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OIL MARKETS

Fallout From Harvey to Disrupt Energy Markets Around the World

The recent U.S. role as a net exporter will lead to global repercussions from the storm, especially for countries like Mexico

A Valero refinery in Houston, above from Sunday, is threatened by the swelling waters of the Buffalo Bayou. PHOTO: NICK OXFORD/REUTERS

By Alison Sider and Stephanie Yang

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Tropical Storm Harvey is upending the flow of oil and petroleum all around the world—a consequence of the growing influence of the U.S. in the global energy industry.

Since the last time a major storm passed through the Gulf Coast, vast quantities of oil and natural gas have been unlocked from shale formations in the U.S.

While production from these fields accounts for just a fraction of the global oil market, that output now feeds a huge volume of gasoline, chemicals, plastics and crude exports, which means Harvey will have repercussions of global proportions.

And the U.S. Gulf Coast has been at the center of this shift. The area has become an increasingly critical link in the global energy chain. Shipments from the region now satisfy 6% of global demand for oil and other liquid petroleum fuels—twice as much as in 2012, according to Barclays PLC.

That means Harvey, which was the most powerful storm to hit Texas in half a century, is likely to cause shortages that affect consumers from Houston to Beijing. Countries like Mexico, which relies on the U.S. for as much as half of the gasoline it consumes, according to the U.S. Energy Information Administration, are the most likely to feel the effects, analysts said.

"The consequences of a major disruption on the U.S. Gulf Coast will be felt in the pricing of oil product markets in Latin America and Europe and crude markets as far away as Asia," J.P. Morgan Chase & Co. analysts wrote.

The U.S. became a net exporter of refined products in 2011. Gasoline exports surged 33% to a record last year and have continued to rise this year. Some 17% of gasoline made at the Gulf Coast and 39% of the diesel produced there this year has been exported, according to consultancy Turner, Mason & Co.

Exports of crude oil itself, which were largely banned before 2015, have grown from a trickle to surpass 1 million barrels a day at times this year, winding up in China, the Netherlands and Peru.

Harvey has shut off much of that flow. Ports along the Texas coast, including Houston and Corpus Christi, have been closed, and now some in Louisiana are shut as well.

Vessels that planned to come in to be loaded with crude destined for foreign markets changed course before entering Corpus Christi last week, and one tanker that has been in Port Arthur since Aug. 19 is unable to leave due to bad weather, according to Kpler, a ship-tracking firm.

And fuel production has been curtailed. About 20% of U.S. oil refining capacity has been shut due to the storm, and that number is climbing as Harvey has started to track eastward, threatening more plants. The storm has choked off crude supplies to the plants that have continued to run.

"While everyone is watching the impact from a U.S.-centric perspective…disruption to U.S. product exports to places like Latin America could actually end up being a bigger story," said Michael Tran, director of energy strategy at RBC Capital Markets. "If you take a piece out of the puzzle, there's a significant ripple effect to other regions."

Market participants are already starting to respond. Trade flows should start to shift to bring more fuel from Europe to Latin America, which would typically get fuel from the U.S., analysts said. Analysts at research and consulting firm McQuilling Services LLC said they've also seen inquiries for cargoes from St. Croix and the east coast of Canada to head to the destinations typically served by the Gulf.

The storm is also resulting in increased competition for a smaller pool of fuel supply, pushing prices higher. Refiners in the Gulf supply the U.S. East Coast with much of its fuel, shipping gasoline and diesel through pipelines that stretch thousands of miles.

The Colonial Pipeline, the biggest fuel pipeline in the U.S., said Tuesday that it was operating at reduced capacity due to less fuel coming in from the Houston area and storm-related damage at some of its loading and pumping stations.

Matthew Smith, director of commodity research at ClipperData, said the East Coast risks being "left somewhat stranded" if flows from the Gulf Coast are limited. As a result, European cargoes are also starting to head there.

It isn't clear how disruptive Harvey will prove to be. If refineries sustain significant damage, they could be down for months. But even if producers, pipelines and fuelmaking plants can ramp up relatively quickly, analysts said its effects may linger.

"Back to normal is months, not weeks, for exports and for the industry and the region. We have to acknowledge that," said Barclays analyst Michael Cohen.

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