Mideast naphtha premiums jump on Asia demand as petrochemical maintenance ends

Platts.com, 15th Nov 2016

Middle Eastern FOB naphtha premiums have been improving towards double digits over the past week on strengthening Asian winter demand and the return of petrochemical plants from maintenance, traders said Tuesday.

Supplies in the Middle East are curtailed by the scheduled shutdowns at Saudi Arabia's Yasref and Ras Tanura refineries in November and December, though this could be partially offset by the start-up last month of Qatar Petroleum's Laffan Refinery 2, that can process 146,000 b/d of condensate, they said.

"Demand is better in the first quarter," one trader said. "So the western arbitrage [supply] has increased. This is good for market balance."

The recent market rebound from months in the doldrums due to oversupply, has encouraged traders to work on bringing in cargoes from the Mediterranean or North Africa to Asia, which would arrive in January, they said. Kuwait Petroleum Corp. last week sold by tender 24,000 mt of light naphtha and 50,000 mt of full range naphtha to Japanese trader Idemitsu at a premium of around $10/mt to the Mean of Platts Arab Gulf naphtha assessments on a FOB basis.

One source said the premium could be more than $10/mt, though this could not be confirmed.

Before this, S&P Global Platts assessed the premium at $7/mt to the MOPAG assessments, up from a discount of $6/mt over August 11-18, the lowest Middle East price differential since November 21, 2008, during the depths of the global financial crisis, Platts data showed.

India's Mangalore Refinery and Petrochemicals Limited also sold to Trafigura last week, a 35,000-mt lot of naphtha with minimum 75% paraffin content for early December loading from New Mangalore on India's west coast, at a premium of around $13/mt to MOPAG naphtha assessments, FOB basis, much higher than its last export for end-November loading at a premium of around $6/mt, a source said.

The recovery is also reflected in the premiums fetched by Middle Eastern producers in term contracts for 2017 in recent weeks, though the latest premiums were much weaker than those for past years.

KPC early last month concluded FOB term contracts with Asian end-users and traders for its December 2016-November 2017 naphtha cycle at a premium of $4/mt to the MOPAG naphtha assessments for full range naphtha and $5/mt for light naphtha, sources had said.

The premiums were the lowest since November 2008 when KPC and term lifters had sealed contracts for December 2008-November 2009 supplies at a $2/mt premium to the MOPAG assessments, Platts data showed.

Around a month later, the UAE's Abu Dhabi National Oil Co. and term lifters agreed on contract premiums for the January-December 2017 naphtha cycle, with the splitter grade at $6/mt above the ADNOC formula, which takes the average of FOB Arab Gulf naphtha assessments by S&P Global Platts and Petroleum Argus.

The term premiums for paraffinic naphtha were sealed at $8/mt, low sulfur naphtha loading from Ruwais Refinery-East at $7/mt, and low sulfur naphtha from Ruwais Refinery-West at $6.50/mt, trade sources said.

Though better than those fetched by KPC, ADNOC's premiums were about 50% under the current January-December 2016 contracts. The other ADNOC cycle -- for July 2016 to June 2017 -- had also earlier been agreed at a $12/mt premium for splitter naphtha, sources had said.

TASWEEQ TERM TALKS TO START

Eyes are now on Qatar International Petroleum Marketing Co., or Tasweeq's, term tenders and its quarterly price review with lifters.

Tasweeq is closing the tender offering 600,000 mt of full range naphtha for loading over January to December 2017 on Tuesday, which is valid till the next day.

One trader said that Tasweeq would also look at the bid levels placed into the tender to assess the premiums for its quarterly negotiations with term buyers, which are due to start end-November for first-quarter 2017 supplies. The precise premiums for the January-December 2016 contract were not disclosed, though traders said it was around the high single digit to low teens to MOPAG naphtha assessments, FOB basis, for the first three quarters.

Some traders said the premium for Q4 2016 was around $1/mt, though this could not be immediately confirmed.

The negotiations come as Qatar's Laffan Refinery 2 began operations around mid-October and is running smoothly at around 50% of capacity, traders said.

At full rate, the facility can produce 60,000-70,000 b/d of naphtha, which could further boost supply of full range naphtha in Asia, sources said.

Asian naphtha supply is also limited by North Asian refineries optimizing production of middle distillates for heating usage in an expected harsh winter.

A condensate splitter in Japan's Kashima refinery was also heard to be facing operational issues after a fire at a reformer last month, prompting a petrochemical maker to seek a prompt cargo, traders said.

However, the commercial start-up this month of the 130,000 b/d condensate splitter in South Korea's Daesan -- a joint venture between Hyundai Oilbank and Lotte Chemical -- is set to fill in the supply gap and meet strong petrochemical demand amid robust ethylene margins.

The splitter will produce 50,000 b/d of oil products, such as gasoil and jet fuel, as well as 1.2 million mt/year of mixed xylenes and 1 million mt/year of light naphtha, the company said.