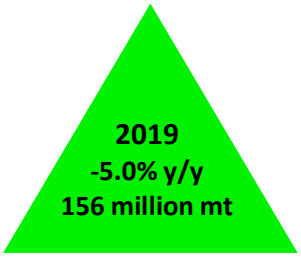
Weber US Product Trade Report

Q1 2020

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 fourth quarter 2019. 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 useful guide to understanding how trade developed in 2019, as it provides full year US exports and imports. However, customs data is time lagged so does not provide a clear insight into the COVID-19 fractured market during 1Q20. For an understanding of this market, we have utilised AIS analysis and the results can be seen on page 2.

- The collapse of the oil price during 1Q20, now hovering around $20Bbl, and the significant drop in demand for hydrocarbons has created dramatic surges in crude oil demand for storage and tanker freight rates. In the product sector, hit by a severe reduction in transportation demand caused by "stay at home" directives around the world, the impact on freight rates has been much less positive - and the longer the lock down lasts the more likely it is that there will be severe and permanent demand destruction.

- Even before the onslaught of COVID-19, the US product sector had started to go backwards, with exports contracting by 5% last year.

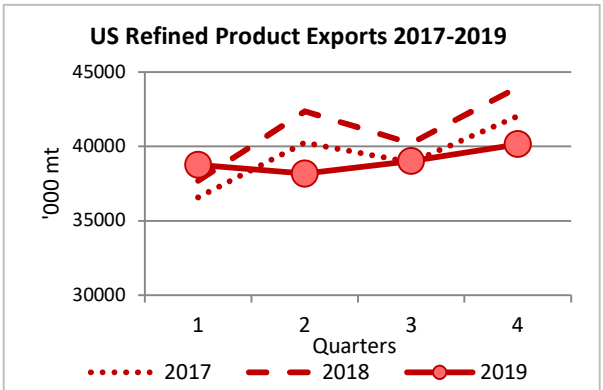
- Only kerosene/jet fuel (+1.8% y/y) and gasoil/diesel (+0.2% y/y) reached positive growth territory in 2019.

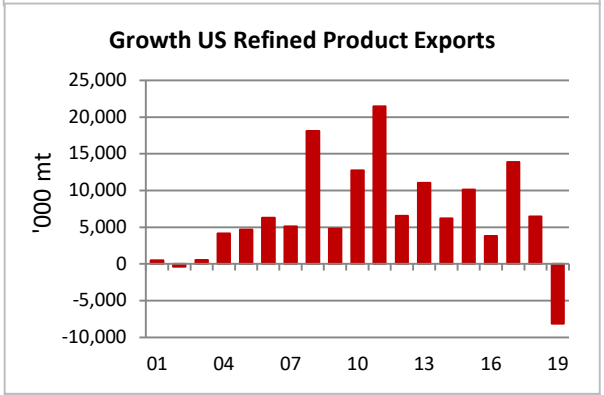
- After a period when US exporters looked on the verge of breaking into global markets around the world, there was a clear dependency almost exclusively on Latin American markets in 2019 for any signs of growth.

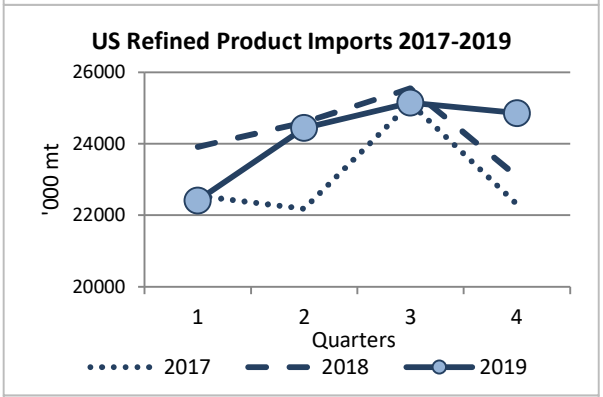
- Against a background of already deteriorating export volumes, AIS movement data reveals a probable further weakening in export activity, with the average number of product vessels underway in the USGulf during 1Q20 falling to 34% from 35% in 1Q19 - where the number of vessels underway is considered a proxy for vessel utilisation.

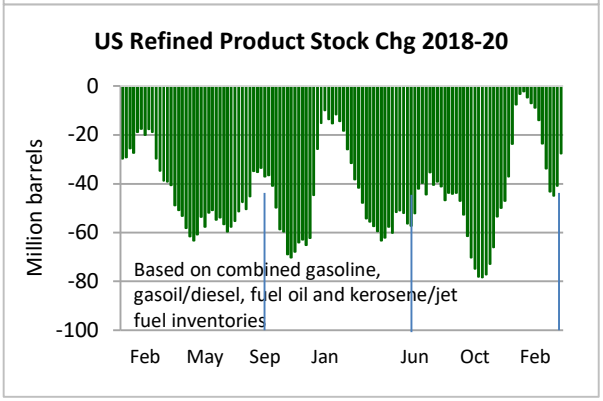
- However, vessel utilisation in the USGulf appears to be holding up much better in comparison with the global fleet. Our analysis reveals that the percentage of MR vessels underway around the world has fallen by 13% y/y in 1Q20, with activity in China hit particularly hard. The picture is equally bleak across other vessel sectors, with LR1 down 7%, LR2 down 6%, Handysize down 11% and Handymax down 8%.

- In the Middle East our vessel utilisation index has fallen from 56% 1Q19 to 50% 1Q20. In South East Asia the index was down to 55% in 1Q20 from 59% in 1Q19, while waiting soared from 27% to 31%. Figures for the India Subcontinent are similar with percentage sailings down to 75% from 80%, and waiting up from 14% to 19%.









Source: USITC

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Impact of COVID-19 on Product Fleet Activity

Reduced Sailings and More Waiting

- COVID-19 has upended shipping markets and comprehensive customs data, which is between a few weeks and a few months out of date, is unable to provide a clear insight into what is happening across regions and vessel sectors in this fast paced market.

- In the analysis on this page, we have used AIS data to track some of the changes that are occuring in the product sector and the five charts here distill some of our findings.

- The first chart compares the percentage of the MR product fleet underway each day during 1Q19 with activity during 1Q20. This clearly demostrates that fleet utilisation is significantly reduced this year. There was a very pronounced slump mid-1Q20 as it became clear that COVID-19 would have a profound impact on the world.

- This slump in sailings is mirrored in the second chart, which compares the MR fleet at anchor in 1Q19 with 1Q20. This chart provides a proxy for increased fleet idleness.

- Looking at the regional impact of the current crisis, all kinds of unusual patterns are emerging and we have highlighted just a few here. In the Middle East, overall product fleet utilisation, measured by the percentage of vessels in the region that are underway, has been consistently below levels seen during the same period last year. Utilisation has also consistently trended down during 1Q20 and continues to contract.

- Other major regional product tanker theatres have aped performance in the Middle East. For example, in South East Asia the percentage of the active product fleet in the region was down to 55% in 1Q20 from 59% in 1Q19, while waiting soared from 27% to 31%. Figures for the India Subcontinent are similar with percentage sailings down to 75% from 80%, and waiting up from 14% to 19%.

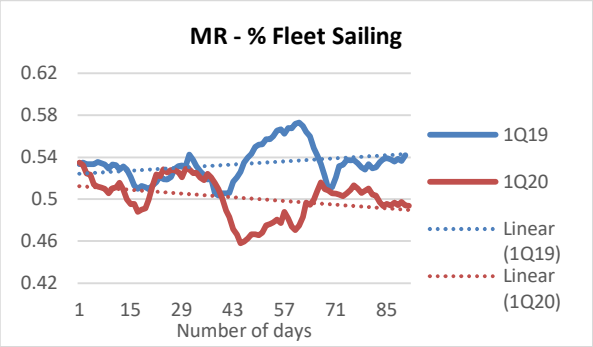
- We have also seen regional swtiching by some product sectors. In the USGulf, there has been an increase in the number of LR2 vessels active in the region.

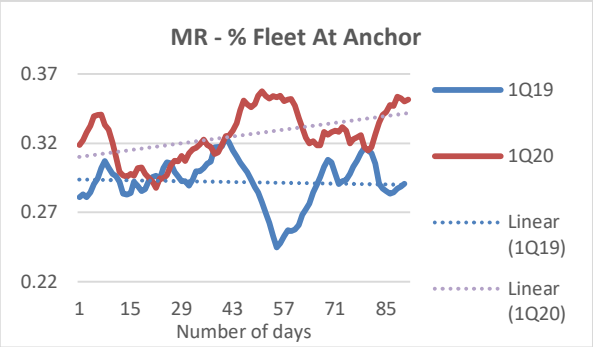
The percentage of product vessels in the USGulf that are underway has been more resilient than in some regions with 34% sailing in 1Q20 compared with 35% in 1Q19.

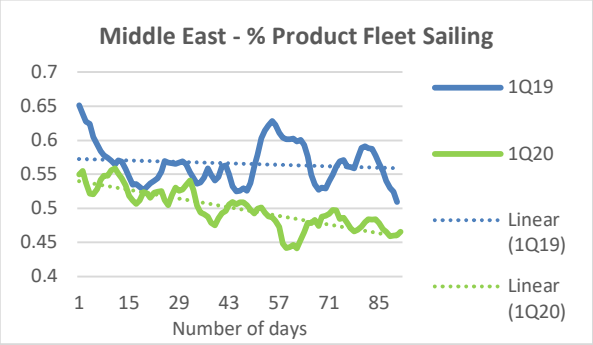
- In China, the level of activity across the three larger product sectors has been very weak, with the MR sector hit particularly hard. However, while MR levels are still heading down, there are signs of life for LR1s and LR2s.

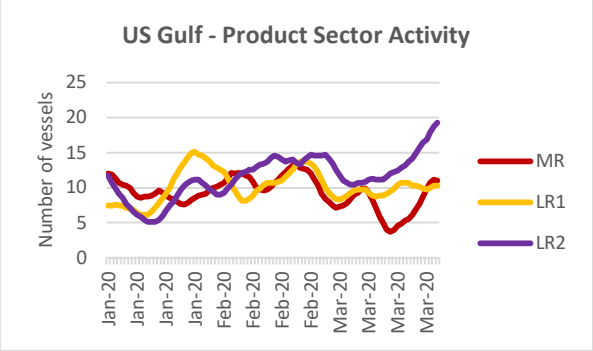
- Switching is also evident in the LR1 sector with increased numbers of vessels migrating to the Middle East and Indian Subcontinent.

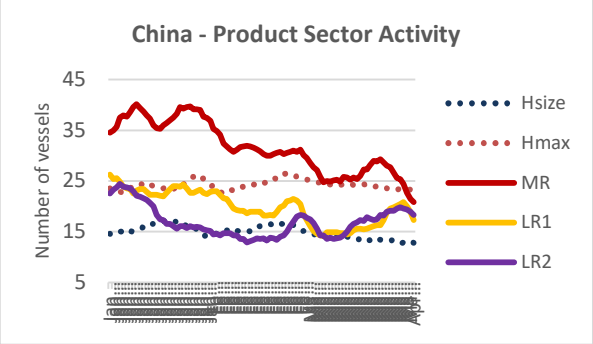
- It will be interesting to see in the next quarterly report how this AIS-based market interpretation correlates with 1Q20 trade numbers.











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Fastest growing export commodities

3. Lubricating Oil

2019 5.5 million mt, -1.0% y/y

Flat 2H19 after poor 2Q19

- 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 stablising in 2017.
- It accounts for just 3% of the US refined product export trade.

1. Kerosene/Jet Fuel

2019 10.9 million mt, +1.8% y/y

Only positive export performer in 4Q19

- After underperforming the overall US export market in recent years, it had a breakthrough year in 2018 (+18.9% y/y). However, exports flagged in 2Q19 (-11% y/y) before recovering in 3Q19 (+11% y/y) and 4Q19 (+5% y/y).
- It was hit by the collapse of Nigerian trade in 2015, and a fall in Canadian trade (-27% y/y) in 2016.

x. Propane & Butane

2019 38.9 million mt, +13.0% y/y

Competing with naphtha in the petrochemical feedstock export market

- US NGLs exports continued to expand in 2019, which was in stark contrast to US product exports, which registered negative annual growth for the first time since 2002.
- Unusually, propane +13.8% y/y, the significantly larger trade, out-performed butane exports (+8.5% y/y) in 2019.
- The strong performance of propane was in large part due to soaring trade with Japan, the largest export market for the US, which first started to accelerate dramatically in 2H18 and which was up +38% during 2019 y/y.
- LPG included here as its story overlaps with export growth in the product sector - both driven by shale.

4. Gasoline

2019 39.9 million mt, -4.0% y/y

Second best performer in 2018 (+15% y/y), but consistently poor 2019

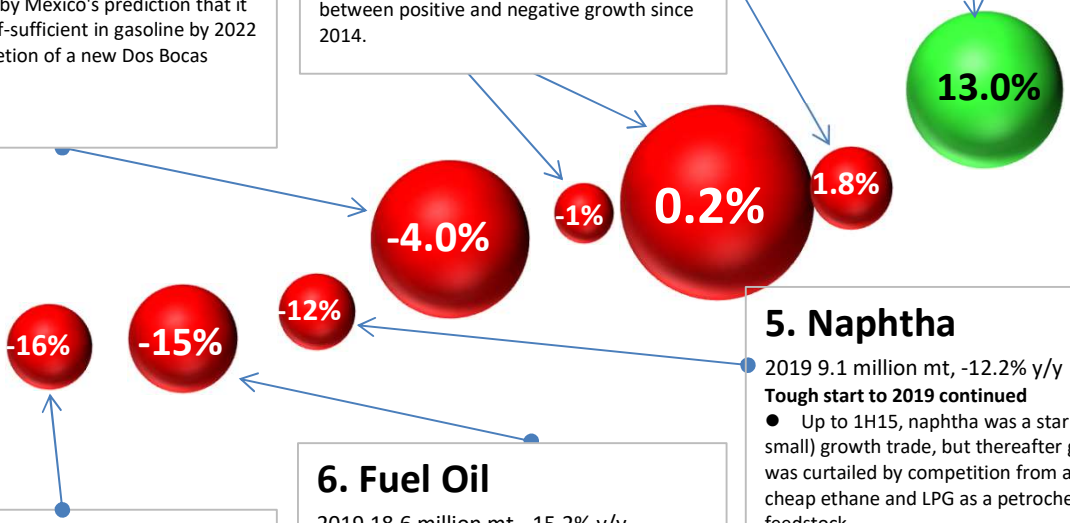
- Mexico (54% mkt share) dominates this trade and has been a major factor in gasoline growth in recent years, but trade contracted (-4% y/y) in 2019. There were also steep loses for Canada, Netherlands and Chile, which offset strong gains by Brazil (+79% y/y in 2019), now its third largest market.
- The long term prospects for this trade are threatened by Mexico's prediction that it will become self-sufficient in gasoline by 2022 with the completion of a new Dos Bocas refinery.

2. Gasoil/Diesel

2019 60.7 million mt, +0.2% y/y

4Q19 slump ends rollercoaster year

- The largest US product export with 39% of the market, it was the only product to register significant positive growth in 1-3Q19 + 3.7% y/y. However, a 15% y/y 4Q19 slump left full year growth flat. The broad-based slide was led by Canada (-30% y/y) & Ecuador (-28% y/y).
- Prior to 4Q19, exports had been in recovery mode having declined by 4.3% in 2018, and with a record of fluctuating between positive and negative growth since 2014.



Figures based on US exports up to 4Q2019

5. Naphtha

2019 9.1 million mt, -12.2% y/y

Tough start to 2019 continued

- 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.

6. Fuel Oil

2019 18.6 million mt, -15.2% y/y

The new IMO 2020 bunker fuel regulations have contributed 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, which came into force in January.
- Trade with Singapore (down 3.3 million mt) was particularly badly affected in 2019, swamping gains in other trades e.g. Panama (+66% y/y), which has now replaced Singapore as the second largest export destination.

7. Other Products

2019 11.3 million mt, -16.1% y/y

Canada dominates, but emerging trades to Brazil, Taiwan & Netherlands

- "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).

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*

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Fastest growing export regional destinations

Established regional markets (NAmr, LAmr, Europe), 93% Mkt Share, -2.4% y/y (18-19)

South America

est 113 million mt, +0.4% y/y (18-19)

Having hit record levels in 4Q18 (33.5 million mt) and sustained strong growth in 1Q19 (+11% y/y), exports to this region went off the boil in the remainder of 2019 and were weakest in 4Q19 (-6% y/y). Consequently, overall 2019 growth (+0.4% y/y) was only just in positive territory.

Gasoil/diesel and gasoline remain the dominant US export commodities with 72% market share. In 2019, Gasoil/diesel (+4% y/y) outperformed gasoline (-1% y/y).

Kerosene/jet fuel (+11% 2019 y/y) was one of the best performing regional growth trades in 2019.

Europe

OECD Europe: est 12.4 million mt, -19.5% y/y
Non-OECD Europe: est 2.0 million mt, +7.1% y/y

After a strong performance in 1Q19, exports to OECD Europe slipped back in the rest of the year, with 4Q19 (-56% y/y), hit hardest. By contrast, Non-OECD Europe has proved a relatively strong growth market, although it also struggled at the end of the year.

Although accounting for 57% of US Exports to OECD Europe, **Gasoil/diesel** (-13% 2019 y/y) continues to be a market in decline coming after a period of significant and sustained decline, 2018 (-19% y/y), 2017 (-9% y/y), and 2016 (-24% y/y).

US Exports by Region and Commodity e2019

Figures in '000 mt

Figures based on US exports up to 4Q2019

region_code	Fuel oil	Gasoil/ diesel	Gasoline	Kerosene /jet fuel	Lubricating oil	Naphtha	Other Products	Total
Australasia	4	0	408	0	35	0	1	448
East/South Africa	1	42	61	0	83	0	1	187
Former Soviet Union	0	0	0	0	6	0	2	8
South America	10982	49189	36337	7051	3306	4240	1811	112917
Middle East	916	204	6	212	140	71	105	1654
North Africa	223	1220	39	42	14	0	1	1538
North America	1477	1046	2311	2600	449	2166	7724	17773
North East Asia	161	139	77	1	80	1922	1090	3469
OECD Europe	1934	7067	390	890	1060	698	405	12354
South Asia	12	4	0	0	121	0	34	171
South East Asia	2294	80	61	40	66	79	158	2778
West Africa	109	203	174	2	161	14	2	664
Other Europe	483	1483	38	27	2	0	0	2034
Other	0		9		1		0	10
Total	18594	60677	39911	10865	5524	9099	11335	156005

Colour key: >=30% | >=15,<30% | >=10,<15% | >=5,<10% | >=0,<5% | <0%

How to read the table: *The colours show growth rates 2018/2019 y/y for trades >=1 million mt*

Emerging regional markets 7% Mkt Share, -30% y/y (18-19)

South East Asia

est 2.8 million mt, -57% y/y (18-19)

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.

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 run in to the introduction of 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 2.7 million mt, -13% y/y (18-19)

Naphtha and natural gasoline exports were behind growth in trade with NEAsia in 2018, and this has been of the few highlights for US exports in 2019.

Naphtha - South Korea (0.74 million mt, +250% y/y) is the star performing trade, Japan (0.8 million mt, +15% y/y) and China (0.2 million mt, +10% y/y) also added strength.

Natural gasoline - is used as a diluent to facilitate the pumping of heavy crude oil grades. In 1Q18, Chinese imports surged, but they tailed off subsequently.

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Fastest growing export country destinations

1. Brazil +39%
Trade 2019: 15.7 million mt

Gasoil/diesel (9.8 million mt, -29% y/y)
Gasoline (3.0 million mt, +80% y/y)

Brazil - the 3rd largest US export trade after Mexico and Canada. Brazil has good relations with the US, but more important, in terms of trade growth, is the switch in Brazil's focus from refining to deepwater oil exploration.

2. Colombia +24%
Trade 2019: 5.1 million mt

Gasoil/diesel (1.8 million mt, +100% y/y)
Gasoline (1.0 million mt, +3% y/y)

Trade growth may in part reflect the ongoing support given by the US to Colombia in negotiating (since 2012) a peace treaty with FARC - Colombia's largest guerilla group, and for supporting US policy in Venezuela*.

3. Panama +18%
Trade 2019: 6.4 million mt

Fuel oil (2.3 million mt, +66% y/y)
Gasoil/diesel (2.3 million mt, +1% y/y)

Another bunker hub, its demand for fuel oil surged in 4Q19. Its elevated position is somewhat surprising due to its alignment with China, following the signing of political, economic and cultural agreements.

4. Guatemala +17%
Trade 2019: 4.1 million mt

Gasoil/diesel (1.9 million mt, +12% y/y)
Gasoline (1.8 million mt, +18% y/y)

Trade growth may in part reflect, Guatemala's positive relations with US*, which were reinforced when it agreed (along with Honduras and El Salvador) to cooperate with the US policy on managing migrant flows.

How to read the map: *The map highlights the 8 best performing US export trades 1-4Q19 y/y based on the top 17 countries*

5. Bahamas +12%
Trade 2019: 2.6 million mt

Fuel oil (1.4 million mt, +6% y/y)
Gasoil/disel (0.9 million mt, +39% y/y)

Supportive of the US policy towards Venezuela, it is now the fifth largest market for US fuel oil exports. With Its oil infra-structure escaping the worst ravages of Hurricane Dorian, it is benefiting from its position as a bunker hub.

6. Dom Rep +9%
Trade 2019: 2.9 million mt

Gasoil/diesel (1.4 million mt, +50% y/y)

In May 2018, it moved closer to China by cutting ties with Taiwan (like Panama and El Salvador). In March, high level meetings with China exacerbated political tensions with the US, but it gained favour by supporting the US policy towards Venezuela.

7. Honduras +2%
Trade 2019: 2.3 million mt

Gasoline (0.9 million mt, +12% y/y)
Fuel oil (0.5 million mt, +8%)

A traditional ally of the US, like other countries in the region, it looked towards China as a partner, with the result that the US cut aid payments in March 2019. Nevertheless, it continues to see some import growth led by gasoline and fuel oil.

8. Mexico +0.5%
Trade 2019: 45 million mt

Gasoil/diesel (13.2 million mt, +1% y/y)
Fuel oil (3.8 million mt, +4% y/y)

US-Mexican relations have been eased by (1) the signing (30 Nov - along with Canada) of the revised NAFTA, (2) cordial relations with the new Mexican President, López Obrador, including working closer on immigration.

**While no direct evidence exists that good relations with the US government has a positive impact on trade, there is circumstantial evidence that those countries that are leaning towards China (and are less receptive to US policy in the region) have seen poor trade growth performance in recent months and vice versa.*

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