

Weber US Product Trade Report

Q3 2021



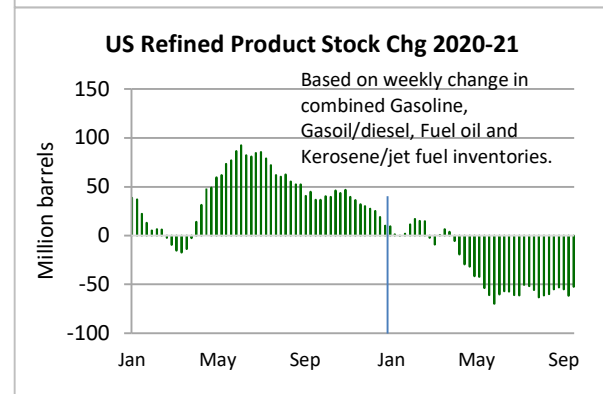
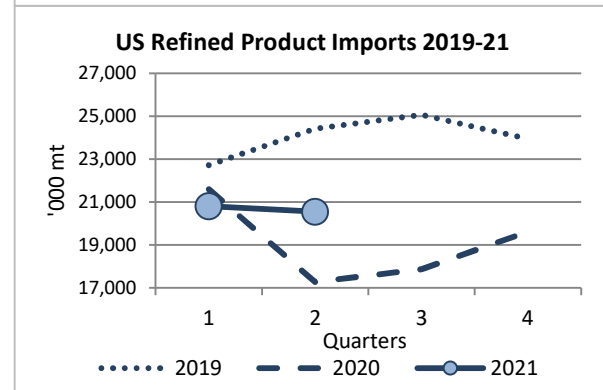
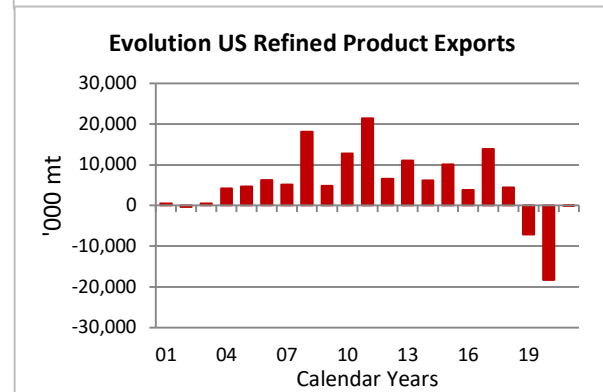
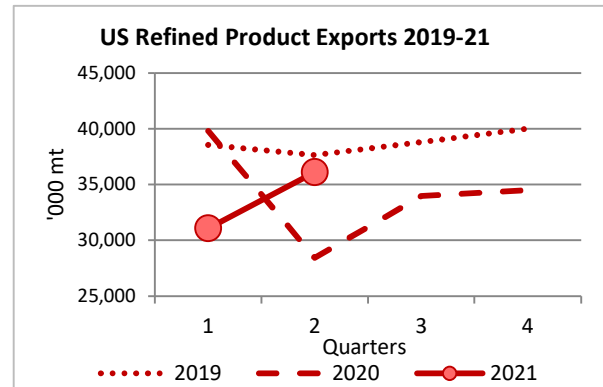
In this quarter's Charles R. Weber US product trade report we provide readers with the latest developments in the US seaborne products trade, based on trade data up to the end of second quarter 2021. This includes identifying the fastest growing trades by commodity and country. The primary focus of the report is to allow market participants to keep up to date with changes in a rapidly developing, "oil and gas shale revolution" fuelled, export market.

Exports



- This report serves as a guide to understanding how trade developed through to 3Q21. It utilises a combination of Customs data, covering the period up to end 1H21, and AIS data to cover the most recent market developments during 3Q21. Together, these two resources provide an insight into the product market recovery from the pandemic.

- Recovery in US product exports started to gain traction in 2Q21 (+7.7 million mt, +27% y/y), having somewhat stalled in 4Q20 and 1Q21, but were still 4.1% lower than in 2Q19. Imports also recovered strongly in 2Q21, but were still 16% below corresponding levels in 2Q19.
- Although starting to gain some momentum and having roughly tracked the global recovery in product trades, it is clear, based on overall 1H21 performance, that the US has lost out to key competitors e.g. China - now the third largest product exporter - returned export growth of 1.4 million mt 1H20 y/y and 2.6 million mt in 1H21 y/y, while US exporters saw contractions of 4.9 million mt and 3.9 million mt for the corresponding periods.
- The retrenchment in US product exports in 1H21 has depended to a large extent on the recovery in South American markets, which now account for 75% of US exports compared with 70% in 2020, with significant growth for lighter products like Naphtha, as well as gasoline.
- Gasoil/diesel remains the largest US product export, but in 1H21 the market contracted by 11.1% y/y. Gasoline, the second largest export market, helped fill the shortfall, with exporters also turning to lighter product exports like Naphtha to generate growth.
- Looking at export performance in 3Q21, analysis of vessel movements indicates that the recovery in global product trades continued at fairly tepid levels. The US was located near the bottom of the regional performance table, with the Middle East the only major region to have performed worse during 2021 ytd.
- In part because of the unbalanced global economic recovery, with low-income nations continuing to struggle from a combination of limited access to vaccines and a lack of the policy firepower afforded the richer nations, it is difficult to predict the future course of the recovery.
- The outlook is further clouded by established economies in Europe and the US showing signs of running out of steam. Despite continuing to expect a strong bounce back in global economic growth in 2021, the IMF cut its growth forecast to 5.9% from 6.0% in its October quarterly update. Nevertheless, it seems likely that the recovery in product markets will maintain its steady growth trajectory over the coming months.



Source: USITC

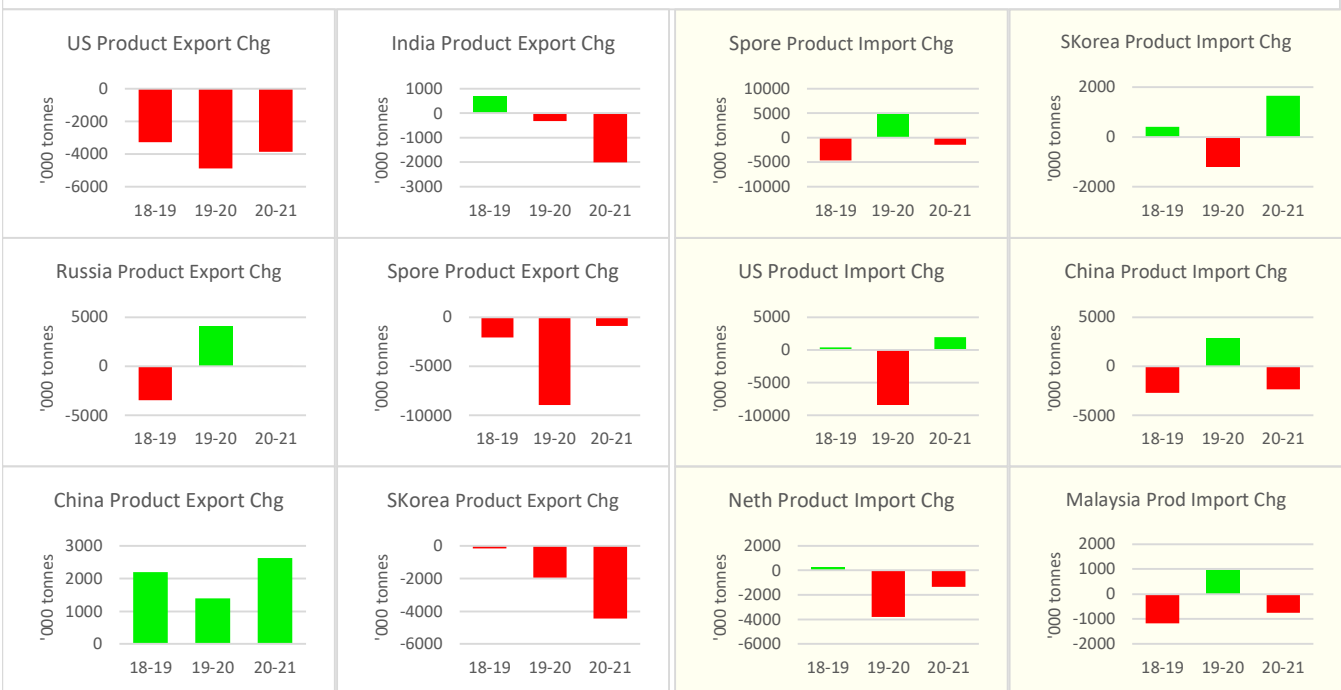
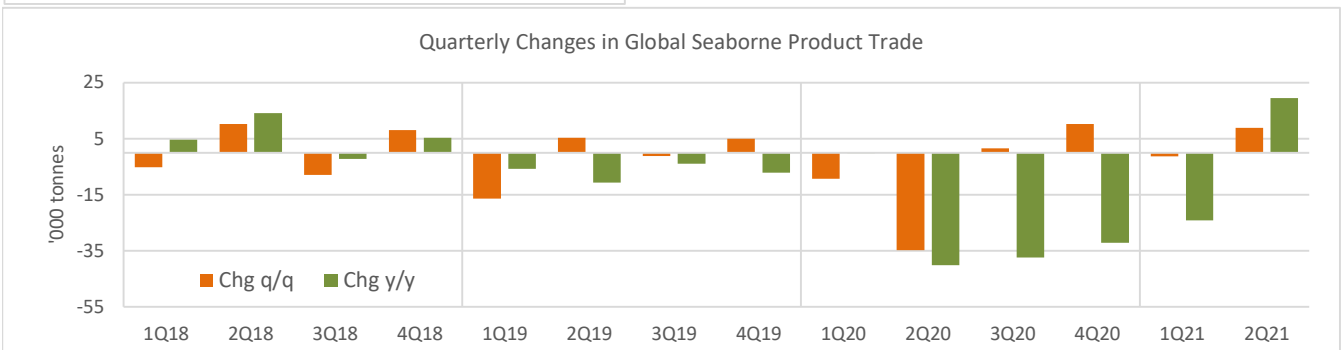
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Recovery in Global Seaborne Product Trade



Only a slow recovery in seaborne product trades since 2Q20

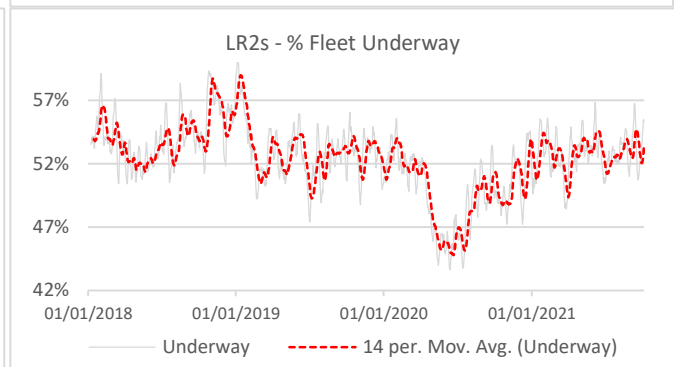
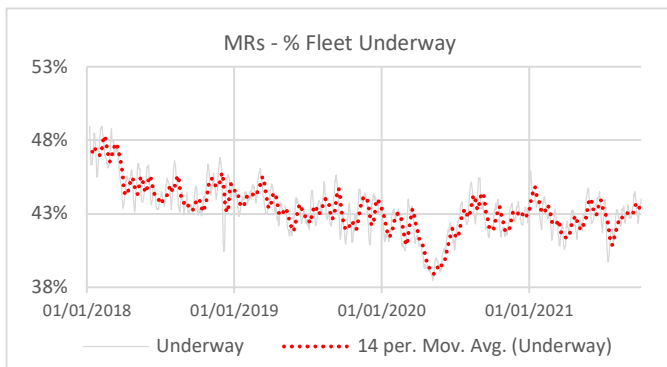
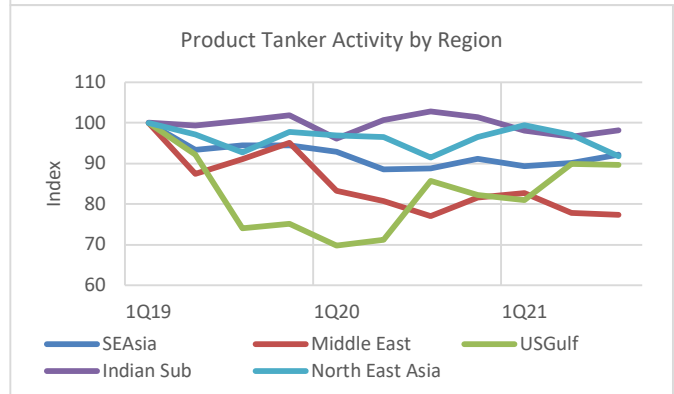
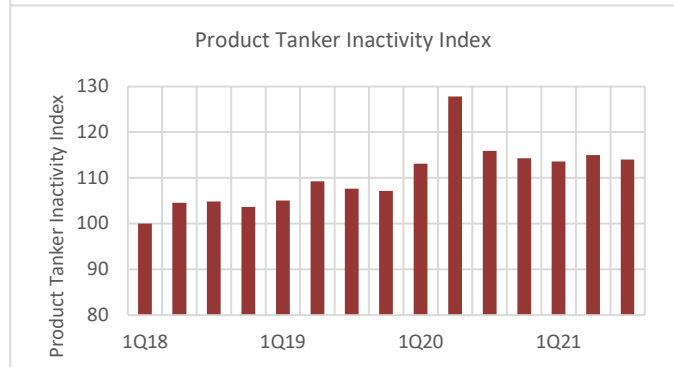
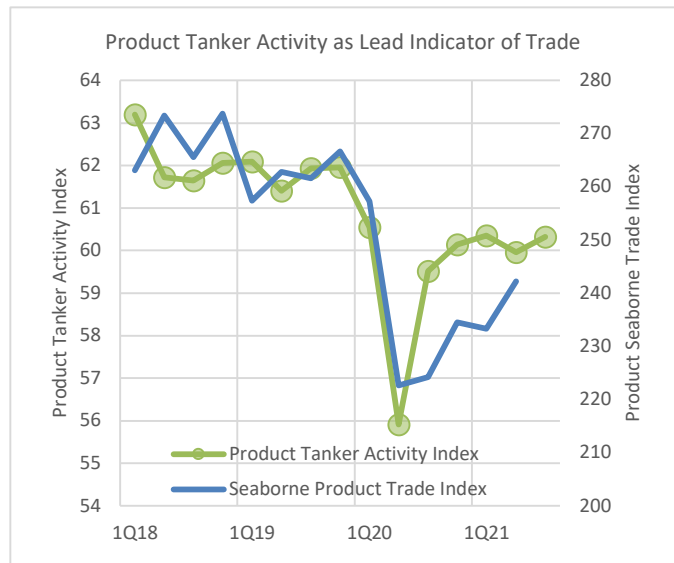
- In part because of the unbalanced global economic recovery, with low-income nations continuing to struggle from a combination of limited access to vaccines and a lack of the policy firepower afforded the richer nations, the recovery in seaborne product trade volumes since 2Q20 has been slow, albeit it has so far followed a fairly consistent upward trajectory.
- For these reasons it is also difficult to predict the future course of the recovery. In 1H20, the world was plunging into an economic abyss. In 1H21, the world is starting to extricate itself from the resulting deep economic trough.
- Using AIS to understand more timely 3Q21 trade movements helps us to understand the current status of the recovery, and we look at this in detail on the following page.
- However, we can also look for clues to future trade patterns by studying changes in trade volumes between 1H18, 1H19, 1H20 and 1H21. In the 12 small charts (below), we show the first half performance y/y of the top 6 exporters and top 6 importers.
- There is a lot to be gleaned from these 12 charts, e.g. China is the only top 6 exporter that performed well in 1H21 relative to 1H20.



Recovery in Product Fleet Activity

Product tanker activity indicates recovery remained tepid in 3Q21

- COVID-19 has upended shipping markets and comprehensive Customs data, which lags by between a few weeks and a few months, is unable to provide a clear up-to-date insight into what is happening across regions and vessel sectors.
- In the analysis on this page, we have used AIS data to track some of the changes that are occurring in the product sector. The charts here distill some of our findings in order to provide an up-to-date picture of product seaborne trade up to September 2021.
- The chart (top right) reveals a correlation between product tanker activity (green line with circle markers) and product trade volumes (blue line). The more timely product tanker activity line shows only a modest uptick in performance in 3Q21 to levels that remain well below those seen in 2018 and 2019. Consequently, it might be concluded that the recovery in product trade volumes has not gained any additional momentum in recent months.
- The second chart (right) shows that the gradual recovery in product fleet activity is matched by a stubbornly high level of inactive tonnage.
- In terms of regional performance, the third chart compares product fleet activity levels across key market regions. This shows that the sluggish performance of US markets started in 2H19 and that its stunted recovery, thereafter, has left it near the bottom of the regional performance table, with the Middle East the only major region to have performed worse.
- The remaining two charts highlight the relative performance of the MR and LR2 sectors. Both sectors experienced a calamitous contraction in activity in 2Q20, but, while the LR2 sector has bounced back to levels seen in 2019, MRs have no activity performance gains since 2H20. The performance of LR1s has also been disappointing in recent months.



Fastest growing US export commodities

X. Propane & Butane

1-2Q21 25.3 million mt, +10.7% y/y

Consistently strong performer during the pandemic

- Despite slipping down the league table, US NGLs exports have continued to grow through the pandemic in contrast to other product export commodities.
- Butane (+20% y/y), the significantly smaller of the two main NGLs, out-performed Propane exports (+7.9% y/y) in 1HQ21.
- The strong performance of Propane and Butane was in part due the strength in trade with North East Asia (45% market share).
- LPG included here as its story overlaps with export growth in the product sector - both driven by shale.

4. Other Products

1-2Q21 7.5 million mt, +2.8% y/y

Emerging trades to NE Asia

- "Other products" is mostly the commodity hs code 2710124500 defined as: *Mixtures Of (light) Hydrocarbons Containing By Weight Not Over 50 Percent Of Any Single Hydrocarbon Compound.*
- This code is commonly called Natural Gasoline (plant condensate as diluent). Diluent can be used to facilitate the pumping of heavy crudes produced by Canada, Venezuela and China (offshore).

2. Lubricating Oil

1-2Q21 2.8 million mt, +23.5% y/y

Long term decline, but mini revival

- More usually considered as part of the chemical rather than product family in terms of seaborne transportation.
- Having been the No.1 fastest growing trade in 2015, and second fastest in 2014, it declined by -26% y/y in 2016 before stabilising in 2017.
- It accounts for just 3% of the US refined product export trade.

3. Gasoline

1-2Q21 18.7 million mt, +16.9% y/y

Growth stagnated in 2019, before collapsing in 1H20

- A trade dominated by Mexico (30% mkt share) had been in decline in recent years and was hit hard by the contraction in transportation demand caused by the pandemic.
- Its revival in 1H21 was energised by widespread demand increases across a number of South American countries.

1. Naphtha

1-2Q21 7.3 million mt, +47.9% y/y

Leads drive to increase exports at the lighter end of the product spectrum

- Up to 1H15, Naphtha was a star (albeit small) growth trade, but thereafter growth was curtailed by competition from abundant cheap Ethane and LPG as a petrochemical feedstock.
- However, having invested in new condensate crackers, Naphtha producers had a strong incentive to fight back and have recaptured market share by marketing Naphtha as a blending component for crude.
- As the pandemic has crushed demand across the traditional product spectrum, US exporters have looked to lighter products like Naphtha with Asia now its largest market.

7. Kerosene/Jet Fuel

1-2Q21 2.2 million mt, -50% y/y

Hit hard by pandemic as air travel collapsed

- After underperforming the overall US export market in recent years, it had a breakthrough year in 2018 (+18.2% y/y) before stagnating in 2019.
- This market has yet to recover from the destruction of airline passenger demand caused by the pandemic.

6. Fuel Oil

1-2Q21 5.9 million mt, -32.3% y/y

The IMO 2020 bunker fuel regulations have continued to contribute to a collapse in the Fuel oil trade

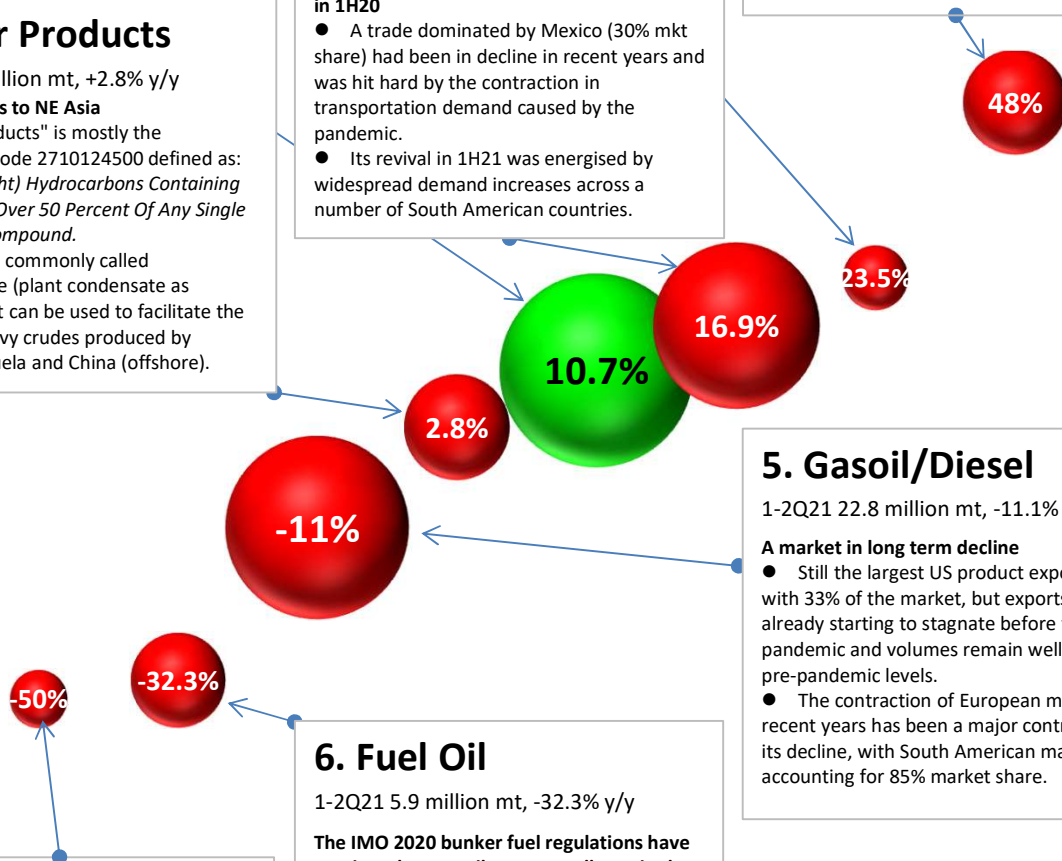
- The Fuel oil trade is not viewed as a long term growth prospect, in part due the IMO 2020 bunker fuel regulations.
- While major markets in South America and South East Asia have lost market share, peripheral markets, e.g. Middle East and Eastern Europe, have gained ground.

5. Gasoil/Diesel

1-2Q21 22.8 million mt, -11.1% y/y

A market in long term decline

- Still the largest US product export trade with 33% of the market, but exports were already starting to stagnate before the pandemic and volumes remain well below pre-pandemic levels.
- The contraction of European markets in recent years has been a major contributor to its decline, with South American markets now accounting for 85% market share.



Figures based on US exports up to 1H2021

How to read the chart:
Size of sphere for each commodity indicates total export volume Ytd, while percentage number within sphere indicates % change y/y

Fastest growing US export regional destinations

Established regional markets (NAMr, LAMr, Europe), **92%** Mkt Share, **+1.6%** y/y (20-21)

South America

est 101.8 million mt, +5.8% y/y (20-21)

Having hit record levels in 4Q18 (30.7 million mt) and sustained strong growth in 1Q19 (+10% y/y), exports to this region went off the boil in the remainder of 2019. However, this contraction was nothing compared to the pandemic-hit market of 1-3Q20 with double digit contraction across all sectors. During 1H21, the market was able to retrench, with significant growth for lighter products like Naphtha, as well as for gasoline.

Gasoline demand recovery has in part fueled the resurgence in export growth to South America. However, any feel good factor has been offset by a -2.9% y/y 1H21 contraction in gasoil/diesel exports.

Europe

OECD Europe: est 8.7 million mt, -21% y/y

Non-OECD Europe: est 1.2 million mt, +3.1% y/y

Exports to OECD Europe had been in steady decline since 2016, hitting rock bottom in 4Q19. There was a strong revival in trade following the initial impact of the pandemic, with 3Q20 the best quarter since 3Q19. However, a -60% y/y 1H21 collapse in gasoil/diesel exports have really hurt this market.

Naphtha (+150% y/y 1HQ21), along with other lighter products, has emerged as a key growth market for US exporters, although gains here been more than offset by losses in the troubled gasoil/diesel sector.

US Exports by Region and Commodity e2020

Figures in '000 mt

Figures based on US exports up to 1H2021

region_code	Fuel oil	Gasoil/ diesel	Gasoline	Kerosene /jet fuel	Lubricating oil	Naphtha	Other Products	Total
Australasia	126	156	0	0	14	0	2	298
East/South Africa	0	0	0	0	122	0	0	122
Former Soviet Union	0	0	1	1	10	0	2	15
South America	5159	41730	37070	2795	3898	5800	5345	101797
Middle East	1123	1	1	195	206	2	7	1534
North Africa	0	75	0	0	3	1	0	79
North America	1406	732	1470	848	527	1603	0	14580
North East Asia	6	113	35	0	83	3533	1004	4774
OECD Europe	864	2709	121	11	1081	3014	920	8719
South Asia	5	9	1	0	298	0	24	336
South East Asia	1230	686	62	2	103	772	50	2905
West Africa	1	0	277	0	3	0	3	286
Other Europe	533	0	0	0	2	0	0	1207
Other	0	0	28	0	1	0	0	30
Total	10455	46881	39066	3853	6351	14723	15352	136680

Colour key:

>=30% >=15,<30% >=10,<15% >=5,<10% >=0,<5% <0%

How to read the table: The colours show growth rates 1H20/1H21 y/y for trades >=1 million mt

Emerging regional markets

8% Mkt Share, **-16.3%** y/y (20-21)

South East Asia

est 2.9 million mt, -26% y/y (20-21)

After a strong year in 2017 (+27% y/y), this trade, which is largely dependent on Fuel oil, started to unravel in 2018 before collapsing in 2019. Despite efforts to develop new markets in the region, exports have struggled across the board in 1H21.

Fuel oil - This trade has been underpinned by exports to Singapore, but it has been severely impacted by the decline in Fuel oil demand triggered by the IMO 2020 bunker regulations, and compounded by increased competition from North East Asia, South East Asia and the Middle East.

North East Asia

est 4.8 million mt, -5.4% y/y (20-21)

Naphtha and Natural Gasoline exports were behind growth in trade with North East Asia in 2018, and this has been a highlight for US exports in 2019, and particularly into 2020. However, further growth in exports of Naphtha have been more than offset by weakness in the Natural Gasoline sector.

Naphtha - Star performers include Japan (est 2.1 million mt, +10% y/y), South Korea (est 1.6 million mt, +20 y/y) and Taiwan (0.3 million mt, +12% y/y).

Natural gasoline - is used as a diluent to facilitate the pumping of heavy Crude oil grades.

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Fastest growing US export country destinations

1. Honduras +38%

Trade 1H21: 1.1 million mt

Gasoline (0.4 million mt, +59% y/y)

Fuel oil (0.4 million mt, +60%)

Like some other countries in the region, it has started to look towards China, with the opposition party in the upcoming November elections promising to "readjust" the country's debt and establish diplomatic relations with China.

2. Peru +34%

Trade 1H21: 2.3 million mt

Gasoi/diesel (1.6 million mt, +28% y/y)

Gasoline (0.6 million mt, +65% y/y)

One of South America's stronger economies, with GDP growth of 9.5% y/y estimated for 2021. In August, its newly elected government announced that it would extend a friendly hand to China.

3. Mexico +26%

Trade 1H21: 22 million mt

Gasoline (11 million mt, +35% y/y)

Gasoi/diesel (6.7 million mt, +25% y/y)

US-Mexico have reaffirmed their mutual intention to reset relations, during an October visit by Secretary of State Blinken, starting with a new security accord.

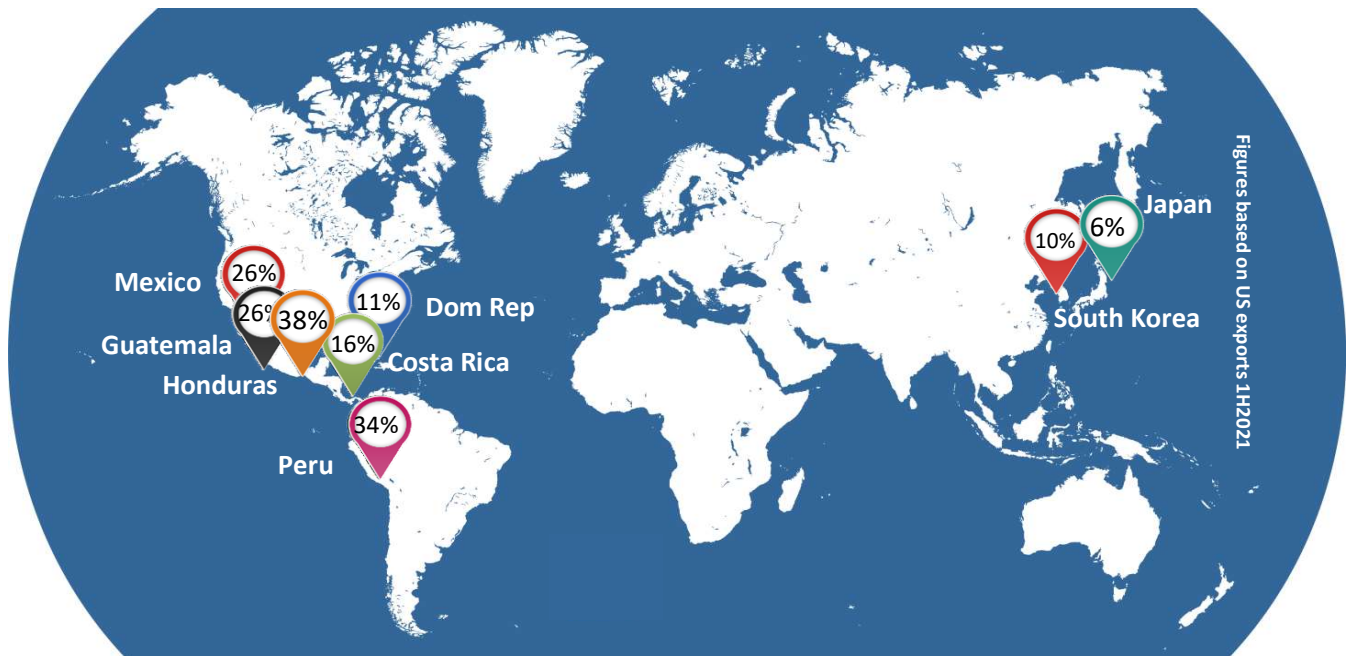
4. Guatemala +26%

Trade 1H21: 2.2 million mt

Gasoline (1.2 million mt, +61% y/y)

Gasoi/diesel (0.9 million mt, +0% y/y)

The US has demonstrated frustration with the Guatemalan government by putting Guatemala's attorney general on a list of "undemocratic and corrupt" officials.



How to read the map: The map highlights the 8 best performing US export trades 1H21 y/y based on the top 17 countries

5. Costa Rica +16%

Trade 1H21: 1.1 million mt

Gasoline (0.5 million mt, +40% y/y)

Gasoi/diesel (0.5 million mt, +8% y/y)

In June, the World Bank approved loans to help with Costa Rica's COVID response. It is another South American country facing elections in the near future.

6. Dom Rep +11%

Trade 1H21: 0.9 million mt

Gasoi/diesel (0.4 million mt, +9% y/y)

The Dominican Republic economy is set to recover to pre-pandemic levels by the end of 2021, with GDP predicted to hit an historic high. The recovery has been driven in part by the revival of tourism in 1H21.

7. South Korea +10%

Trade 1H21: 1.0 million mt

Naphtha (0.8 million mt, +20% y/y)

Like Japan, South Korea is a relatively new long-haul market for US exporters looking to find markets for products at the lighter end of the spectrum. South Korea's 2Q21 GDP growth recorded its fastest annual pace in a decade.

8. Japan +6%

Trade 1H21 1.2 million mt

Naphtha (1.0 million mt, +10% y/y)

Other Products (0.2 million mt, -2% y/y)

Japan has only recently appeared in this league table and, although volumes are small, this trade symbolises US exporters efforts to expand their export of products at the lighter end of the spectrum e.g. Naphtha.

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Key Global Product Trades



Key Global Product Trades (cont)

