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OIL MARKETS

Oil Edges Up, Gasoline Surges as Harvey Disrupts Crude Flow

Another storm, named Irma, is currently projected to pass over the U.S. East Coast

By Alison Sider and Neanda Salvaterra

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Gasoline futures soared Thursday after the largest fuel conduit in the U.S. reported that shipments are being sharply curtailed in the wake of Harvey, and ahead of the expiration of the September contract.

"This is a really old fashioned panic in the product market," said Donald Morton, senior vice president of Herbert J. Sims & Co., who runs an energy trading desk.

Gasoline futures for September surged 25.52 cents, or 13.54%, to $2.1399 a gallon on the New York Mercantile Exchange, their largest daily increase since March 2016. The increase capped eight days of gains that have pushed prices to two-year highs.

Mr. Morton said contract expiration is forcing traders with short positions to scramble to cover them, driving prices higher.

"If you don't have the product available in the tank, you must cover short futures and that's where the panic is coming from," Mr. Morton said.

At the same time, there is competition for supplies as shippers are sending gasoline from New York to markets in Georgia and Florida, where supplies are also tight. The Colonial Pipeline, the largest fuel conduit in the U.S., has partially shut down because it isn't taking in any fuel from refineries in Texas, and is making only "intermittent" deliveries, the company said Thursday, contributing to the worries about supply.

The October gasoline price, which will become the front month on Friday, also rose sharply, gaining 10.61 cents, or 8.65%, to $1.7792 a gallon.

Oil prices followed suit, though less dramatically. U.S. crude futures rose $1.27 a barrel, or 2.76%, to $47.23 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose $1.52, or 2.99%, to $52.38 a barrel on ICE Futures Europe.

Oil prices have been languishing as closed refineries sharply curtailed demand for oil. Since Harvey made landfall as a hurricane on Friday, the storm has knocked out a significant share of U.S. refining capacity, analysts said, halting the processing of oil and slowing the flow of refined products coming out of the plants to a trickle.

The Marathon Petroleum Corp. refinery in Texas City, Texas. **PHOTO:** F. CARTER SMITH/BLOOMBERG NEWS

But further supply disruptions have since provided support for crude. The oil market is also missing about 350 thousand barrels a day of oil supply from Libya due to pipeline disruptions there caused by a wage dispute among oil workers.

“When refineries are not able to run on the U.S. coast, WTI light sweet crude is accumulating in Cushing, pushing down the price there,” said Bjarne Schieldrop, chief commodities analyst at SEB Markets. “But it also means less light sweet crude is flowing into the market, which is supportive.”

Analysts are watching another storm brewing on the horizon in the Atlantic Ocean that may further disrupt U.S. exports that stood at between 5 million to 6 million barrels a day of crude and petroleum products before the storm. The storm, named Irma, is currently projected to pass over the U.S. East Coast

“We have been warning about the next tropical development,” said Olivier Jakob, an analyst at research group Petromatrix. “Tropical storm Irma…should gain hurricane status before the weekend.”

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