

Asia propane-naphtha spread turns positive as propane surges on Harvey havoc

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Asian propane prices held above naphtha, after the premium hit 18-month highs last week, stoked by loading delays of LPG cargoes from the US Gulf Coast to Asia due to Hurricane Harvey and tight Middle Eastern spot supply, heralding an earlier-than-usual rally ahead of peak winter demand for the gas, according to traders this week.

This has prompted regional petrochemical producers to use only naphtha as a steam cracking feedstock, capitalizing on its abundance on the front month, traders said. Taiwan's Formosa Petrochemical plans to stop feeding LPG into its steam crackers at Mailiao at the end of September, and will only be using naphtha as feedstock, a source close to the company had said.

"LPG is out of the cracking pool completely. September CP price doesn't justify LPG cracking," said a petrochemical producer.

LPG is typically cheaper than naphtha and mostly rises above naphtha during the winter months of December to February in Northeast Asia, when LPG is used for heating. The gas was only pricier than naphtha for 15 days last year, over January-February. This year, Asian propane was above naphtha between January 20 and February 6, except over January 27-29, and for two days over March 15 and 16, S&P Global Platts data showed.

The physical CFR Japan propane spread against CFR Japan naphtha was at \$20.375/mt at the Asian close Wednesday, retreating from the peak of \$33.625/mt on August 29, the highest since February 10, 2016 when it stood at \$40.125/mt, Platts data showed. In the swaps market, the October Far East Index swap against the Mean of Platts Japan naphtha swap was \$14/mt.

Spurred by Harvey, Asian propane rose above naphtha during the summer, albeit the tail-end of the season in Northeast Asia, with CFR Japan propane rising from a discount of \$1/mt on August 24 to a premium of \$11.125/mt to naphtha on August 25.

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LPG east market in H1 October seems bullish as the tightness [in] East is mainly from the delay in Houston [cargoes]," a trader said.

HARVEY EXACERBATING LIMITED ASIAN LPG SUPPLY

Supply constraints on Asian LPG triggered a sharp jump in Saudi Aramco's September Contract Prices, with propane CP rising \$60/mt from August to \$480/mt. This extended the previous month's rally to register an increase of \$135/mt between

July and September CPs, the biggest two-month change since February 2016 when prices fell to \$285/mt, from \$460/mt on the December 2015 CP, Platts data showed.

LPG needs to be at least \$50/mt below naphtha for it to be a viable steam cracking feedstock.

"Some start to crack at minus \$70/mt or minus \$80/mt, only when it makes money," a trader said.

Harvey has caused loading delays from the US, affecting LPG shipments from Targa Resources, Enterprise Products Partners and Phillips 66 with port closures around Houston areas. Some 45% of Mont Belvieu fractionation capacity is currently idled and exports out of Houston, Freeport and Nederland have been curtailed for a week, brokers said.

While some naphtha loadings from the US to Asia were also delayed, naphtha's rise has been less phenomenal as the previous glut on September-delivery cargoes has rolled into October, and until these are cleared, naphtha will not feel the full havoc of Harvey, traders said.

The naphtha market has observed healthy supply from the Middle East and India for September loading. Nonetheless, arbitrage shipments from Europe to Asia for September loading and October arrival are expected to dwindle as Europe channels more barrels to the US to make up for the shortfall there, with less left for Asia.

Asia usually sees about 1 million mt of naphtha imports from Northwest Europe and the Mediterranean every month to fully meet requirements within the region.

As such, Asian naphtha has been responding to a firmer Northwest European naphtha crack, and a robust gasoline market, with its premium over ICE Brent crude futures rallying above \$90/mt to hit six-month highs.