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POTEN TANKER OPINION

Gasoline Fuels the Tanker Market

U.S. Gasoline demand drives strong refining margins

The U.S. economy is humming along and as a result of the significant drop in oil prices over the last 12 months, gasoline has become relatively cheap. And, as the IEA noted in their latest report: "Few consumers love a low oil price more than the American driver." In the U.S., gasoline demand increased by 362 kb/d (4.2%) in 2015 relative to 2014. Car buyers have also taken notice. With deliveries of 8.5 million vehicles through June, U.S. car sales are on target to approach the previous annual record of 17.4 million. The biggest increases are in the larger SUV/Cross-over vehicles. At the moment, the summer driving season in the U.S. is in full swing and surging American gasoline demand is beefing up refiners' earnings worldwide. As a result of high margins, facilities worldwide are running flat out. The good times are back, at least for now, but this situation may not be sustainable. What happens if the music stops?

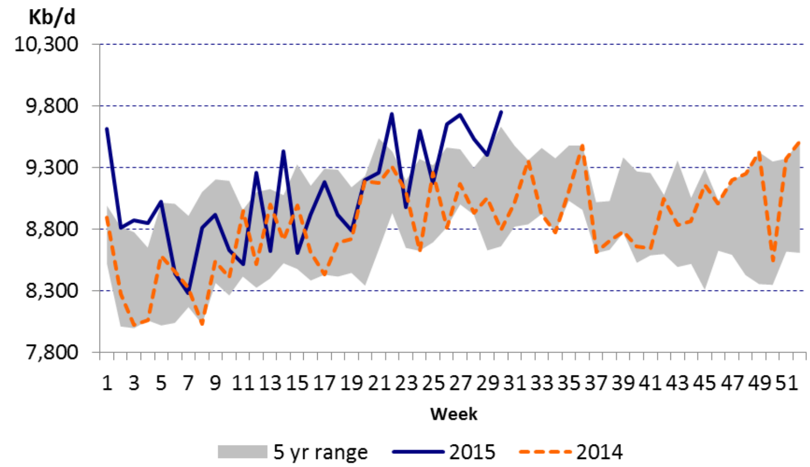
The IEA estimates that global refinery runs in the second quarter of 2015 reached an all-time record with year on year growth of 2.3 mb/d. In June, global refining margins continued to be supported by high gasoline crack spreads, primarily driven by demand in the U.S. Gasoline cracks this month were above $20/bbl in Europe and Asia and even surpassed $45/bbl on the U.S. Gulf Coast.

As refiners worldwide are maximizing their production of gasoline, they also manufacture more of the currently less desirable products such as diesel and fuel oil. Prices for these products are under pressure as a result. In the United States for example, the average diesel fuel retail prices fell below the average regular gasoline retail price for the first time since August 2009.

Another side-effect of the high refining utilization is also that we have seen more seaborne product movements. According the IEA, China exported its first cargo of jet fuel to Europe, an unusual move. U.S. petroleum product exports continue at high levels.

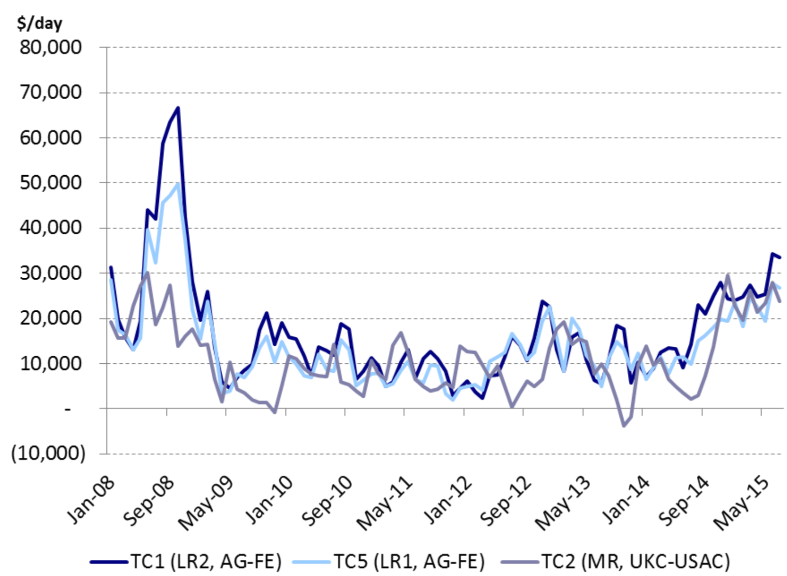
All the above developments are highly supportive of product tanker rates, which have gone from strength to strength in 2015 to date. For product tankers, Q2-2015 was the best quarter since the end of the tanker super-cycle in 2008. Each of the main segments, MRs, LR1s and LR2s averaged around $25,000/day, despite a steady influx of new tonnage.

Fig. 1: U.S. Gasoline Demand



Source: Energy Information Administration

Fig. 2: Product Tanker Rates 2008 – 2015 YTD



Source: Poten & Partners

Some market pundits indicate that product tanker rates could find additional support from longer-haul voyages and less triangulation options and rates for Q3 are off to a good start.

However, the outlook for the remainder of 2015 and into 2016 is more uncertain.

The U.S. gasoline market cannot support worldwide refining margins forever. U.S. gasoline demand is expected to decline seasonally after the summer and refining margins are already coming down in certain areas as a result of the challenges of finding a market outlet for the by-products of gasoline production. As refining runs decline globally, product tankers may start to feel the pinch.