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Pittsburgh to Get More East Coast Gasoline Supply on Chicago Price Spike

The huge price spread between Chicago and New York Harbor CBOB gasoline prices is shaking things up in the swing market in western Pennsylvania, with Pittsburgh seen drawing more supplies from the East Coast refineries than from the Midwest, industry sources told OPIS on Tuesday.

The prompt price spread between Chicago and New York Harbor gasoline is pegged at about 35cts/gal, with Chicago holding the hefty premium over the Harbor due to Midwest refinery production issues. At the beginning of October, that interregional market price gap was only about a penny.

The latest price shift in the regional arbitrage economics have prompted ExxonMobil to make a rare move of supplying gasoline to Pittsburgh via Laurel Pipeline instead of drawing normal supplies from its Joliet refinery in Illinois, sources said. This extra demand for east-to-west deliveries on Laurel Pipeline, which is a function of prevailing favorable arbitrage economics for East Coast barrels over Midwest, may be temporary as the Midwest is typically long on gasoline in the winter. However, this highlights the price volatility and arbitrage flows in the regional gasoline markets.

On Tuesday, Husky, Valero and Gulf were among the lowest priced suppliers at Pittsburgh racks for CBOB gasoline, according to daily postings on the OPIS database. It is noted that some suppliers, who did not post, may have lower prices.

Some Midwest refineries, including Joliet, are said to be slow to return to normal operations after turnarounds, and CITGO's Lemont refinery and Marathon's Detroit refinery are also having some supply issues, they said. As a result, the higher prices in Chicago are keeping the supplies in the Midwest rather than for deliveries to western Pennsylvania.

This unusual seasonal supply push for deliveries to Pittsburgh from the East Coast reflects the volatility of Midwest fuel prices, which could have an impact on Midwest deliveries to Western Pennsylvania. An intraday price move of 30cts/gal in the Chicago gasoline market is not uncommon if the market supply is squeezed by Midwest refinery issues.

Also, this East Coast supply arbitrage situation may support East Coast refiners' argument against a proposed reversal of Laurel Pipeline for delivery to Altoona. If the planned reversal goes ahead as planned next year, Pittsburgh would solely rely on Midwest refineries for fuel supplies all year round and East Coast refiners would see more challenges in placing their barrels in the markets.

OPIS reported on Sept. 22 that the Pittsburgh gasoline rack market was witnessing a heightened price war as Philadelphia Energy Solutions (PES) began to post rack prices for the Pittsburgh market for the first time in recent memory.

PES has been a regular gasoline supplier in the Pittsburgh wholesale market in the past several years, but supply deals were done via private negotiations. Like in Philadelphia, PES has begun to post rack prices again recently, offering more price transparency to the Pittsburgh and Philly wholesale markets. Sources said that PES is a regular term and spot supplier in Pittsburgh, but it does not always post prices on a daily basis.

PES started posting CBOB rack prices at Pittsburgh on Sept. 18, offering the lowest price for at least three days straight, according to OPIS' historical rack price database. However, PES did not post rack prices for Pittsburgh in October.

The proposed partial reversal of Laurel Pipeline is a point of contention between East Coast and Midwest refiners. East Coast refiners, especially PES and PBF Energy, said that a partial reversal would be detrimental to East Coast refineries and Pittsburgh would lose its supply optionality, and Midwest refiners are ready to commit to supplying Altoona with their growing production.

This price war between the East Coast and Midwest supplies is expected to continue as long as Pittsburgh has the option to receive fuel from both East Coast and Midwest, with benefits going to buyers and consumers in Pittsburgh. The pricing situation in both regional markets is fluid, and it may depend on inventory levels, demand, supply, imports and refinery production.

The OPIS historical rack data also revealed the potential supply issues from the Midwest to Pittsburgh in an event of a tightening supply in the Midwest and Gulf Coast.

In the first few weeks of September, some Midwest refiners and suppliers to Pittsburgh did not offer gasoline in Pittsburgh for several days. These companies, including BP, Valero and Husky, are either out of fuel, posted very high prices compared with the rest of the market or did not post any rack prices.

Sources said that the Midwest gasoline market was relatively tighter in late August and early September because of slower delivery from the Gulf Coast via Magellan and Explorer pipelines due to the lower refinery production on the Gulf Coast. It is noted both south-north pipelines are running again, but both are playing catch-up with deliveries.

OPIS notes that Midwest refiners may have relatively better refining economics and larger overall production capacities than East Coast refiners, which should support the Midwest supply push to Pittsburgh and potentially further eastward to Altoona next year. However, refinery issues in the Midwest and lower inflows from the Gulf Coast may slow Midwest supplies to western Pennsylvania temporarily.

OPIS also notes that the near-term goal for Buckeye is to ultimately deliver products to Harrisburg, the capital of Pennsylvania and a comparatively larger market and delivery hub than Altoona, but the potential Harrisburg delivery is only being discussed with no plans set in stone. The distance between Pittsburgh and Altoona is about 100 miles, and Altoona is about 130 miles west of Harrisburg.

--Edgar Ang, eang@opisnet.com