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US takes another swig of Strategic Petroleum Reserve

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According to a White House announcement, "This sale will complete the historic, 180-million-barrel drawdown the President announced in the spring, which has helped to stabilize crude oil markets and reduce prices at the pump." The SPR, created in the late 1970s during the Jimmy Carter administration—a time that disruptions had rattled energy markets—had held just under 600 million barrels of crude just prior to the start of the drawdown at end 2021. It had held as many as 726 million barrels, in 2010, according to data from the US Department of Energy (DOE).

For tanker watchers, it should be noted that the Energy Information Administration (EIA- a part of the DOE) pegged 2021 overall U.S. consumption of petroleum at 19.89 million barrels/day, causing many observers to view the SPR drawdowns, announced shortly after the commencement of hostilities in Ukraine, as largely symbolic. Indeed, in a midterm election year, with control of Congress hanging in the balance (Biden's term continues for two more years), market watchers pointed to a political need to lower petrol prices, which had surged following the late February 2022 invasion of the Ukraine, before turning downward in late Summer.

However, the symbolism ends when concerns are raised about fuel supplies, at the onset of winter, in mid Atlantic and New England states. In recent weeks, EIA data shows diesel fuel stocks at their lowest levels since 2008. The SPR drawdowns are tied to a prickly problem getting more news time- waivers of the Jones Act, which requires cargo moving between Gulf Coast refineries and Northeastern US consumers to move on US-built/owned/operated vessels. Two months ago, Governors of six states had sent a request to the DOE – with a request that the Jones Act be waived to allow LNG cargoes to be shipped from US Gulf liquefaction plants up to their states on internationally flagged LNG tankers.

LNG is typically imported into New England, with natural gas an important fuel for power generation. According to the Cato Institute, an opponent of the Act: "…there are no ships to transport [LNG] that comply with the Jones Act," and that gas buyers are facing record high prices on imports. US gas prices have risen, but not by nearly as much as those in Europe or Asia). A counter-argument has been voiced by Dr. Sal Mercoglianio, an ex-mariner now a Professor at Campbell University in North Carolina. Mercoglianio pointed out that New York, adjacent to the New England region, has opposed gas transmission lines, effectively blocking the transport of gas by pipeline into the Northeast, from producing regions. Neither of these viewpoints considers that discretionary LNG cargo not tied to contracts, will "follow the money", notwithstanding record hires for LNG tankers, nor that US LNG exports have been constrained due to an early Summer accident at the Freeport LNG facility.

Changing international trade flows have altered the flows of refined products, which had historically seen imports into the US east coast from European and Russian origins. With fresh concerns about its own supplies, Europe's refineries have kept product closer to home. A sharp increase in U.S. product exports has been driven by demand from South America, with EIA data showing that exports of finished petroleum products were very near post-pandemic highs, exceeding 3.2 mbbl/day in July 2022- the latest month where data has been posted. Within this category, "distillates", at around 1.5 mbbl/day, have surged dramatically.

At least one analyst does not see the US export dynamic changing anytime soon. A recent report from ABG Sundal Collier analyst Petter Haugen suggests that: "A significant part of the growth of export markets will come from the USA," as part an argument as to why tanker markets will remain strong.