

OIL MARKETS

Oil Prices Continue Slide as Tropical Storm Harvey Continues

Investors worried that disruptions to refineries would weigh on demand for crude oil

By Alison Sider and Dan Molinski

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Oil prices continued to slide Tuesday and gasoline futures reached a two year high as Tropical Storm Harvey continued to bear down on the Texas Gulf Coast and looked set to threaten more refineries.

Oil and fuel prices have diverged since the storm began picking up steam last week. Oil has fallen to its lowest level in more than a month amid disruptions that are keeping refineries from buying crude. Gasoline futures have been on the rise for six straight sessions as fuelmakers on the Gulf Coast have had to slow down or stop entirely, prompting concerns about shortages.

U.S. crude futures settled down 13 cents, or 0.28%, at \$46.44 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 11 cents, or 0.21%, to \$52.00 on ICE Futures Europe.

Gasoline futures surged by 4.15%—their biggest daily gain since March—settling at \$1.7833 a gallon, the highest level since July 31, 2015. Diesel futures rose 3.03 cents, or 1.85%, to \$1.6655 a gallon.

Few of the refineries shut down due to the storm have reported that it inflicted major damage, which could be one reason that oil prices pared losses Tuesday, said Andy Lipow, president of Lipow Oil Associates.

“Because we have yet to have significant damage due to flooding, the market may breathe a sigh of relief, seeing crude demand coming back sooner than the Armageddon scenario,” he said.

But there are still obstacles to bringing closed plants back online, and more fuelmakers could be affected as the storm moves. Mr. Lipow said it may still be weeks before some plants are able to reopen, due to power loss and other infrastructure constraints.

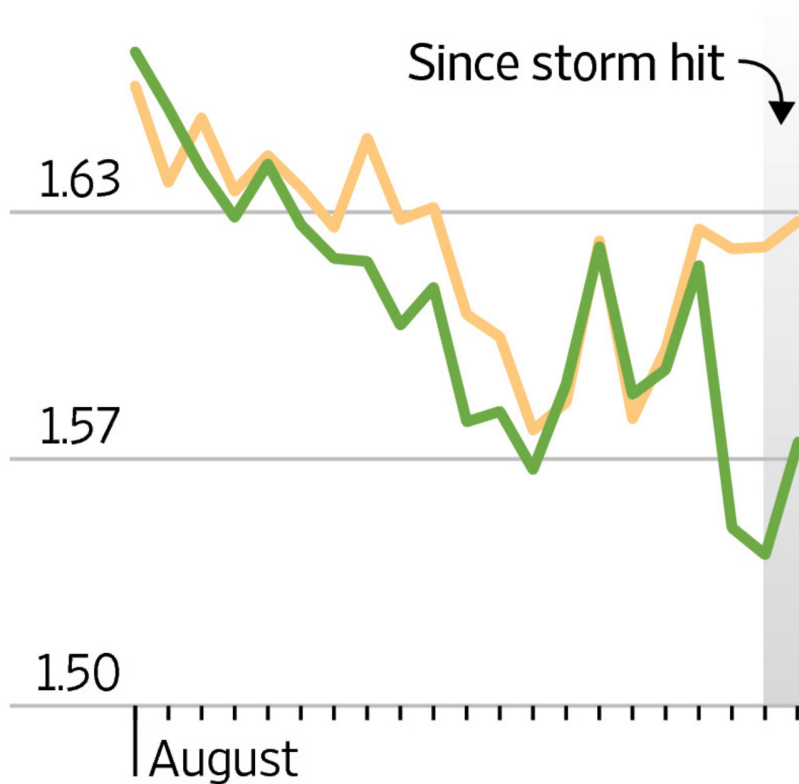
Trading Higher

Diesel and gasoline futures rose in the first full trading day since Hurricane Harvey made landfall.

■ Diesel futures

■ Gasoline futures

\$1.70 a gallon



Source: FactSet

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And as Harvey's path has shifted eastward, more refineries are facing heavy rains that could cause flooding. The nation's largest refinery in Port Arthur, Texas, said Tuesday it has cut production rates to 60% capacity.

Motiva, owned by Saudi Arabia state oil giant Saudi Aramco, can produce some 603,000 barrels a day, so that would mean some 240,000 barrels a day has been taken offline, and bring the total amount of refining capacity offline to around 2.3 million barrels a day, well over 15% of total U.S. refining capacity.

"Should the flood disruption caused by Harvey continue to plague Houston and the close-by Beaumont/Port Arthur refining hub to the east, we estimate 11 more refineries with combined capacity of 1.3 million barrels a day are at risk of closure," Morningstar analyst Sandy Fielden wrote in a research note Tuesday.

Plants in Lake Charles, Louisiana could also be affected next to feel the impact.

Refiners in Corpus Christi that shut down ahead of the storm have said they are looking to restart. It isn't yet clear whether plants in the Houston area have sustained heavy damage or if they will be able to ramp up relatively quickly once the storm passes.

“Everybody is waiting to see how long the refineries in Houston are going to be down—whether they were significantly damaged or will restart come the end of the week,” said Gene McGillian, research manager for Tradition Energy. “There isn't any known information about what's occurred yet.”

Even refineries that are able to run may have trouble getting enough oil supplies. Ships carrying oil cargoes are unable to enter Texas ports; producers in fields in south Texas stopped operations and are only just starting to ramp up; and some pipelines that carry crude supplies to refineries have also shut in.



An employee informs customers of fuel shortage at an HEB Fuel gas station in Houston, Texas, U.S., on Aug. 24. PHOTO: BLOOMBERG NEWS

“Crude oil supply into Houston-area refineries is becoming constrained, causing some refineries to curtail runs due to sourcing issues,” said Jenny Delaney, senior oil analyst at PIRA Energy Group, a unit of S&P Global Platts.

On Wednesday, investors will shift some of their focus to weekly oil inventory data from the U.S. government, where analysts expect too see a continued decline in crude oil stockpiles.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 5.8-million-barrel decrease in crude supplies, a 476,000-barrel rise in gasoline stocks and a 486,000-barrel decrease in distillate inventories, according to a market participant.

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