Weber US Product Trade Report

H1 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 first quarter 2020. 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

e2020
+4% y/y
162 million mt

- This report serves as a useful guide to understanding how trade developed through 1Q20. However, customs data is time lagged so does not provide a clear insight into the COVID-19 fractured market during 2Q20. For an understanding of this market, we have utilised AIS analysis and the results can be seen on page 2.

- In 2019, the US product export trade had started to contract sharply, down -5% y/y. Ironically, the onset of the COVID-19 crisis acted as an accelerator for exports +4% y/y during 1Q20 as importers looked to lock in to rock bottom commodity prices. However, seaborne trade did not see all of this benefit because 26% of the increase in trade 1Q20 y/y was due to a surge in diluent, naphtha and other products to Canada, up +37% y/y 1Q20, +1.6 million mt.

- Nevertheless, there were big gains on some seaborne routes 1Q20 y/y including on the long haul trade to Singapore (+0.45 million mt). There were also some significant 1Q20 y/y gains on trade to South America, led by Panama (+0.7 million mt), Colombia (+0.5 million mt) and Chile (+0.5 million mt), which more than offset a sharp contraction in trade to Mexico (-0.8 million mt)

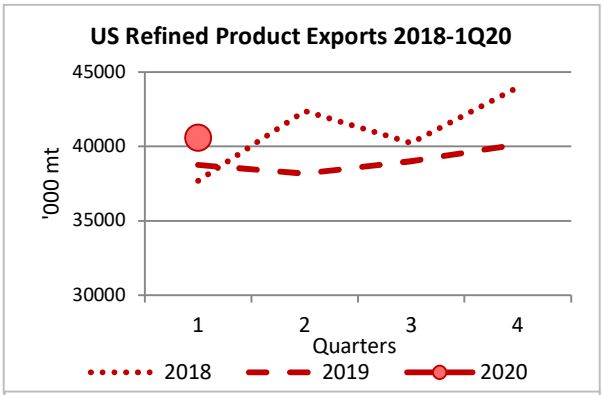
- In contrast to exports, US product imports collapsed during 1Q20, down -12.5% y/y.

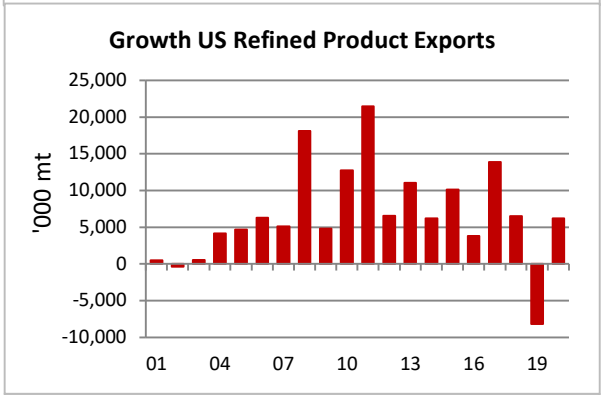
- Naphtha (+11% y/y), gasoil/diesel (+9.7% y/y) and kerosene/jet fuel (+7.2% y/y) were the best performing US product exports in 1Q20. In contrast, gasoline (-10.8% y/y) performed very poorly, in part because COVID-19 severely impacted on the movement of people.

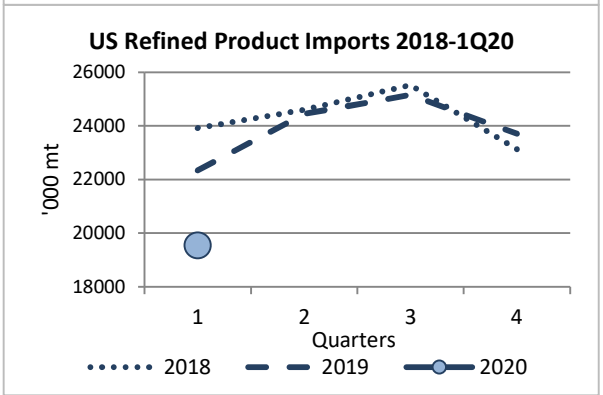
- The utilisation of product vessels in the USGulf, defined as the percentage underway, has been more resilient than in some regions with 33% utilisation in 2Q20, the same as in 2Q19. However, there was a 12% y/y drop in active tonnage (sailing, waiting and in port) in the region, perhaps presaging a decrease in export performance in 2Q20.

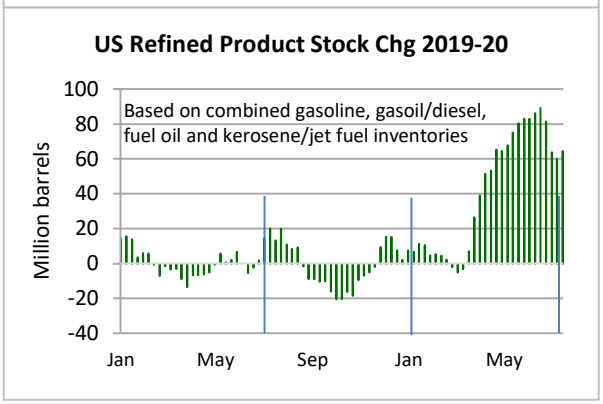
- In contrast to the USGulf, the number of product tankers in the Middle East has remained stable. However, here utilisation (the average number of vessels underway) in 2Q20 fell from 53% to 47% y/y, while vessels waiting increased from 32% to 37%.

- In China, the level of activity , particularly in the dominant MR sector, dipped sharply through 1Q20. However, by June, the number of MR vessels in the region had recovered to a more normal density. South East Asia has been one of the few regions to see an increase in the number of product tankers, with activity up 14% y/y in 1Q20 and 12% y/y in 2Q20. However, this metric actually signals an increase in inactivity with waiting rising from 31% to 39% in 2Q20.









Source: USITC

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Impact of COVID-19 on Product Fleet Activity

Reduced Sailings and More Waiting Persists into 2Q20

- 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 LR2 product fleet underway each day during 1H19 with activity during 1H20. In contrast to the MR sector where sailings dipped from mid-1Q20, LR2 sailings were relatively unscathed. However, by 2Q20, LR2 sailings have dipped sharply, while MR sailings remain down.

- This slump in LR2 sailings is mirrored in the second chart, which compares the LR2 fleet at anchor in 1H19 with 1H20. This chart provides a proxy for increased fleet idleness.

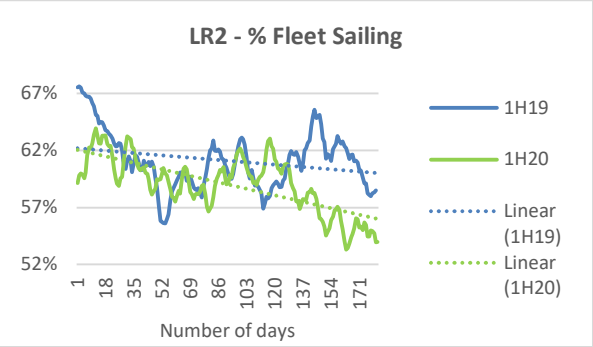
- Looking at the regional impact of the current crisis, all kinds of unusual patterns have emerged in recent months although some markets are beginning to return to more usual levels of activity. In the Middle East, overall product fleet utilisation, measured by the percentage of vessels in the region that are underway, has been consistently below levels seen during the same period last year. However, in early July sailings in the region were close to levels seen at the same time last year.

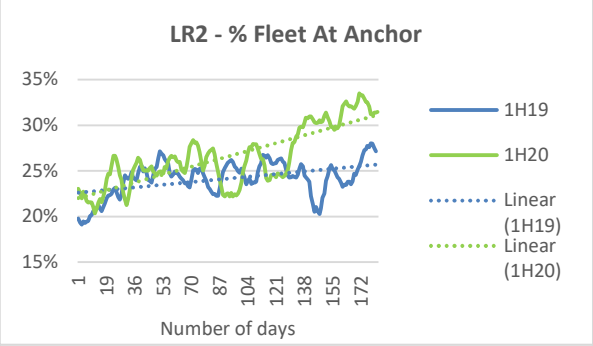
- The utilisation of product vessels in the USGulf, defined as the percentage underway, has been more resilient than in some regions with 33% utilisation in 2Q20, the same as in 2Q19. However, there was a 12% y/y drop in active tonnage (sailing, waiting and in port) in the region, perhaps presaging a decrease in export performance in 2Q20.

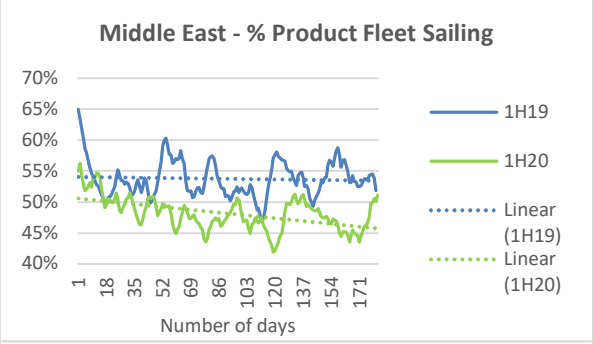
- In China, the level of activity , particularly in the dominant MR sector, dipped sharply through 1Q20. However, by June, the number of MR vessels in the region had recovered to a more normal density.

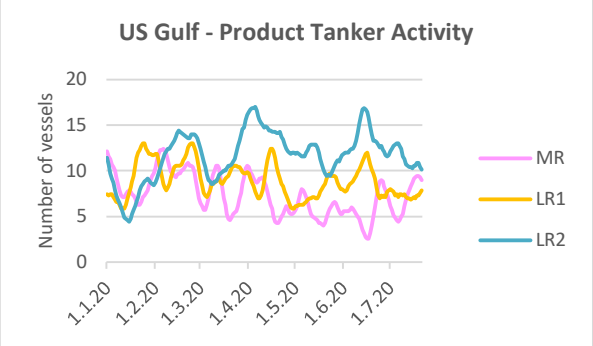
- Seaborne product trade in 1Q20 increased by +0.4% y/y according to customs trade data, while sailings decreased on average by 4% across all products sectors. This disconnect can be explained in part because movement data reveals vessel waiting increased by 8% y/y during the same period, implying that the decrease in sailings was in part due to fewer positional ballast voyages.

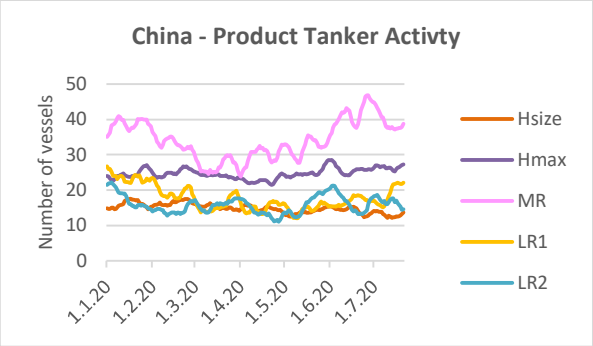
- During 2Q20, product activity statistics deteriorated significantly from 1Q20, with sailings down 5% y/y and waiting up 21%. While an accurate correlation is not yet possible, these indices would suggest that negative trade growth is probable during 2Q20.











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Fastest growing export commodities

3. Gasoil/Diesel

1Q20 15.3 million mt, +9.7% y/y

1Q20 recovery after 4Q19 slump

- The largest US product export with 38% 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. In 1Q20, the export revival was led by Panama, Chile and Colombia.

1. Other Products

1Q20 3.8 million mt, +29.8% 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).

x. Propane & Butane

1Q20 11.8 million mt, +44.3% y/y

Competing with naphtha in the petrochemical feedstock export market

- US NGLs exports surged in 1Q20, building on average annual growth of 13% over the last three years.
- Butane +46% y/y, the significantly smaller of the two main NGLs trade, out-performed propane exports (+16% y/y) in 1Q20, after unusually lagging behind in 4Q19.
- The strong performance of propane and butane 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 was up +58% during 1Q20 y/y.
- LPG included here as its story overlaps with export growth in the product sector - both driven by shale.

2. Naphtha

1Q20 3.2 million mt, +22.1% y/y

Surge in exports after period in doldrums

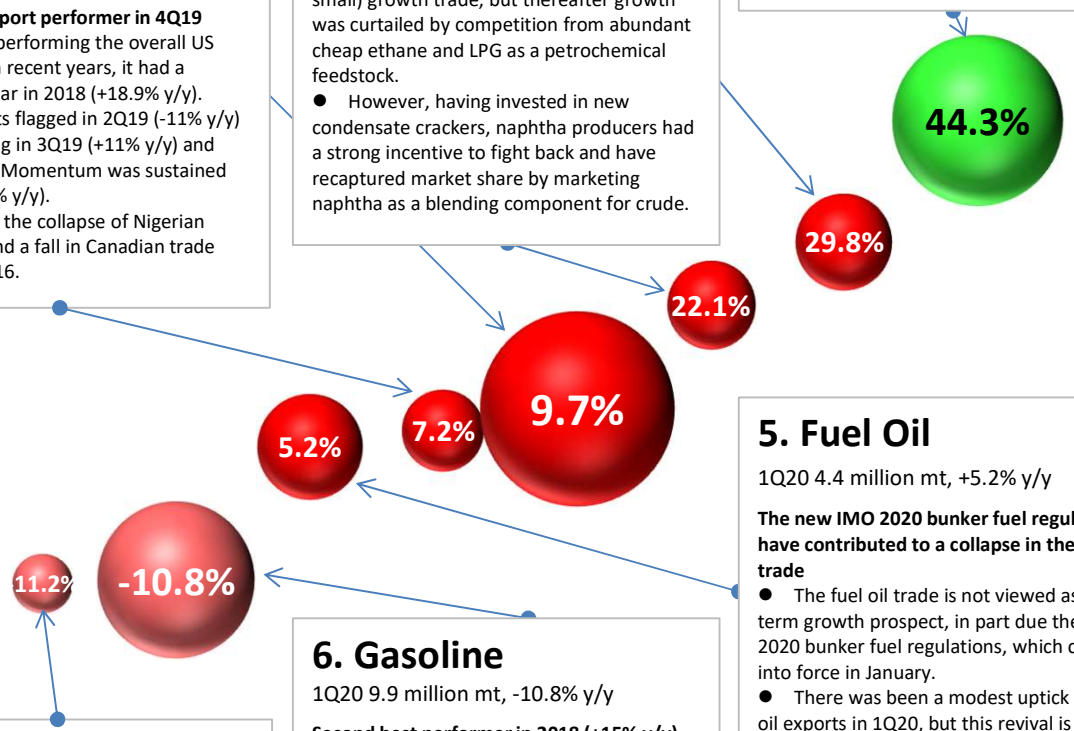
- Up to 1H15, naphtha was a star (albeit small) growth trade, but thereafter growth was curtailed by competition from abundant cheap ethane and LPG as a petrochemical feedstock.
- However, having invested in new condensate crackers, naphtha producers had a strong incentive to fight back and have recaptured market share by marketing naphtha as a blending component for crude.

4. Kerosene/Jet Fuel

1Q20 2.7 million mt, +7.2% 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). Momentum was sustained into 1Q20 (+7.2% y/y).
- It was hit by the collapse of Nigerian trade in 2015, and a fall in Canadian trade (-27% y/y) in 2016.



Figures based on US exports up to 1Q2020

5. Fuel Oil

1Q20 4.4 million mt, +5.2% 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.
- There was been a modest uptick in fuel oil exports in 1Q20, but this revival is expected to be shortlived.

6. Gasoline

1Q20 9.9 million mt, -10.8% y/y

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

- 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.
- COVID-19 hit transportation demand hard and this is the main factor that undermined exports in 1Q20. Exports are likely to rebound somewhat as economies and the movement of people recover.

7. Lubricating Oil

1Q20 1.4 million mt, -11.2% y/y

Export commodity in decline

- 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.

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), 92% Mkt Share, +3.3% y/y (19-20)

South America

est 113 million mt, +0.0% y/y (19-20)

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). In 1Q20, trade was flat y/y, although a sharp fall in Mexican exports was offset by large gains in exports to Brazil, Panama, Colombia and Chile.

Gasoil/diesel and gasoline remain the dominant US export commodities with 76% market share. In 1Q20, Gasoil/diesel (+9.4% y/y) outperformed gasoline (-11.9% y/y).
Naphtha (+15% 1Q20 y/y) was one of the best performing regional growth trades at the start of the year.

Europe

OECD Europe: est 10.8 million mt, -12.2% y/y
Non-OECD Europe: est 2.4 million mt, +19% y/y

After a strong performance in 1Q19, exports to OECD Europe slipped back, with 4Q19 (-56% y/y), hit hardest. The malaise continued into 1Q20, down 12.2% y/y. By contrast, Non-OECD Europe has proved a relatively strong growth market, despite a weak 4Q19, and regained momentum in 1Q20.

Although accounting for 57% of US Exports to OECD Europe, **Gasoil/diesel** (-13% y/y 1Q20) continues to be a market in decline coming after a period of significant and sustained decline, 2019 (-13% y/y), 2018 (-22% y/y), 2017 (-7% y/y), and 2016 (-25% y/y).

US Exports by Region and Commodity e2020

Figures in '000 mt

Figures based on US exports up to 1Q2020

region_code	Fuel oil	Gasoil/ diesel	Gasoline	Kerosene /jet fuel	Lubricating oil	Naphtha	Other Products	Total
Australasia	1	0	61	0	17	0	1	80
East/South Africa	1	6	73	6	95	0	0	181
Former Soviet Union	0	0	0	0	6	0	1	7
South America	11020	53831	32001	6693	3099	4875	1393	112911
Middle East	1255	244	7	32	40	11	94	1683
North Africa	268	2070	6	6	2	0	0	2352
North America	1586	1260	2779	3123	481	2663	11745	23643
North East Asia	24	21	31	1	99	3109	615	3899
OECD Europe	1415	6159	238	1068	987	494	486	10847
South Asia	2	1	0	0	39	0	12	53
South East Asia	3653	96	73	47	90	94	39	4093
West Africa	0	30	26	0	28	2	2	89
Other Europe	498	1876	48	0	1	0	0	2423
Other	0		3		2		0	5
Total	19720	65594	35346	10976	4985	11254	14389	162265

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

How to read the table: *The colours show growth rates 1Q19/1Q20 y/y for trades >=1 million mt*

Emerging regional markets 8% Mkt Share, +13.4% y/y (19-20)

South East Asia

est 4.1 million mt, +47% y/y (19-20)

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. However, there was a bounce back in 1Q20.

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 3.9 million mt, +12.4% y/y (19-20)

Naphtha and natural gasoline exports were behind growth in trade with NEAsia in 2018, and this has been a highlight for US exports in 2019 and into 2020.

Naphtha - South Korea (0.23 million mt, +157% y/y) is the star performing trade, Japan (0.34 million mt, +63% y/y) and Taiwan (0.2 million mt, +172% 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. Singapore +92%
Trade 1Q20: 0.9 million mt

Fuel Oil (0.38 million mt, +28% y/y)
Gasoil/diesel (0.34 million mt, >+100% y/y)

Not in top 8 since 2017. Fuel oil has been the dominant trade, but slumped from 5.8 million mt in 2017 to 1.9 million mt last year. Despite newly elevated position, remains a relatively small trade.

2. Panama +53%
Trade 1Q20: 2.1 million mt

Gasoil/diesel (0.8 million mt, +54% y/y)
Fuel oil (0.7 million mt, +88% y/y)

A bunker hub, its demand for fuel oil surged in 4Q19 and 1Q20. Its elevated position is somewhat surprising due to its alignment with China, following the signing of political, economic and cultural agreements.

3. Colombia +41%
Trade 1Q20: 1.7 million mt

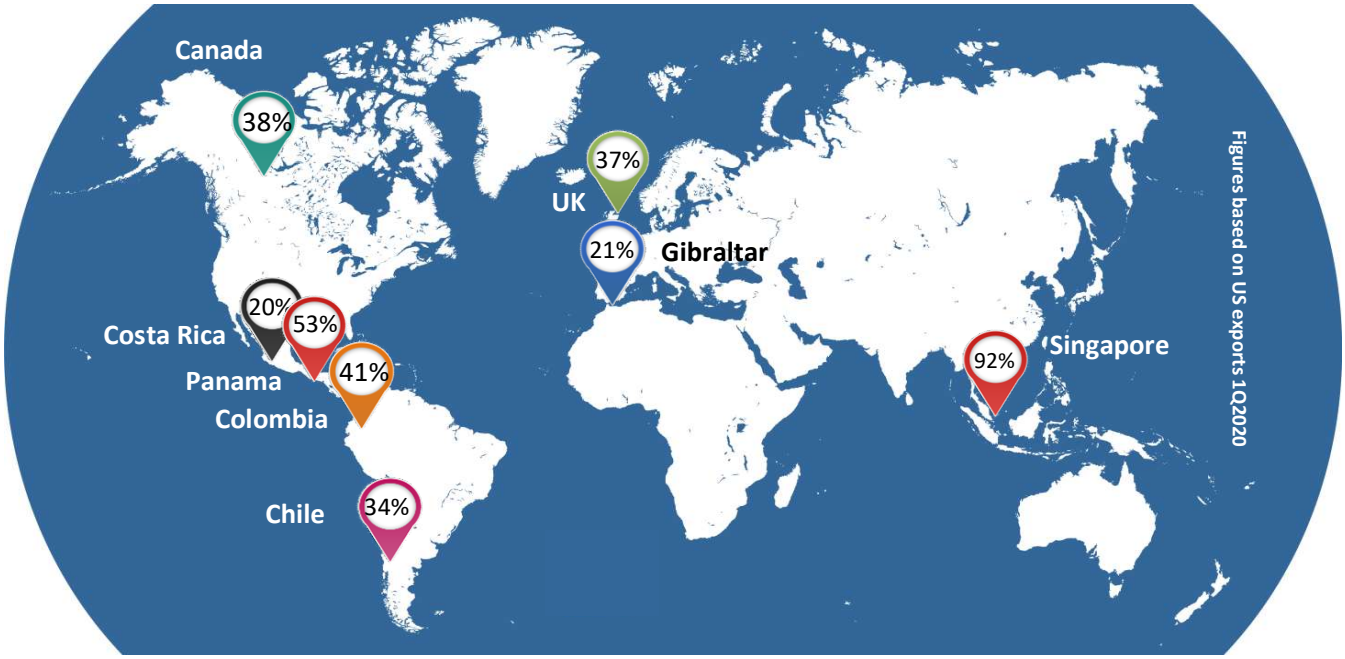
Gasoil/diesel (0.7 million mt, +100% y/y)
Gasoline (0.3 million mt, +3% y/y)

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*.

4. Canada +38%
Trade 2016: 5.9Mntonnes

Other Products (3.1 million mt, +8% y/y)
Gasoline (0.8 million mt, +8% y/y)

Not in top 8 since 2016. Around half of the trade is made up of diluent. Although, diluent and gasoline were the top performers, there was significant growth across all product sectors.



How to read the map: *The map highlights the 8 best performing US export trades 1Q20 y/y based on the top 17 countries*

5. UK +37%
Trade 1Q20: 0.6 million mt

Gasoil/diesel (0.4 million mt, +22% y/y)
Kerosene/jet fuel (0.1 million mt, >+100% y/y)

After being a bit player, the UK has established itself as an important market for US exporters, albeit one with erratic performance with trade falling to 2.1 million mt in 2019, the lowest for 5 years.

6. Chile +34%
Trade 1Q20: 1.9 million mt

Gasoil/diesel (1.5 million mt, +33% y/y)
Gasoline (0.3 million mt, >+100% y/y)

An important export market, but contracted by 14% last year, so bounce back is mainly about making up for lost ground. Trade dominated by gasoil/diesel, but gasoline emerged as significant market for first time in 1Q20.

7. Gibraltar +21%
Trade 1Q20: 0.5 million mt

Gasoil/diesel (0.4 million mt, +26% y/y)
Fuel Oil (0.1 million mt, +3% y/y)

The gasoil/diesel trade took off in 2015, when low prices & full land-based storage encouraged the rise of floating storage. Gasoil/diesel trade re-energised during 1Q20, but still well off 2016 peak.

8. Costa Rica +20%
Trade 1Q20: 0.7 million mt

Gasoil/diesel (0.3 million mt, +3% y/y)
Gasoline (0.3 million mt, +188% y/y)

Still a small trading partner. 1Q20 surge amounted to just 0.1 million mt, lower than one or two other growth countries outside the top 8 e.g. Brazil +0.35 million mt, +9.2$+% y/y.

**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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