

Asian propylene-naphtha spread narrows to year-low on ample supply

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The Asian propylene-naphtha spread is currently hovering at the lowest level in 2015, as propylene prices were hit by rising supply from China following the start-up of new propylene plants there.

The spread was calculated at \$56.13/mt Monday, narrowing \$4/mt from last Friday, Platts data showed. The level is much lower than a typical breakeven spread of \$200-\$250/mt.

The Asian propylene-naphtha spread was last lower on September 23, at \$55.63/mt, hit by quickly fading propylene demand in China in tandem with the start-up of new propylene plants.

Latest data from China's General Administration of Customs showed the country imported 197,807 mt of propylene in August, falling 13.6% from a year earlier.

Japan's Ministry of Economy, Trade and Industry also forecast Asia's propylene balance will turn to a surplus of 99,000 mt in 2015 compared with a deficit of 813,000 mt in 2014.

China has been accelerating plans to build new propane dehydrogenation units since 2013. Two PDH plants were started up in 2015 with a total production capacity of 1.41 million mt/year, Platts reported previously. In 2014, three PDH plants were started up, which have a combined propylene production capacity of 1.5 million mt/year.

"The current propylene price is a disaster," because of ample supplies, said a trading source.

As a result, some propylene producers decided to reduce operating rates of their plants.

In South Korea, Yeochun Naphtha Cracking Centre has cut the operating rate of its 140,000 mt/year olefins conversion unit, or OCU, in Yeosu to 60% from October due to poor margin. In Japan, JX Nippon Oil and Energy plans to shut its 140,000 mt/year OCU in Kawasaki on October 7.

On the other hand, the region's steam crackers are still running at 100%. An olefins producer in Asia pointed out that steam cracker run rates would likely remain at full capacity thanks to positive ethylene margins.

On Monday, the Asian ethylene-naphtha spread was calculated at \$476.13/mt, higher than a typical breakeven spread of \$350/mt.

"If the ethylene margin narrows then steam cracker operators may start considering reducing the run rates. But now, their overall margins are still positive thanks to good ethylene margins," the producer said.