

NWE petrochemicals set to crack more LPG, marginally less naphtha in March

Platts.com, 17th Feb 2017

Many European petrochemical end-users are expected to resume cracking propane in March and crack more butane as both gases' prices are likely to weaken relative to naphtha due to the end of winter season, market sources said this week.

"For March, I think the naphtha market is getting weaker due to crackers' turnarounds in Europe and propane is likely to go back into the cracking pool," an end-user said.

Propane physical cargo prices in Northwest Europe climbed to a three-year high versus physical naphtha cargoes on February 1 as bullish data on US-wide propane and propylene inventories boosted the propane CIF ARA swap and refrigerated cargo values, while the NWE naphtha market remained stable on steady fundamentals.

Looking forward, however, the discount of the front-month CIF ARA propane swap to the equivalent CIF NWE naphtha swap widened to \$65.50/mt Thursday from \$65/mt Wednesday. This equates to the front-month CIF ARA propane swap being valued at 86.7% of the respective naphtha swap, down from a value around the 90%-mark throughout the second half of January.

In the physical market for refrigerated propane cargoes fundamentals meanwhile remained tight for the first half of March, but market participants expected the complex to weaken into the second half of the month which should see more olefin producers re-entering the buy-side.

Platts assessed propane large cargoes at \$443/mt CIF NWE, down \$5/mt on at a \$16/mt premium over the March CIF ARA propane swap, up from a \$12/mt premium the previous day.

A softening Asian propane market, due to the end of the winter season and turnarounds at Chinese propane dehydrogenation plants, should lead to more spot propane flowing from the US Gulf Coast into Northwest Europe.

"Petchems still crack naphtha in February, but will go back to propane in March," a naphtha trader said.

Butane is also likely to increasingly enter the cracking feedstock slate throughout March. As the winter season comes to an end butane spot availability ex-refineries in Northwest Europe should improve, as refineries use less tons for blending of winter specification gasoline.

Winter specification gasoline has less restrictive Reid Vapor Pressure constraints than summer specification product and thus allows more blending of the relatively cheap, but RVP-intense, octane-booster butane.

"We are going to the spring season, so LPG should weaken, definitely for butane as people can't use butane to blend into summer gasoline," another end-user said.

When exactly olefin producers will start cracking more butane will, however, not only depend on availability ex-NWE refineries but also on the Mediterranean butane complex. A strong Med butane market has recently attracted NWE volumes, making it difficult for olefin producers in Northwest Europe to compete for the gas.

Platts assessed butane coasters at \$483/mt CIF NWE Thursday, down \$9/mt on the day and at 97.9% of physical naphtha, widely stable on the day.