

NWE naphtha backwardation at 21-month high on buoyant petrochemical demand

Platts.com, 1st Feb 2017

The front-month/second-month CIF Northwest Europe naphtha swap backwardation hit its highest in 21 months as the front of the market strengthened, boosted by strong demand from petrochemical end-users due to high cracking margins and expensive LPG.

S&P Global Platts assessed the front-month CIF NWE naphtha crack swap at a 10-month high of 60 cents/b Tuesday soaring from 20 cents/b Monday despite higher crude futures, while the February/March CIF NWE backwardation widened to a 21-month high of \$5.75/mt from \$5/mt the previous day.

The last time the front-month/second-month CIF NWE naphtha backwardation was as wide was April 28, 2015, when the May/June CIF NWE naphtha swap spread was assessed at a \$5.75/mt backwardation. "The strength in the naphtha market comes from good petchems demand, propane has become so expensive that it is not work cracking," a trader said Wednesday.

It is generally considered that propane stops being attractive as an alternative cracking feedstock when it reaches 90% of the value of naphtha, a threshold reached on January 24, when the front-month CIF NWE propane swap edged to a 35-month high against naphtha to be assessed at 90.03% of the front-month CIF NWE naphtha swap.

"Purely on an open spec perspective the market is strong, trader have shorts to cover, there is fairly good demand from a variety of market players including petchems," a second market participant said.

In the physical market, the CIF Northwest Europe naphtha cargo was assessed at a fresh 18-month high of \$511.25/mt, \$11.75 higher on the day and assessed at a \$4.25/mt premium over the February CIF NWE naphtha swap, up from a \$4/mt premium Monday. Meanwhile, the CIF NWE propane cargo was assessed at 89.19% of naphtha Tuesday, down from 90.29% the previous day.

"There is good demand for cargoes in Europe, gasoline is good as well, overall the market feels well supported," a third market participant said. "I think open spec is quite well bid, I don't see any light naphtha unsold on the water, blending demand is not fast, but there is nothing overhanging the market," he added.

At 1100 GMT Wednesday, the February CIF NWE naphtha crack was heard trading at 80 cents/b, while the February-March backwardation was stable at \$5.75/mt.