holiday weekend in the U.S. could add further upward pressure to rates. A return of offshore production could provide a short-term boost to crude oil exports, which were already on an upswing.

The situation for Product Tankers is quite different. Rates have declined as there is a surplus of tonnage in the area and no cargoes (Chart 2). As long as the refineries remain offline, less export cargoes will be available. Under those circumstances, we expect the product tanker market in the USG to stay weak.

The U.S. oil industry is resilient and both production and refining will recover fairly soon. Over the next few weeks we may see some supply/demand imbalances and rate volatility before the market normalizes.