Capital Link Shipping
Weekly Markets Report

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IN THE NEWS

Conjectures about condensates

Contributed by

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Following the exhausting Marine Money Week, it was time to get back down to Florida- where readers will remember that I have a view of the entire U.S. flag coastal tanker fleet steaming by- no reduced speeds for these vessels, they are rushing at full speed to grab the next cargo.

Tanker trades have been very much in the news, with a brouhaha about U.S. crude oil exports playing out in the media. Two oil transporters, Pioneer and Enterprise, were reportedly granted licenses to export "condensate"- which is a group of light liquids boiled off from crude oil produced from shale. The ruling from the Department of Commerce, which grants these permissions, is considered private, so we don't know the details. Many of the commentators feel that the licenses are not a harbinger of anything- rather, they represent a legitimate permitting to move small quantities of oil that cannot be easily run through the present U.S. refining system.

But "the system" can change over time. As U.S. oil production has grown, much of the increase has been in "lighter" oil, with API gravities above 40. One consultant, RBN Energy, has estimated that oil companies are now producing up to 1.2 million barrels/day of condensate. If production from Bakken and Eagle Ford increases as anticipated by the Department of Energy, and refineries don't retool to process light oil into useful refined products (like diesel fuel and gasoline), then there will indeed by more of these condensate exports. But, right now- the exact a jump ball, free for all, up for grabs, etc.

It's premature to predict the exact impact of these exports on the tanker markets, if they become part of the oil trading matrix. Remember that a finite number of barrels are moving through "the system" at any one point in time- a certain portion of which will be transported by sea. A bump upward in crude moving out of the U.S. let's say to a refinery in northern Europe (if any are still open) means that crude from other origin (example- West Africa), will not be shipped to the European refinery.

Also, after the baby steps in condensate exports, relatively small amounts of "condensate" might be exported. Let's say that permits are granted for 200,000 barrel/day of exports- an amount will below actual production levels. If the material moves in Suezmax size vessels, that would equate to one such tanker every five days. It gets more interesting if the Suezmax loading in West Africa that is now not going to Europe goes eastward, instead, to China or S. Korea. That's more ton-miles, a good thing. Those Jones Act vessels that I monitor from my balcony would be impacted negatively, at the margin. If that "condensate" were previously moving coastwise (most lively never split out of a crude oil from Eagle Ford), then there would be a slight reduction in demand for barrels of crude requiring a U.S. built / crewed/ owned vessels. Meantime, in Canada, Enbridge cleared additionally regulatory hurdles in its efforts to build a pipeline that would move heavy oil from Alberta to Kitimat, in British Columbia. This 525,000 barrels/day throughput would then be fed into VLCCs bound for Asia- at the rate of one every four days. Again, this represents a new trade flow, but one which would "back out" movements from other origins- maybe the Arabian Gulf, as China diversifies its sources of oil supply.

All this reasoning can go on, and on, and on…. we can pull out a map and draw lines representing voyages and quantities. It's fun to make conjectures about market impact- but anything written on this subject, however fascinating and fact-filled, is just that- conjecture.

One corner of the tanker market worth watching is the tanker route "TC14"- refined products (likely refined from Eagle Ford or Permian crude) exported from refineries in Texas to destinations in Northern Europe, where many refineries have closed. The hires on this leg have temporarily jumped upward; the result is that the round trip time charter equivalent (the amount available to owners after deducting port and fuel costs, divided by number of days in the overall voyage) is now above $20,000/day- double the levels of several weeks ago, and reminiscent of the big burst in 2013. International flag ships are not always moving at their design speeds, and their managers might speed them up to capture stronger hires.

If this strength has real legs, ie it's not just a very temporary aberration, then investors might take a shot at the international (not Jones Act) product tanker names, which typically respond to movements in such hires. That relationship- rates and share prices- is real, and not a conjecture.

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