Asia naphtha crack hits 6-month high on improved demand, short covering

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Asian naphtha crack spreads soared to a six-month high and spot price differentials improved Friday amid rebounding demand stirred by the conclusion of the cracker maintenance season, a healthy gasoline blending market as well as short covering and hedging for CFR term cargoes, traders said.

A stronger LPG market due to fourth-quarter winter stockpiling has also made propane and butane less attractive petrochemical feedstock alternatives, they said.

Naphtha supply, in abundance for most of this year due to excess exports from India and steady flows from the Middle East, is starting to be constricted, as Indian Oil Corp. phases out exports from the Paradip refinery due to the end-September startup of the gasoline-making reformer at the complex, after a near nine-month outage, traders said.

The CFR Japan naphtha crack versus the front-month December ICE Brent marker jumped by $11.03/mt day on day to $69.68/mt Friday, the highest since hitting $70.10/mt on April 25, S&P Global Platts data showed.

The persistently firm European market continued to shut the Western arbitrage, despite the recent rally in Asia, keeping the East/West spread at $8.30/mt, the widest in a month but still off the $20/mt mark needed to prise the arbitrage open.

The base-load monthly flows from Europe to the traditionally net-short Asian market have been limited to below 700,000 mt during September and October.

Some sources said the November program is expected to hover at that level, versus 1 million-1.5 million mt a month last year.

"It's driven by the West and Asia front month cleared the overhangs," one market source said.

News that BASF will restart its two Ludwigshafen steam crackers in the coming days also offered relief to the market.

A Western trader said: "The market is stronger due to traders short covering. And some hedging for CFR term cargoes as well, I believe."

A third trader said that, when the market was in a steep contango structure almost two months ago, Northeast Asian end-users had "rushed to buy cargoes on a term basis and traders sold without securing cargoes. Traders built up short positions first and have to cover for their shorts later."

"So, the potential buying interest persists in the market," he said, adding that the strength seen for the fourth quarter would last through the first quarter.

STRONG END-USER DEMAND

End-users such as South Korea's Yeochun Naphtha Cracking Center and Lotte Chemical, Japan's Mitsubishi Chemical and refiner Idemitsu, Taiwan's Formosa Petrochemical and Thailand's Siam Cement Group have finalized annual or half-yearly term contracts for 2017 during the third quarter at discounts of between $6/mt and $8/mt to the Mean of Platts Japan naphtha assessments.

YNCC, South Korea's top ethylene producer, and Lotte Chemical continued to show appetite for spot cargoes for November and December deliveries amid robust ethylene cracks, narrowing the CFR Korea discounts.

YNCC on Friday bought three cargoes of open spec naphtha with a minimum 70% paraffin content at a discount of $3.75/mt to the MOPJ naphtha assessments, for H1 December delivery CFR Yeosu, while Lotte earlier in the week bought four similar grade lots for the same laycan at a $5/discount, CFR Yeosu and minus $4.50/mt, CFR Daesan basis, traders said.

YNCC and Lotte had previously bought H2 November delivery cargoes at minus $7/mt to the MOPJ naphtha assessments, CFR basis, traders said.

Another North Asian trader said supply from the Middle East would also be limited by the comprehensive maintenance scheduled at Saudi Arabia's Yasref refinery from early November and at the Ras Tanura complex from early December.

Price differentials for FOB Middle East cargoes have also flipped to premium levels from months of discounts, as appetite for prompt cargoes improved.

Kuwait Petroleum Corp. last week sold by tender a 25,000 mt parcel for November 1-2 loading at a small premium to the Mean of Platts Arab Gulf assessments and this week sold a 50,000 mt cargo for mid-November loading at around $5/mt premium, traders said.

The discount of propane to naphtha -- which has widened to up to $100/mt around early June, stoking demand for LPG as substitute feedstocks -- has narrowed to around $50-$54/mt this week. The discount of butane has even shrank to single digits, Platts data showed.

"LPG is now used in smaller amounts," the North Asian trader said.

But some traders pointed to the potential of increased supply with commercial startup next month of South Korean Hyundai Oilbank's 130,000 b/d condensate splitter at its Daesan complex, in a joint venture with Lotte Chemical, which can produce 1 million mt/year of light naphtha.

Trade sources had said the new splitter could reduce Lotte Chemical's monthly naphtha imports by two to three cargoes, or 60,000 mt, though Lotte's continued imports for November and December showed that any reductions would not come so soon.

Qatar Petroleum's new condensate-fed refinery -- Laffan Refinery 2 -- is expected to start up next month after a slight delay, and can produce 60,000 b/d to 70,000 b/d of naphtha.