Analysis: US crude exports hit record in September

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US crude exports rose 35,000 b/d to a record 692,000 b/d in September after Brent's premium to WTI widened, an analysis of Census Bureau data released Friday showed.

Brent's premium over WTI widened from 34 cents/b in May to average $1.88/b in August and $1.66/b in September. After the spread tightened in May, US crude exports shrank to 383,000 b/d by June as arbitrage opportunities tightened. By August, US crude exports had bounced back to 657,000 b/d.

US crude exports have risen significantly since Congress lifted export restrictions in December 2015.

Previously, some analysts attributed some of the early exports to refiners testing various US grades in their systems, but that likely is not the case anymore, according to Dominic Haywood, oil analyst at Energy Aspects.

"Early on, it may have been test cargoes, but I think that's done and dusted now," he said. "If you look at where the WTI/Brent spread traded in August, it's clear that the trend is based on good economics for barrels delivered in September, October and November."

Haywood also cited a tightening in the Atlantic Basin crude market in the third quarter amid sustained Nigerian outages.

The US exported crude to 13 countries in September, led by Canada at 243,000 b/d, while a record 99,000 b/d of US crude was shipped to Singapore. Out of the total, 17,000 b/d was Canadian heavy crude re-exported to Spain, where Repsol owns coking units at its Cartagena, Bilbao and La Coruna refineries.

US crude exports to Europe in September averaged 209,000 b/d, with US cargoes arriving in Italy, the Netherlands, Spain, Switzerland and the UK.

Not only has the Brent premium to WTI risen, but European refining margins for US and Canadian crudes have climbed, showing those grades to be more profitable in recent months. The coking margin in Italy for WCS, for instance, averaged $8.92/b in August and $11.09/b in September, up from $6.72/b in July, according to Platts data.

Light Houston Sweet cracking margins in Italy averaged $2.62/b and $4.19/b, respectively, compared with $1.15/b in July.

A similar trend played in Northwest Europe, where LHS cracking margins averaged $3.26/b and $4.42/b in August and September, compared with $1.97/b in July.

On a delivered-cost basis, delivered-LHS cargoes averaged a premium of just 9 cents/b to Bonny Light cargoes in Italy in September, compared to a premium of $1.02/b in July and 20 cents/b in August.

FALLING FREIGHT RATES HELP EXPORT OPPORTUNITIES

Cheap freight also probably encouraged more traders to consider exporting US crude, with the Caribbean-UK Continent Suezmax route, basis 130,000 mt, averaging $5.26/mt in August, compared with $7.94/b for the first seven months of the year.

Freight on the US Gulf Coast-Singapore route, basis 130,000 mt, averaged just $13.28/mt in August, compared with $24.73 for the first seven months of the year.

The record US crude shipments to Singapore could be explained by strong regional demand from petrochemical producers, in particular for light sweet crudes and condensates similar to Eagle Ford, to run in condensate splitters.

The CFR Japan ethylene/naphtha spread rose in August and September, averaging $749.65/mt and $779/mt, respectively, compared to $637.35/mt in July and $732.88/mt in August.

STABLE EXPORTS AHEAD?

Looking ahead, Brent's premium over WTI narrowed to average $1.13/b in October, though Census data for October exports is not likely to show a dramatic drop off given that the spread remained healthy through September. Margins for US export grades have held up in October and November so far, although the return of several Nigerian grades from force majeure and falling premiums for light sweets in Europe may have made US crude exports less attractive.

Still, Haywood pointed out that Occidental Petroleum's recently inaugurated facilities at Corpus Christi, Texas, represent a significant addition of US export capacity, with Vicki Hollub, the company's CEO, revealing this week that the terminal could load over 300,000 b/d of crude and condensate.

Occidental has dispatched the first three cargoes of crude from Corpus Christi, and the terminal is expected to be fully operational early in 2017, executives said Tuesday.