Oil situation in detail.

Why the US is sending oil overseas

Jim Jubak MSN, Dec 16, 2011, 

Amid high gas prices and all the calls for more drilling, you may be surprised to learn that the United States is now a net exporter of oil. Here's why -- and how investors can play this remarkable shift.

The United States has become a net exporter of oil.

Pick yourself up off the floor. It's true -- at least by one definition of "oil." And the change to shipping oil overseas will have major effects on U.S. economic growth and on what you should hold in your portfolio.

Let's start by nailing down exactly what I mean by oil.

Crude definitions

The U.S. is not about to become a net exporter of crude.

In September, the United States exported 35,000 barrels a day of unrefined crude oil. That same month, the U.S. imported 9 million barrels of crude oil a day. If you look just at crude, the U.S. is the same huge importer of oil it has been for as long as most of us can remember.

But if you look at the figures for refined petroleum products, the picture is shockingly different. In September, the United States exported 3.2 million barrels of refined petroleum products a day and imported just 2.2 million barrels a day. That's a surplus of exports over imports of roughly a million barrels a day. For the first nine months of 2011, according to the U.S. Energy Information

Agency, the U.S. exported 752 million barrels of refined petroleum products: gasoline, jet fuel, kerosene and such chemical-industry feed stocks as ethylene, butane and propylene.

The swing in less than a decade is immense. For 2005, for example, the U.S. imported 900 million more barrels of refined petroleum products than it exported.

This huge shift doesn't have just one cause.

Booming oil fields, slow economy

Part of it is due to the oil boom in the United States as a result of new technologies. Petroleum production from oil shale has turned North Dakota into a major domestic oil producer, with production rising to 424,000 barrels a day in July 2011 from 98,000 barrels a day in 2005. (See "Unemployed? Head for North Dakota" for more.)

Oil from oil shale has also reversed what looked like the inevitable production declines for older fields in states such as Texas. Oil production there had tumbled from 2.6 million barrels a day in 1980 to 1.9 million in 1989 and down to 1.087 million in 2008. But instead of continuing its march toward zero, production in Texas edged back up in 2009 to 1.106 million barrels a day and to 1.169 million in 2010. That reversal has given U.S. refineries a lot more domestic crude to work with.

The shift is also partly a result of the very slow economic recovery in the United States. U.S. gasoline consumption topped out in 2007. In August 2011, a peak driving month, U.S. consumers used almost 8% less gas than they had four years earlier. In contrast, gasoline consumption continues to climb in faster-growing emerging economies. Gasoline consumption in India, for example, was 5.4% higher in October 2011 than in October 2010.

The U.S. export swing is also the result of a shortage of refinery capacity in some parts of the world and for some kinds of products. For example, while Mexico, one of the world's big oil producers, doesn't import any crude from the United States, it does import a growing volume of refined petroleum products. Mexican imports of gasoline climbed by almost 70% from 2005 to 2010. Brazil, which imports neither crude oil nor any gasoline from the United States, has still seen imports of refined petroleum products from the United States grow by 220% from 2005 to 2010. The biggest jump there has been in distillate fuel oil.

And, finally, part of it is geography. The economies of Latin America are seeing some of the fastest rates of growth in consumption of petroleum products -- and the U.S. Gulf Coast refineries are perfectly placed to export to those countries. In addition to Mexico and Brazil, Argentina and Peru have recently become net importers of petroleum products from the United States.

What the oil shift means

I can see two big effects from this shift to the U.S. being an exporter of refined oil products.

First, it dampens, to some degree, the impact of higher oil prices on the U.S. economy. There's no evidence to suggest that U.S. consumers have gotten any benefit from the United States becoming an exporter of refined oil products. Gasoline prices, as far as anyone can tell, haven't fallen as a result, for example. Higher oil prices are still likely to take money out of consumers' wallets that could have been spent on things other than gasoline.

But the shift does mean that more oil profits go to the U.S. economy as a whole. As a result, the U.S. trade balance with the rest of the world looks better, and that's reassuring to overseas investors at a time when they have every right to be nervous about the amounts the United States owes to the rest of the world.

A United States that's a net exporter of refined products is also putting fewer U.S. dollars into circulation in the world at a time when overseas holders of dollars are wondering how many more greenbacks they want to stuff into their investment portfolios. That, like the improvement in the trade balance, helps strengthen the U.S. dollar.

These may be only marginal improvements, but at a time like this, every change helps. A stronger dollar and a slightly smaller trade deficit lead to slightly lower U.S. interest rates, and that's a boost to U.S. growth. (All this, of course, is overwhelmed right now by the effects of the euro debt crisis, which is by far the strongest force pushing up the U.S. dollar and pushing down U.S. interest rates.)

Second, the shift to net oil-product exports means these are better times for U.S. oil refiners. Some are especially well-placed to take advantage of the geography of the U.S. oil boom and are positioned at the right point in the refinery product line.

For example, **HollyFrontier** (**HFC +2.19%**, **news**) operates three of its five refineries -- in Woods Cross, Utah, Cheyenne, Wyo., and Artesia, N.M. -- right next door to the oil from shale boom.

This means that the company is in the right spot to capture the current discount on mid-continental oil.

Valero (**VLO +0.54%**, **news**) has less concentration in that neighborhood, but in the most-recent quarter, its refineries in the Rockies captured a gross margin of $33.05 a barrel.

Geography isn't the only positioning that counts, either. U.S. refiners like Valero and **Marathon Petroleum** (**MPC -1.72%**, **news**) operate technologically complex refineries that are able to handle cheaper heavy crudes. The discount for **Maya heavy crude**, for example, right now is running at about $8 a barrel. These types of discounts are likely to widen as the world supply of light, easily refined oil falls and the supply of heavy crudes from Canada's oil sands increases. Only about 70% of refineries outside the United States have the capacity to upgrade to handle heavier crudes, according to Credit Suisse. That gives U.S. refiners even more upside when the global economy does indeed begin to recover. To meet higher oil demand in a recovering world economy, oil producers will turn to increasingly heavy grades of crude to fill the gap. That's where the supply is.

Don't rush in, though

In the short run, 2012 doesn't look like the greatest year for U.S. refinery stocks -- if only because 2011 was such a great year. Add in the probable dampening effects of an economic slowdown in Europe and the emerging economies (at least in the first half of 2012), and Wall Street is projecting that earnings per share at most refinery companies will come in below 2011 levels for 2012. In fact, the earnings projections look downright grim for 2012: The consensus projection shows earnings per share falling by 37% at HollyFrontier in 2012 from 2011, 14% at Valero and 36% at Marathon Petroleum.

Do I need to say that, based on those numbers and on the macro view of the economy and financial markets, I'm not looking to buy these shares now?

The middle of 2012, though, is likely to be another thing entirely. As I laid out in my last column, "**How to save your portfolio from 2012**," by the middle of next year I anticipate that much of the uncertainty will have dissipated. Even if the global economy isn't a picnic, investors will know where they stand.

At that point, I'd begin looking at the stocks of refiners that are projected to show earnings growth in 2013 from 2012. They would include Valero, where Credit Suisse projects earnings per share will rise to $4.94 in 2013 from $3.95 in 2012, and Marathon Petroleum, where Credit Suisse projects earnings of $7.02 a share in 2013, up from $5.45 in 2012.

With this column, I'll be adding both of these stocks to my **Watch List**.