NWE naphtha cargoes slump to 20-month low versus swap on thin spot buying

Platts.com, 5th August 2016

CIF Northwest European naphtha cargoes dropped to a 20-month low to the front-month swap Thursday as spot buying was scarce amid ample supply, with more naphtha cargoes expected to come from the Mediterranean to NWE in August due to the closed arbitrage to Asia.

CIF naphtha cargoes were assessed Thursday at $341.75/mt, up $4/mt on the day, and assessed at a $12/mt discount to the September CIF NWE naphtha swap, down from a $11.75/mt discount Wednesday.

The last time physical naphtha cargoes were assessed lower versus the front-month swap was November 12, 2014, when they reached a $14/mt discount to the December swap.

Physical premiums for open spec naphtha came under renewed pressure this week as most regional end-users seemed covered for the time being, with the fact that Asia has not been pulling any barrels from Europe meaning some naphtha cargoes from the south had to be offered into the north or else go into storage tanks.

"We have no arb open [from Europe]," a trader said. "Asia looks like it needs only 500kt in August and September, New York Harbor buying is very slow...Med barrels should flow north."

After hitting a more-than-two year low of $8.50/mt at the end of June, the front-month naphtha east/west spread -- the premium of CFR Japan naphtha cargo swaps to CIF NWE naphtha cargo swaps -- has been hovering between $10/mt and $12.75/mt this week.

Meanwhile, long-range tanker freight rates to move a 80,000 mt naphtha cargo from the Mediterranean to Japan or South Korea were assessed Thursday at respectively $21.875/mt and $20.93/mt. Considering that open spec naphtha is trading at bigger discounts to swaps in Asia than in Europe, the arbitrage looks unworkable on paper.

According to another market participant, with the naphtha arbitrage not working from the Mediterranean to Asia, only about 800,000 mt to 1 million mt of naphtha is currently flowing each month from Europe to Asia.

"These must be term contracts," the source said. "Med naphtha is pointing north."

However, while the NWE spot naphtha market was considered as being very weak due to oversupply in Asia and Europe, some support was seen coming from a small uptick in blending demand as well as strong demand from Europe-based olefin producers, which are reportedly running their steam-crackers at very high rates.

"A lot of players made sure they were balanced before going on holiday," a trader said.

"There are not that many buyers but nor are there many panicky sellers either...we know only of one prompt distressed cargo," he added.

According to the trader, a few cargoes from the Mediterranean are coming in the second half of August and they have not been placed yet, but as petrochemical end-users enjoy very good margins, there will likely be a bit more demand at the end of the month.