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OIL MARKETS

Gasoline Rises After Harvey Shuts U.S. Refiners

Traders concerned about possibility that the major storm may move toward Louisiana

By Stephanie Yang and Alison Sider

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Gasoline prices surged Monday on concerns over a shortage in supply after Tropical Storm Harvey knocked out refining operations and traders tried to assess damage in the Houston area.

Harvey barreled into Texas on Friday as a Category 4 hurricane, the strongest to hit Texas in half a century, but has since been downgraded to a tropical storm. Still, on Monday it looked poised to move back over the Gulf of Mexico before coming back ashore, dumping more heavy rain on Houston and the surrounding area.

Traders remained focused on the possibility that Harvey may now approach Louisiana and that the onslaught could cause damage to fuel-making plants that could take weeks or even months to fix.

The storm had disrupted nearly 15% of U.S. refinery capacity as of Monday morning, and the number is climbing. Exxon Mobil Corp. said its 362,300-barrel-a-day refinery in Beaumont, Texas, is running at reduced rates. The total amount of refining capacity offline could rise as high as 30% if Harvey moves toward Louisiana, according to Houston energy investment bank Tudor Pickering Holt & Co.

“There are so many things that are left up in the air here,” said Tariq Zahir, managing member of Tyche Capital Advisors, who said the significant moves in energy prompted him to start trading at 6 p.m. EDT on Sunday when Asian markets opened and continue into Monday.

Gasoline futures for September delivery jumped in the biggest one-day dollar gain in more than three months, closing up 4.57 cents, or 2.7%, to $1.7123 a gallon on the New York Mercantile Exchange. Diesel futures rose 1.29 cents, or 0.8%, to $1.6352 a gallon.

Volatility in energy markets picked up Thursday as Harvey was upgraded to a hurricane and traders braced for impact. As the storm developed over the weekend, the uncertainty over the lasting damage added to the frenetic trading.

"I've gotten clients calling, [asking] what do we do?" said Mark Waggoner, president of Excel Futures. "I don't even remember the last time it was this busy walking in the door."

Harvey's path cut right through the heart of U.S. oil infrastructure, with the Texas coast being home to nearly 30% of the country's refining capacity. Exxon Mobil said Monday that a floating roof on a storage tank at its Baytown plant, the second-largest refinery in the country, was damaged during the storm. If plants sustain more significant damage and need to get new electrical equipment and other parts installed to repair damage from flooding, that could extend downtime significantly.

"The market is going to trade from data point to data point," said Mark Benigno, co-director of energy trading at INTL FCStone. "Are more refineries going to shut in? Will they be shut in for longer? Conversely, will they come back sooner? How long will it take ships to get in and out of Houston Ship Channel?"

> Even energy industry veterans who have experienced major storms were flummoxed by Harvey.

"There should be a stronger word than unprecedented," said Tom Kloza of the Oil Price Information Service.

Mr. Kloza said wholesale gasoline prices are rising five to 10 cents a gallon throughout the Southeast and other markets that are supplied by Gulf Coast refiners. Consumers will likely end up paying higher prices at the pump as a result.

The reduced refining capacity is also expected to hit U.S. crude demand. Light, sweet crude for October delivery fell to a one-month low in its biggest one-day decline in nearly two months, closing down $1.30, or 2.7%, at $46.57 a barrel. Brent crude, the global oil benchmark, fell 52 cents, or 1%, to $51.89 a barrel.

Harvey had shut in some 19% of oil production in the Gulf of Mexico as of Sunday and caused producers in south Texas at the Eagle Ford shale to curtail output. However, the storm's effect on demand is expected to be more significant.

"We lost some production, but we lost more crude refinery throughput," said John Saucer, vice president of research and analysis at Mobius Risk Group. Analysts at Goldman Sachs said they expect the storm will increase the amount of crude oil availability in the U.S. by 1.4 million barrels a day, and the reduced fuel demand could last several months.

An oil rig damaged when Hurricane Harvey hit the Texas coast. PHOTO: JOHANNA STRICKLAND/ZUMA PRESS

A damaged oil tank near Seadrift, Texas. The storm disrupted the state's refining capacity. PHOTO: RICK WILKING/REUTERS

As the U.S. has become a larger exporter of oil and fuel, the disruptions to refiners threaten to upend energy markets in other countries as well, analysts said. Latin American countries relying on U.S. gasoline or distillates will have to find alternative sources for their fuel, while Europe could look to the Middle East for additional distillates to compensate for any fall in U.S. exports.

"There could be a real chance for even global tightness in gasoline as a result of this," said John Kilduff, founding partner at Again Capital.

Meanwhile, traders were already starting to adjust shipments to send more gasoline to the U.S.

"We already heard that some Asian refiners are trying to send gasoline to the U.S., this is in addition to the traditional European supply," said Ehsan Ul-Haq, a director at energy consultancy Resource Economist Ltd. "I think for a couple of weeks the U.S. will need supplies from all over the world."

—Sarah McFarlane and Dan Molinski contributed to this article.

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