POTEN TANKER OPINION

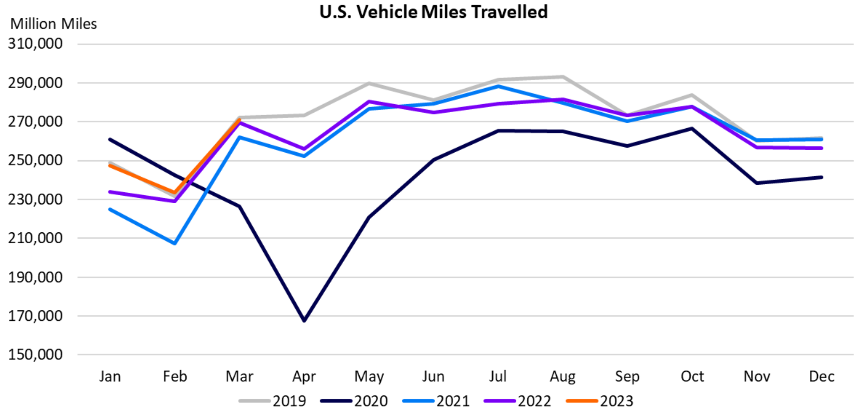
Similar, But Not The Same

The 2023 U.S. driving season is about to start

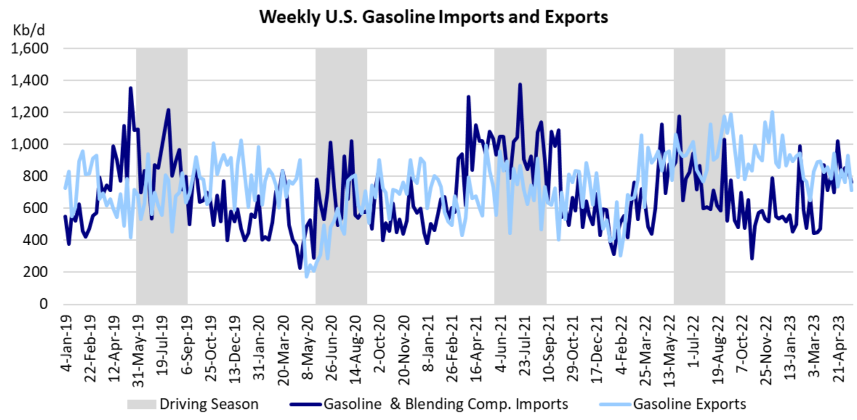
We are approaching the last Monday of May. Americans are preparing for Memorial Day (a federal holiday in the United States for honoring and U.S. military personnel who died while serving in the United States Armed Forces). Traditionally, this three-day weekend kicks off the summer driving season, a period when Americans tend to drive more. For the last three years, the normal summer trend was to a larger or lesser extent influenced by the global pandemic. This year, 2023, appears to be the first year since 2019 that we might have a "normal" summer driving season. However, the world has changed since 2019 and so has the traditional summer driving season.

There are different ways of looking at the US driving season, which typically runs from Memorial Day (last Monday of May) until Labor Day (first Monday in September). First, let's look at it from a Vehicle Miles Travelled (VMT) perspective. This data, which has been collected for decades shows that 2023 is trending so far to be on par with 2019, the last pre-Covid year. While many people would consider 2022 as the first post-Covid year, the Russian invasion of Ukraine wreaked havoc on the energy markets and rapidly rising oil prices quickly boosted gasoline prices at the pump. According to the EIA, monthly average gasoline prices in the United States reached $5.03/gallon in June of last year, a record. Last week, the average price was around $3.65/gallon, a lot lower than last year, but still not cheap from a historical perspective. Nevertheless, U.S. motorists are expected to hit the road in massive numbers this weekend. The American Automobile Association (AAA) predicts that this year's Memorial Day holiday weekend will be the third busiest for auto travel since 2000.

In their latest short-term energy outlook, the EIA also seems to indicate that 2023 will be a regular year for gasoline demand with normal seasonal trends. However, despite this, the expected volumes of "Motor Gasoline Product Supplied" for the summer of 2023 are significantly lower than the volumes in the pre-Covid years of 2018 and 2019. In 2023, gasoline demand is expected to average 9.1 Mb/d in the June – August period. This compares to 9.69 Mb/d in 2019 and 9.74 Mb/d in 2018 (more than 500,000 b/d less). As we mentioned previously, this reduction is not the result of lower VMT (Vehicle Miles Travelled). The lower gasoline consumption is due to the lower average fuel consumption of the cars that Americans drive. Even though the new vehicle market in the U.S. continues to move away from sedan/wagon vehicle types towards a combination of truck SUVs, car SUVs and pickup trucks, average fuel economy continues to improve according to the latest Automotive Trends Report of the United States Environmental Protection Agency (EPA), which was published in December 2022. The real world fuel economy of cars built in 2022 average 26.4 Miles Per Gallon (MPG), more than double the fuel economy of 1975 (13.1 MPG), but also an improvement over the 2019 (24.9 MPG) and 2020/2021 (25.4 MPG) model years. In recent years the increased penetration of Gasoline Hybrid, Plug-in Hybrid Electric Vehicles (PHEVs) and Electric Vehicles (EVs) has also reduced gasoline demand. Over the last 10 year, the market share of gasoline powered cars has reduced from 95.5% in 2012 to an estimated 80.6% in 2022. Less than 1% of U.S. passenger cars are diesel powered, so the remaining 18.5% is currently a Hybrid, PHEV or EV. This trend has accelerated since 2020 and is expected to continue.



Source: St Louis Fed



Source: EIA

The implications for the product tanker market are not altogether clear. The graph showing Weekly U.S. Gasoline Imports and Exports seems to indicate a pickup in imports of Gasoline & Blending Components during the summer driving season. Last year was an unusual year. The Russian invasion of Ukraine and the sanction on Russian crude oil and product export reshuffled global trade flows. Throughout most of 2022, the U.S. exported more and imported less gasoline. While the war in the Ukraine is ongoing, trade flows have normalized to some extent. As a result, we may see imports pick up over the summer while exports are expected to remain healthy as well. Under that scenario, the product tanker market should benefit from healthy transatlantic flows as well as regular arbitrage opportunities.

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