

Europe petchems switch to propane; discount to naphtha widest in 8 months

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Petrochemical buyers in Europe are beginning to crack propane over naphtha, reversing a seasonal pattern that has typically seen propane attract feedstock buying in the summer rather than winter months.

That decline has been driven by a ballooning "pro-nap" spread -- the discount of the large propane cargo market to the large naphtha cargo market -- the measure used to track propane's attractiveness as an alternative feedstock.

On Thursday, the propane CIF NWE large cargo market sunk to a \$83.25/mt discount to the naphtha CIF ARA cargo market, the widest discount since May 3, 2017.

The spread began to widen in mid-December, when expectations of an influx of propane product into Europe and a patchy winter heating season helped propane weaken even faster than naphtha.

"I think there will be extra propane cracking in Europe and Asia, [we are] starting to see some additional propane cargoes committed to cracking at [the] expense of naphtha," said a market source.

"It looks like we have switching demand all the way up to [propane at] minus \$20/mt [to naphtha] and maybe beyond for some," said another source active in the petrochemical market.

That push to switch from propane from naphtha has also been encouraged by more attractive margins for lighter feedstocks versus heavier ones, according to a market source in the LPG market.

Ethane is the "lightest" feedstock, followed by propane, butane, naphtha and gas oil. Cracking lighter feedstocks yields more ethylene and less propylene, butadiene and pygas. For example, cracking 1 mt of propane produces 0.4 mt of ethylene, whereas 1 mt of naphtha will produce 0.3 mt of ethylene.

Ethylene was at an 11-week high this week, though the most recently monthly contract settled at a rollover.

The incentive to switch to propane is unusual mainly because it typically occurs in the spring, when heating demand tails off, leaving prices sinking low enough relative to naphtha to become an attractive alternative throughout the summer months.

This year, that trend has been reversed, with propane rising against naphtha in mid-summer 2017, moving parity to naphtha for the first time in August. That was driven almost entirely by supply constraints, with the closed arbitrage from the US Gulf Coast to Europe restricting the flow of inbound product, while demand was limited to just one major buyer on the petchem market.

By this winter, meanwhile, mild winter demand in Germany and other major European consumer markets had failed to meet market expectations, while inbound

market product increased, pushing propane down to a discount typically seen in the summer months