

## **East/west naphtha spread narrows to two-month low on lengthening Asian supply**

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The east/west naphtha spread narrowed to a two-and-a-half month low Wednesday as the Asian naphtha market softened on larger-than-expected inbound supply, despite healthy local demand.

The front-month naphtha east/west spread -- the premium of CFR Japan naphtha cargo swaps to the CIF NWE naphtha cargo swap -- was assessed at \$11/mt Wednesday, down from \$11.25/mt on Tuesday.

It represents the narrowest front-month east/west spread since December 13, when it was assessed at \$11/mt, S&P Global Platts data shows.

Since the end of February, sentiment in Asia has been weighed down by plentiful supplies, which are overshadowing emerging end-user demand.

Arbitrage flows from the west to Asia were estimated by trade sources to be around 1.3-1.4 million mt in March, higher than the usual cross-regional flows of around 1.1-1.2 million mt. April arbitrage volumes are expected to peak at 1.6 million mt.

De-stocking activities in India as the financial year comes to a close spurred local refineries to boost naphtha exports in March. Local refiners were said to have exported an additional 300,000 mt of naphtha compared with the previous month.

"We shut the arbs because we do not need it," a trader based in Asia said.

In addition, sources said that several Asian refineries had increase naphtha yield due to lighter and sweeter crude feed, while at the same time, weak fundamentals in gasoline, dragged down by excess supply, coupled with a widening naphtha-LPG spread, had hampered naphtha demand.

In Europe, this narrowing east/west spread coupled with falling cash differentials for naphtha trading in Asia closed off the naphtha arbitrage from the Mediterranean to Asia.

This spot arbitrage had re-opened in January and February for long-range tankers loading from a single port.

"The arb has been closed for over a week now...all Med [naphtha] should point to Amsterdam-Rotterdam-Antwerp, even Taman plus Tuapse on LR1 or LR2 should go to ARA," a trader said.

Taman and Tuapse are two Russian ports located on the Black Sea coast and from which many LR-size cargoes are exported each month.

Many market participants said they expected more Mediterranean naphtha cargoes to come to Northwest Europe as supply has lengthened in the Mediterranean due to the closed arbitrage to the east.

"I think there are at least seven unsold cargoes in the Med and two shorts," a trader said earlier this week.