

Jet fuel arbitrage trades keep clean tanker earnings steady 'for now'

Jet fuel refining margins — the profits derived from producing the middle distillate — were today assessed in Singapore at the lowest in records going back to 2009

16 Mar 2020 | **ANALYSIS**

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D'AMICO GROUP HAS BEEN PARTICIPATING IN THE MOVEMENT OF AVIATION FUEL FROM THE FAR EAST TO THE US WEST COAST.

Source: d'Amico

JET fuel shipped to the US west coast from South Korea and other Asian refiners is keeping the global clean tanker market steady for now, said Italian shipowner Paolo d'Amico.

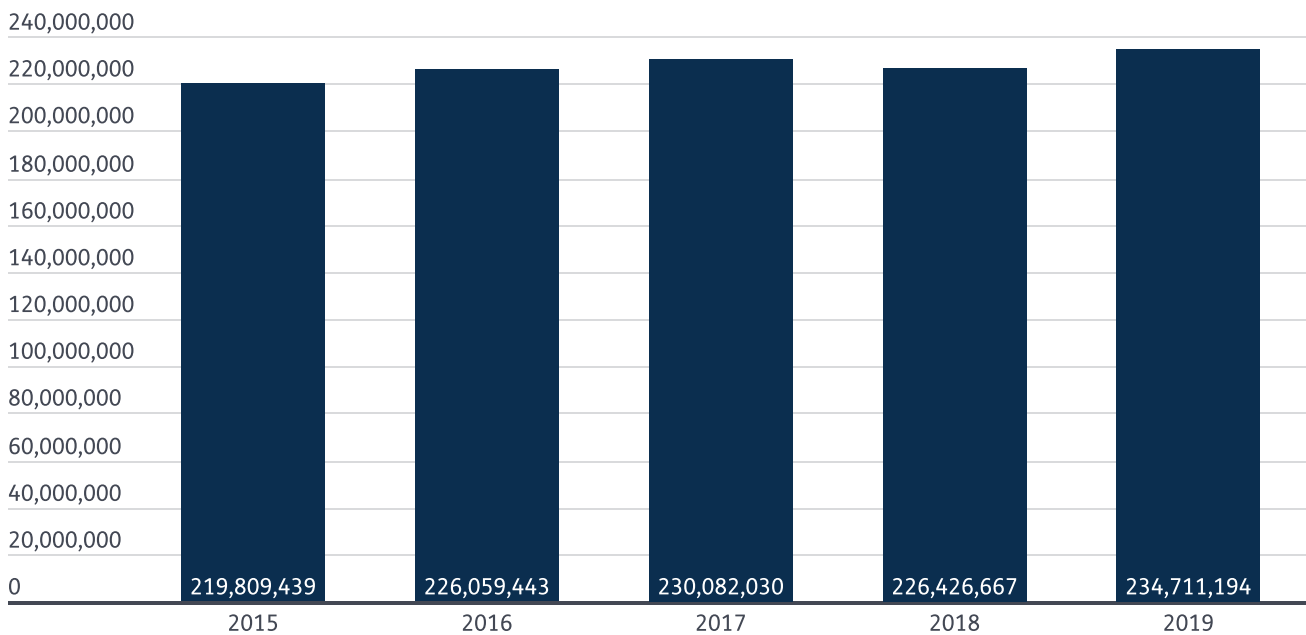
The executive chairman of the d'Amico Group said a jet fuel deficit in California has been moving huge volumes of the aviation fuel from the Far East to the US west coast.

He hoped that if demand on this route abated, tankers being chartered for floating storage of middle distillates would still keep earnings healthy as any global economic downturn accelerated.

"This has been creating what I would call a steady market," Mr d'Amico told Lloyd's List of Asia-US west coast flows. He added that the suspension of flights into and out of many large European countries and the US will soon negatively impact demand for clean product tankers. "However, we are not yet seeing the effects of this," he said.

Product tanker earnings have rallied in March on some routes, although gains don't match those seen in the crude tanker market, where rates for very large crude carriers have soared to the highest since the Iraqi tanker wars in the 1980s.

EU28 extra imports of kerosene-type jet fuel (Jan-Dec, 100kg)



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SOURCE: Eurostat



While earnings for long-haul voyages to Asia from the Middle East have doubled this month to as much as \$41,000 daily, in the Atlantic basin, medium range tankers remain steady around the \$30,000 daily level.

Owners and operators remain uncertain about the sustainability of any rises given that shipments of diesel, gasoline and jet fuel are likely to fall as the coronavirus outbreak continues to paralyse land and air transport.

Demand for jet fuel is hardest hit amid a drastic fall in aviation flights, with airlines worldwide suspending operations and laying-off staff as demand collapses. Airlines' industry association IATA estimated losses at between \$63bn and \$113bn in a paper dated March 5.

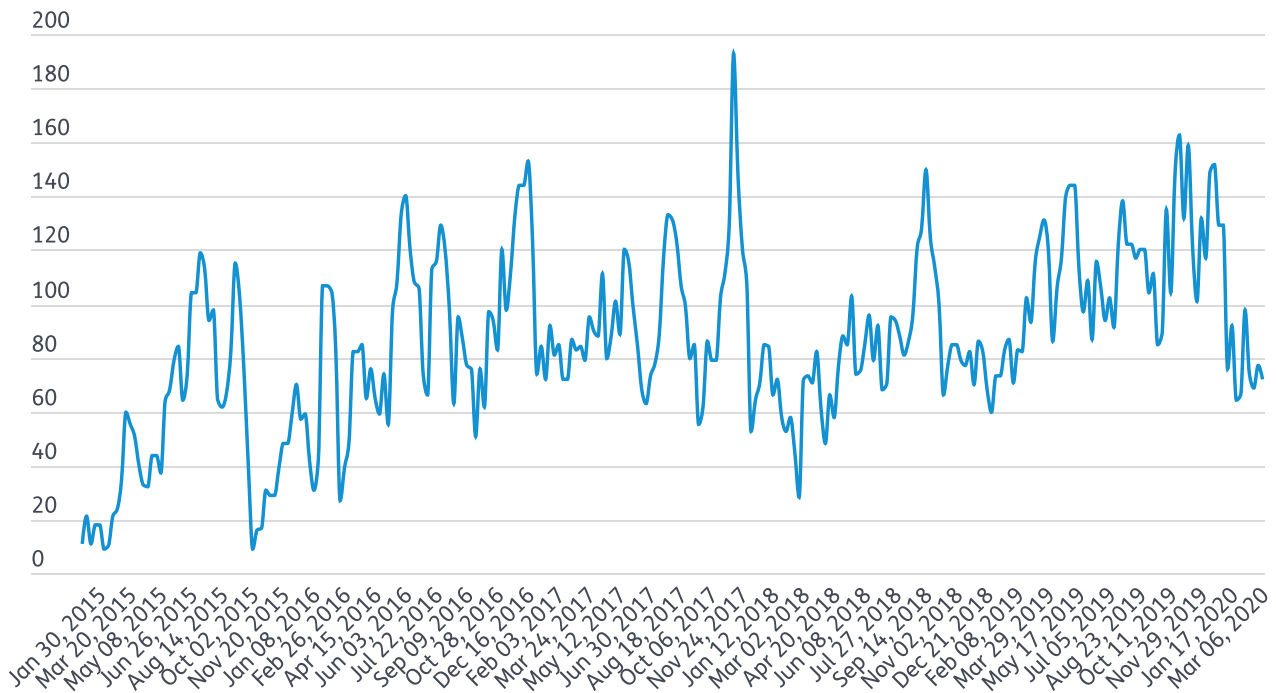
Jet fuel refining margins – the profits derived from producing the middle distillate – were today assessed in Singapore at the lowest in records going back to 2009.

Long range product tankers transported some 23.5m tonnes of jet fuel imported by the UK and 27-member countries of the European Union in 2019, based on Eurostat data. The United Arab Emirates and Saudi Arabia were the biggest suppliers, at 5.7m tonnes and 3.5m tonnes respectively.

Despite the demand destruction, jet fuel arbitrage trades to West Africa, South America and California were keeping tankers employed for now, Mr d'Amico said. Arbitrage trades allow jet fuel to be purchased and shipped to another area for sale at a profit. The market for US Gulf-South America routes "is still there", he added.

"We have to expect some demand destruction, but I think that the word will come back fast because we have to come fast."

4-week average West Coast imports of kerosene-type jet fuel ('000 barrels/day)



SOURCE: EIA



Despite the reported seaborne surge in volumes, US Energy Information Administration data hasn't yet reflected any rising jet fuel exports. The US west coast imports of jet fuel reached a four-week average of 72,000 bpd for the week ending March 6, according to the EIA. That's less than the 112,000 bpd figure seen for the prior-year period.

There are requests to investigate the storage of middle distillates on long range 2 tankers, as well as larger very large crude carriers, Mr d'Amico said, although this had yet to directly translate to direct enquiries.

D'Amico International Shipping has a fleet of 45 product tankers, including 33 medium range tankers, which are mostly deployed in transatlantic trades.