

Late declarations hamper July-delivery Asian paraxylene market

Platts.com, 27th June 2017

Procedures to facilitate the physical delivery of paraxylene cargoes into Asia have been breaking down in recent months, with delays in port and laycan advisories worsening considerably since late May, affected market participants have told S&P Global Platts.

Critical to the physical PX trading process is the declaration of the port and half-month laycan for delivery by the evening of the 15th of each month.

Market convention dictates the seller declares the half-month of delivery for the next month, while the buyer declares the delivery port.

For example, an any July CFR Taiwan/Ningbo/Dalian spot cargo traded on June 5 would have its port declared by the buyer and the half-month of delivery nominated by the seller by the evening of June 15.

However, the declaration process for July-delivery cargoes has seen as many as 10 cargoes impacted by nominations after June 15, traders said.

This comprises one July-delivery cargo traded during the Platts Market on Close assessment process, and nine outside the MOC process.

A total of 30 July cargoes were traded during the MOC process, most recently on June 15.

While occasional lapses have occurred in the past, with delays of a few hours, the declaration process for June and July cargoes has been thrown into disarray, with logistics staff at a number of trading companies waiting until midnight on the 15th and on subsequent days and still not receiving delivery port details from buyers.

PTA STARTUP DELAY A FACTOR

One reason for the increasing delays is a delay in the startup of a purified terephthalic acid plant in East China.

A trader close to China's Jinshan Trading Corp., a company that has been buying a lot of the cargoes, said some were acquired to feed the Huabin 1.4 million mt/year PTA plant at Zhejiang, which had been due to commence operations at end May.

At an operating rate of 80% -- the average operating rate across China's PTA sector -- the plant would require around 12 PX cargoes every month.

However its startup has been delayed by the plant's feedstock storage tanks not yet meeting the Ningbo government's environmental standards, and plant startup has now been revised to end August.

To accommodate the cargoes purchased in expectation of the earlier startup date, the domestic producer who had been handling procurement on Huabin's behalf has

been storing the PX at other PTA makers' tanks in Jiangyin and Lianyungang for a fee since end May.

There were "a few adjustments [cargo swaps] to be made to about five or six cargoes," but all conditions surrounding transactions have been met every time, the producer said.

However, traders affected by the startup delays disagreed.

"From a trader's point of view, the relationships they have with their producers or end-users are important, so they may not push too hard for a declaration or make a big noise about it," said a trader in Singapore.

"But the declarations for some June-delivery cargoes arrived so late with vessels already on the water, credit and risk departments at trading companies are now cracking down on dealings with certain parties," he added.

IMPACT FELT ALONG TRADE CHAIN

This is also true of cargoes traded during the MOC process, with the port nomination for a July cargo that BP Singapore sold to GS Caltex at \$802/mt CFR on May 31 received more than a week after the deadline.

The whole chain for that trade was affected by the last buyer in the chain, because the port of nomination arrived only on June 23.

This is because when company A sells July-delivery CFR cargo to company B, B then sells to C who sells to D -- D being the last buyer in the chain has to nominate the port of delivery on June 15 to C, where the notification proceeds up the chain until it reaches company A, who has to charter the vessel for delivery.

"Its becoming clear that some of the buyers are not taking these procedures surrounding performance seriously, considering how this is happening regularly every month," said a trader who experienced a delayed declaration this month.

One consequence of these delays is that some companies are now adding a clause to their contracts stating that in the event of a late declaration or no declaration, the default discharge port will be Ningbo or Taiwan, depending on the case, traders across Northeast Asia said.

With more than 2 million mt/year of additional PX capacity due to come on stream by the first quarter of next year in Saudi Arabia and Vietnam, many in the market are unsure about the likelihood of these problems being resolved going forward without a concerted effort by several counterparties to observe contractual discipline.