Transatlantic Turbulence

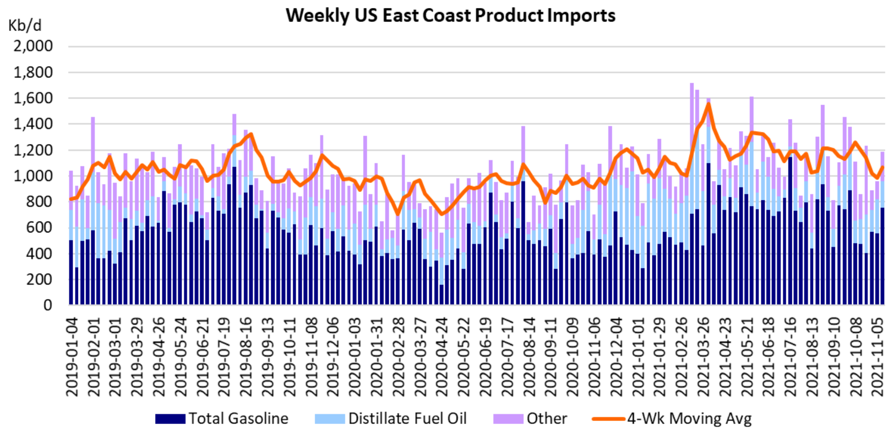
What is going on in the Transatlantic product tanker trades?

Gasoline prices in the United States are close to their highest level since 2014 and with relatively low inventories and a big travel holiday (Thanksgiving) coming up next week, all eyes are on gasoline supplies in the coming weeks and months, in particular on the U.S. East Coast. To what extent can additional imports make up the shortfall and what could that mean for the MR product tanker market, now and in the near future?

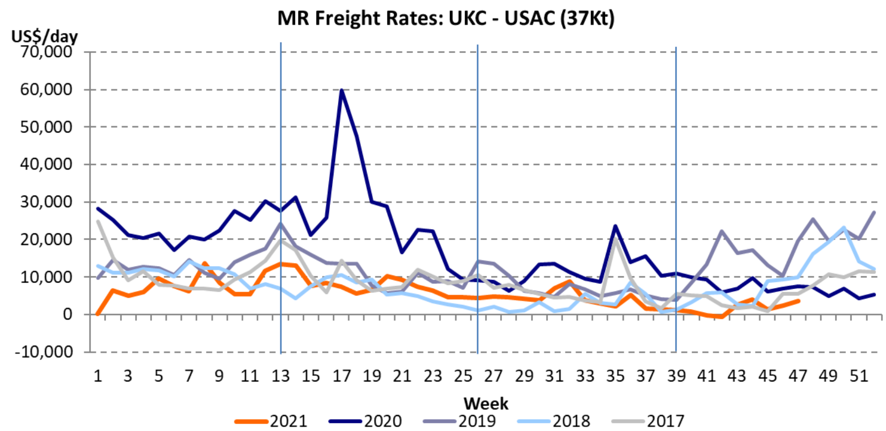
The transatlantic refined product trades between Europe and the United States have always been an important source of employment for MR product tankers. The densely populated U.S. Atlantic Coast (PADD 1) is an important source of gasoline demand and since there is insufficient refining capacity on the U.S. East Coast, most of that gasoline is moved into PADD 1 from the U.S. Gulf Coast (PADD 3) or imported from abroad. Most of the domestic supplies come through the Colonial pipeline. This pipeline is running at full capacity at the moment, so no additional barrels are expected. Transporting refined products on U.S. Flag tankers is an alternative, but there is limited spare shipping capacity and most Jones Act product tankers are already committed to serving the Florida market.

On the U.S. Atlantic Coast, domestic supplies are supplemented by imports. In the case of gasoline (which includes gasoline and gasoline blending components), the largest individual foreign supplier is Canada (25%), while a combination of various European countries such as the Netherlands, the U.K., Spain, Portugal, Norway and Finland make up almost 50% of the total. Russia is also a relevant supplier of gasoline to the U.S. The remainder of gasoline imports into PADD 1 come from a variety of sources in Latin America, the Middle East and Asia. While the Canadian movements are predominantly done on controlled tonnage, the moves across-the Atlantic from Russia and Europe are mostly spot cargoes fixed on Medium Range (MR) product tankers.

Since there is strong demand for gasoline in the U.S., one would expect import volumes from Europe to be high. However, that has not been the case recently. At the moment the European gasoline market is in steep backwardation, which means that demand is outstripping supply. High crude oil and natural gas prices have lowered crack spreads, so despite higher prices, refiners in Europe are not incentivized to increase runs. On top of that, several European refineries went down for maintenance and as a result, gasoline inventories in Europe have been depleting. Because of this, Europe does not currently have surplus gasoline and exports have been more limited. This has pushed up prices and reduced gasoline arbitrage opportunities. This could be temporary and indications are that exports to the U.S. have increased again from a very low October number.



Source: EIA



Source: Poten & Partners

One of the risks facing future product exports from Europe is the possibility of a "fourth wave" of Covid infections in Europe. Whether this is due to complacency or (in some countries) vaccine hesitancy, the Covid infection rate in Europe has increased again and some countries are re-introducing movement restrictions. If this trend continues and spreads to other parts of the world, like the U.S., this could put a significant damper on the recovery in product demand.

On a positive note, MR scrapping has picked up markedly in 2021. Year to date, we have recorded the demolition of 25 MRs, which is the highest number in more than 10 years. This compares to only 12 MRs sold for scrap in 2020 and 17 in 2019. If this trend continues, it will help rebalance the market, especially since the MR orderbook is only 4.7% of the fleet, which is well below historical averages. One year ago, the orderbook still represented 7.9% of the fleet

When everything is said and done, the impact on the Transatlantic product tanker market has been muted because there is still a lot of tonnage available in the area. However, we are about to enter the period of the year that is historically the strongest for MRs in the Atlantic. Assuming the refiners and traders can make enough product available, product tanker owners may be able to take advantage of stronger rates this winter period, especially since fleet growth should be limited.