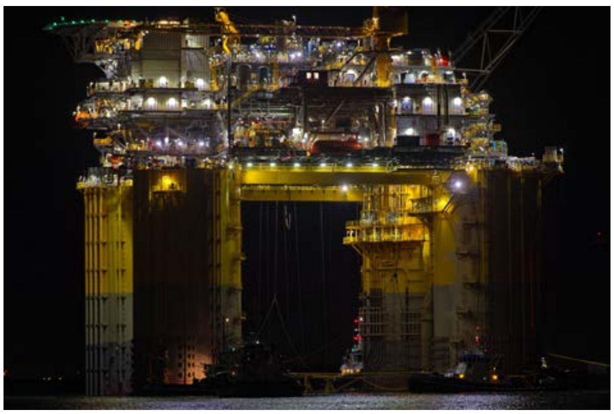
OIL MARKETS

Lower U.S. Oil Prices Are a Shot in the Arm for Crude Exports

Hurricane Harvey has passed, but analysts expect the storm's effects on global crude flows to linger for months



Tug boats towed the Hess Corp. Stampede tension leg oil platform past Port Aransas, Texas, on May 5. PHOTO: EDDIE SEAL/BLOOMBERG NEWS

By Alison Sider and Lynn Cook

Updated Sept. 21, 2017 10:14 a.m. ET

U.S. oil is trading at the biggest discount to the global price in two years, helping extend a boom in exports of crude from American shale fields to refiners in Europe and Asia.

After Hurricane Harvey hammered the Gulf Coast last month, the price of Nymex crude sank to as much as $6.30 a barrel below its European counterpart, Brent—the widest gap since August 2015.

Harvey has passed, but analysts say the storm will reshape global crude flows for months. The difference between U.S. oil and Brent, the international benchmark, at $5.88 as of Wednesday, is key in determining when it is profitable to ship oil from U.S. ports to places overseas.

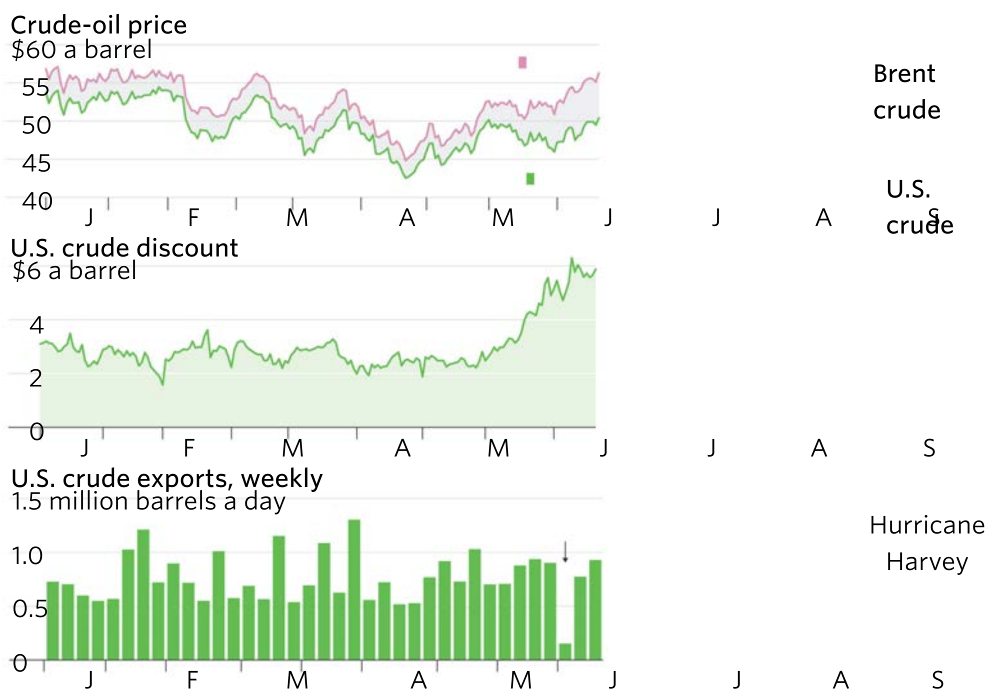
A difference of at least $4 makes it attractive for a refiner in countries like China or South Korea to buy oil from shale producers in Texas and North Dakota, said R.T. Dukes, an oil expert with consulting firm Wood Mackenzie.

“Get to a $4 spread and you can take it anywhere in the world,” he said.

Take Occidental Petroleum Corp. OXY -1.07% ▼, a major U.S. exporter and large producer in the Permian Basin of West Texas. Occidental is shipping more crude than ever as lower U.S. prices boost demand for oil from the Permian. The company recently struck new deals with customers in South Korea, India, China and countries in Southeast Asia, said Cynthia Walker, an Occidental senior vice president.

Mind the Gap

U.S. oil is trading below global crude by the most in two years. That is helping boost American oil exports.



Sources: WSJ Market Data Group (prices); Energy Information Administration (exports)

While the recent discount on West Texas Intermediate (WTI) crude, the U.S. reference price, is poised to increase American shipments, the U.S. had already become a disruptive force in global energy markets, sending oil overseas after a ban on most exports was lifted at the end of 2015. In recent years, the rise of the highly productive and nimble U.S. shale industry has pushed oil prices down world-wide. Exports have become a relief valve for U.S. drillers, who have continued to pump despite relatively low prices.

Because many big Gulf Coast refiners are largely geared to process heavy crude, like the output from Canada and South America, they have continued to import barrels, while some of the output from shale formations has started to flow abroad to refiners set up to process the light, sweet variety.

“The export window is wide open,” said Michael Wittner, global head of oil research at Société Générale.

Leasing oil tankers can cost anywhere from under $1 a barrel to a few dollars, depending on the length of the trip. For instance, taking oil from Texas to Asia is more expensive since it’s a longer voyage than to Argentina or the Netherlands. After tanker owners expanded their fleets in recent years, shipping rates have fallen dramatically. They’re down 20% to 30% in the past year, depending on where ships are loaded, according to shipping consultancy McQuilling Services LLC.

For now, the WTI-Brent spread is wide enough to offset the expense of loading supertankers that are too heavy for relatively shallow Texas ports, analysts at consultancy JBC Energy said. While the massive tankers generally have to wait offshore to be loaded by smaller vessels, they are capable of larger volumes, making longer journeys more economical. Analysts at McQuilling Services expect at least 10 of these tankers to be loaded from the U.S. next month—a record.

One big obstacle to more exports could soon be resolved. The Louisiana Offshore Oil Port, LOOP, is the one place in the U.S. that is deep enough for supertankers that can most profitably make the journey to Asia. LOOP is looking to add the capability to load those tankers next year.

U.S. and global oil prices had already drifted apart in August, and during Harvey’s peak, WTI tumbled. More than a quarter of total U.S. refining capacity was offline as plants curtailed operations, causing demand for U.S. crude to dwindle. Some refineries are still struggling to return.

At the same time, global oil prices were on an upswing after more than eight months of production cuts by the Organization of the Petroleum Exporting Countries and strong summer demand.

Planned maintenance over the summer also limited output from one of the key oil fields in the North Sea that determines the price of Brent. European refiners cranked up output to pick up the slack for shuttered U.S. plants.

Harvey all but stopped the flow of oil to and from the U.S., but crude exports jumped back up by 775,000 barrels a day to 928,000 barrels a day in the first two weeks of September, as ports along the Gulf reopened following the storm.

Analysts expect crude exports to hit records in the coming months. Volumes are likely to surge to 1.3 million barrels a day in the last three months of the year—more than double amounts from the same time last year, analysts at Energy Aspects say.

Analysts at Macquarie anticipate that the U.S. crude discount will shrink to $3 a barrel in the next two to three weeks.

Strong foreign appetite for U.S. crude will push up against the limits of export infrastructure, said Stephen Wolfe, senior analyst at Trafigura Group. The current gross export capacity stands at about 2.2 million barrels a day, but in practice it’s more like 1.8 million barrels a day after accounting for factors such as fog and the logistics of loading massive tankers.

“We’re going to really test that number over the next few weeks, because we have excess barrels we need to move out,” Mr. Wolfe said.