

Asian naphtha physical cracks near three-month low on slow demand, stronger crude

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The Asian naphtha physical crack spread hovered near three-month low levels on the back of strong underlying crude markers, amid weak buying interest after the market moved into a new trading cycle.

Front-month ICE Brent crude futures have been steadily climbing, having reached the highest level in more than three years of \$72.50/b at the Asian close on March 13. The crude futures was last seen higher at \$75.94/b on November 27, 2014. The CFR Japan naphtha physical crack spread on the second-line naphtha trading cycle against prompt-month ICE Brent futures declined steadily to a near three-month low of \$65.275/mt Wednesday. The crack spread had peaked at \$86.275/mt on March 29, which was the highest level in three months.

The backwardated market structure on the Asian naphtha physical spread crimped a little as well, with the spread between CFR Japan second-line naphtha trading cycle on a 45-60 days delivery basis and the third-line trading cycle on a 60-75 days delivery basis dipped to a month-to-date low at plus \$3.00/mt on April 17.

Market sources said buyers were cautious in taking more supplies given that a slew of naphtha cracker units were lined-up in the coming months for maintenance in the north Asian region, which suggested lower requirements.

In Japan, Mitsubishi Chem's No. 2 naphtha steam cracker at Kashima will be shut for maintenance over May 9-July 3. The naphtha cracker unit has a capacity of 526,000 of ethylene and 260,000 mt/year of propylene.

Keiyo Ethylene naphtha cracker unit in Chiba, which has a capacity of 700,000 mt/year of ethylene and 400,000 mt/year of propylene, will be shut for maintenance over May 13 to July 3.

Sinopec Zhenhai Refining & Chemical in China has scheduled to shut its naphtha-fed steam cracker at Zhenhai, Zhejiang province, from H2 May until end-June, or about 40-45 days, for maintenance, S&P Global Platts reported previously. The cracker is able to produce 1 million mt/year of ethylene, 550,000 mt/year of propylene and 180,000 mt/year of butadiene.

Starting June, Mitsui Chem will be taking its Sakai naphtha cracker offline between mid-June to end-July. The cracker has a capacity of 500,000 mt of ethylene and 280,000 mt/year of propylene.

This is also followed by Formosa Petrochemical's plan to shut its No. 1 naphtha-fed steam cracker in Mailiao, Taiwan, from June 5 to July 17 for annual maintenance. The No. 1 steam cracker is able to produce 700,000 mt/year of ethylene and 350,000 mt/year of propylene.

End-users said key ethylene-naphtha cracking margin had been relatively flat since it last touched a four-month high of \$777.50/mt on March 13.

The CFR Northeast Asia ethylene over CFR Japan naphtha spread averaged around \$758/mt in the first three trade sessions this week and a week ago.

The naphtha cargo differentials reflected this weakness when the CFR Japan naphtha and CFR Korea naphtha premiums edged down on Wednesday to plus \$8.50/mt and plus \$7.50/mt, respectively, both at its month-to-date low. On April 6, the CFR Japan naphtha premium was at the highest level in three years at \$15.00/mt, while the CFR Korea naphtha premium hovered at \$14.50/mt around the same time, which was the highest level in more than three and a half years.