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OIL MARKETS

As Harvey Wreaks Havoc, European Refiners Set to Benefit

European gasoline refining margins have risen to their highest level in two years

Emissions rise from a Marathon Petroleum Corp. oil refinery in this aerial photograph taken above Texas City, Texas, U.S., on Wednesday. **PHOTO:** BLOOMBERG NEWS

By Christopher Alessi

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LONDON—As Tropical Storm Harvey continues to run roughshod over U.S. refineries, threatening fuel shortages across America, gasoline producers in Europe are sizing up a potential windfall.

The flooding in Texas has hurt local refineries' capacity to convert oil into petroleum products while also disrupting a major pipeline that moves gasoline, diesel and jet fuel to the northeast. Roughly 20% of U.S. refinery capacity is now offline.

European refiners, already big exporters to the U.S. northeast coast, are set to fill the gap, a further boost to this sector that has seen high demand for diesel products this year but long struggled with overcapacity, analysts say. Early data suggests that this week there has already been an increase of refined product shipments heading to the U.S. from the Dutch port of Rotterdam compared with the week before, according to oil industry website TankerTrackers.com.

“The hurricane is providing an opportunity for European refiners,” said Harry Tchilinguirian, head of commodity strategy at BNP Paribas.

Mr. Tchilinguirian noted much of U.S. gas imports come from Europe, the majority of which are destined for the East Coast.

European gasoline refining margins have risen to their highest level in two years. European ’crack spreads’ on gasoline, which determine the profitability of refining crude oil into petroleum, had widened to $18.30 a barrel by Wednesday night, up $2.80 a barrel from Tuesday, according to S&P Global Platts.

“That puts European refineries in a better position to lock in their margins at more attractive levels than we have seen for most of this year,” Mr. Tchilinguirian said.

In the U.S., gasoline prices continued to rise, with Nymex reformulated gasoline blendstock—the benchmark gasoline contract—up nearly 2.05% Thursday, at $1.67.

The expected uptick in volume from European refiners won’t become fully clear for several days, analysts said.

But Joel Hanley, senior director for oil pricing at Platts, said the effect was already becoming clear in freight markets, where the “pull on gasoline cargoes from Europe and Asia” has seen deals to charter container ships at higher rates. European jet fuel prices have also risen, with refining margins for the Rotterdam benchmark up at $16 per barrel of Brent crude Wednesday, compared with $12 a barrel earlier this month, according to Platts.

European exports of gasoline to the U.S. stood at 314,000 barrels a day in 2016, out of total U.S. gasoline imports of 715,000 barrels a day, according to research and consultancy group Wood Mackenzie.

An extended period of refinery outages along the Gulf could result in a further 150,000 to 200,000 barrels a day of European gas exports to the U.S., depending on how soon downed refineries restart, said Alan Gelder, a vice president at Wood Mackenzie.

At the same time, the U.S. could face competition from Latin America as it vies for European gasoline supplies.

Latin America relies heavily on gasoline from the Gulf Coast and now “will be forced to bid away European barrels” headed to the U.S. Atlantic coast, according to James McCullagh, an oil products analyst at consultancy Energy Aspects.

That could ultimately result in a draw down in gasoline inventories across the board, Mr. McCullagh said.

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