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***NY Harbor Mogas Blenders Cutting Back Storage Capacities amid Tough Market

The New York Harbor gasoline storage market is facing a growing trend of blenders and oil players cutting back on blending capacities, resulting in a growing number of tank sublease offers and falling tank rates, some traders told OPIS on Wednesday.

OPIS notes that the reversal of fortunes in the New York Harbor gasoline blending market represents changing trends and high price volatility in the past
10 years. Some notable regional players had already given up some gasoline blending tanks at New York Harbor terminals recently, and more are expected to follow suit.

About 10 years ago, New York Harbor, a net short gasoline market, saw gasoline tank rates soar to as high as close to $2/bbl or more per month, reflecting the stronger import and blending economics then. However, gasoline tanks in that market are commanding only a fraction of the historical highs at about 50- 70cts/bbl per month. Rates could be under more pressure as demand for New York Harbor gasoline storage tanks in general remains sluggish and more tank subleases are being offered.

Some traders said that gasoline blending and import economics in the New York Harbor have become more competitive and challenging compared with several years ago. The Northeast refineries have enjoyed a rise in operational utilization rates partly due to more economical imports of foreign crude cargoes on a narrower Brent-WTI crude price spread. Also, Colonial Pipeline is fully allocated on deliveries to the Mid-Atlantic region.

One of the most significant factors pushing out players from the New York Harbor storage market is the lack of a contango price trend in the gasoline market, some traders said. The U.S. gasoline market was weighed down by a higher-than- normal inventory earlier this year due to high refinery production. A significant intermonth contango price spread could help players pay for logistics cost or incentivize players to store products over a long time period.

Some trading and terminal sources said that G.E. Warren and Chevron had left the Buckeye Perth Amboy terminal in recent weeks, freeing up about 2 million bbl of gasoline storage capacities. Perth Amboy terminal has a gasoline-blending capacity of about 4 million-5 million bbl. G.E. Warren and Chevron have gasoline storage capacities at other New York Harbor terminals despite leaving Perth Amboy.

Sources said that Freepoint may sublease its tanks or leave Buckeye's Port Reading facility, and Statoil is unlikely to renew its storage lease at IMTT.
Also, Koch could leave KMI Carteret terminal, sources said.

"Storage for gasoline in NYH is about 20cts/bbl per month less than it was 18 months ago," said Ernie Barsamian, CEO of The Tank Tiger, a terminal storage clearinghouse. "However, if you're someone who is in the business of having gasoline storage in NYH, it's probably better to sublease your storage than allow contracts to expire, since these things always go in 2 to 3 year cycles."

Barsamian said that the record-high for the gasoline storage rate in New York Harbor was $2.06/bbl per month for Hess' Port Reading terminal, which he helped market in 2006. Sources said that record storage fee was paid by Trafigura.

OPIS reported in 2009 a high of about $1.70/bbl per month was paid by India's Reliance for 935,000-bbl capacity at Hess' Port Reading terminal. The relatively high rates took the market by surprise then.

Meanwhile, the rise in tank sublease offers has triggered a chain reaction of some players moving to preferred terminals in the harbor, which offer more favorable logistics and accessibility, at lower rates, traders said. This leaves storage capacities at the less preferred terminals a tougher sell in a down cycle market, they added.

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