Asian ethylene margin may shrink further after US exit from Iran deal
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The recent decision by the US to exit the Iran nuclear deal would likely slash the ethylene production margin in Asia because of the expected rise in the price of feedstock naphtha, sources said Wednesday.

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The price spread between ethylene and naphtha was calculated by S&P Global Platts at a nine-month low of $587.63/mt Wednesday, down from $603.875/mt Tuesday.

President Donald Trump said Tuesday the US would withdraw from the deal and put "powerful" economic sanctions "into full effect," but he did not give any details on timing or how the US planned to re-impose sanctions.

On Wednesday, the CFR Northeast Asia ethylene price was assessed at $1,260/mt, while the CFR Japan naphtha price soared $16.25 day on day to be assessed at $672.375/mt Wednesday, its highest since $678.75/mt on November 24, 2014, according to S&P Global Platts data.

The naphtha crack for first-half July delivery second-line trading cycle on CFR Japan naphtha physical was close to triple figures at a four-month high of $98.00/mt Wednesday.

"We are concerned that the decision will push up crude oil and naphtha prices, which would shrink our ethylene production margin," a Japanese ethylene producer said.

At first sight, South Korean naphtha buyers who usually have a strong appetite for condensates might absorb more heavy full-range naphtha from other regions when the 180-day wind-down period draws closer, when applicable sanctions will come back into full effect, sources said.

South Korean buyers have been shifting their reliance on Iranian condensates by substituting them with heavy full-range naphtha as feedstock for splitter units since early-April, when National Iranian Oil Co. cut the availability of South Pars condensate to divert it for use at the domestic Persian Gulf Star refinery.

However, other petrochemical producers had mixed views on the US' withdrawal. Some market sources said Iran may find it difficult to run its petrochemical plants smoothly after any sanctions because of a lack of technical support from European plant licensers. One source was skeptical whether sanctions on Iran would bring about any immediate impact, adding that the shipping routes to Iran might provide a clearer idea of where the wider market was heading.

ASIAN ETHYLENE MARGIN NEGATIVE AFTER 2008 SANCTIONS

After the original sanctions were imposed in 2008, Iran suffered multiple problems at its polyethylene and polypropylene plants, which triggered a series of emergency plant shutdowns. Iran was not able to receive proper technical support from its PE/PP licensers, which are mostly European companies.

The reduction in downstream plant runs triggered ethylene exports from Iran to Asia. According to China Customs Authority data, China imported around 60,000-70,000 mt of ethylene a year in 2008-09, compared with around 40,000 mt/year in 2017.

As a result, the Asian ethylene market was under pressure in 2008 and 2009, dragged down by Iranian exports.

S&P Global Platts calculated the Asian ethylene margin at an average of minus $51.76/mt in 2009 compared with plus $4.25/mt in 2008 and plus $107.50/mt in 2007.

Negative ethylene margins also triggered lower steam cracker operations in Asia in 2008-09, with some of them running at around 70%.

But some market participants said they were skeptical about a possible increase in ethylene exports from Iran as it would be difficult to find vessels to carry Iranian-origin ethylene as European insurance companies would be reluctant to get involved with insuring Iran-related vessels.

"In that case, Iran's steam cracker operations would come down," a market source said.