Naphtha arbitrage still open despite east/west spread dip to 18-month low

Platts.com, 11th Apr 2018

The front-month naphtha east/west spread -- the premium of CFR Japan naphtha cargo swaps over the CIF NWE naphtha cargo swap -- narrowed to fresh 18 month lows Tuesday, despite reports that cargoes are still moving on an arbitrage basis from West of Suez to East Asia.

The spread was assessed at $3.75/mt, its lowest point since September 30, 2016, S&P Global Platts data showed.

Although traders will often use the spread as a barometer to calculate the profitability of shipping product east, clean tanker freight costs, FOB Mediterranean naphtha cargo prices and the premium/discount of delivered naphtha in Asia are also factors in the decision.

After falling to a five-month low February 14, clean freight rates for Long Range 2 tankers on the Mediterranean-Japan route, basis 80,000 mt, remain relatively inexpensive, according to sources. On Tuesday, Platts assessed rates at $1.7 million lump sum or $21.25/mt, unchanged on the day.

CIF NWE naphtha physical cargoes were assessed at $598.50/mt Tuesday, $13/mt higher on the day, while FOB Mediterranean naphtha cargoes were assessed at $591.25/mt, up $13/mt on the day, according to Platts data.

Benchmark CFR Japan naphtha physical was flat, having rebounded to $601.75/mt at the Asian close Wednesday, the highest level in the last seven trading sessions.

Cash differential for physical cargoes in the Asian naphtha market were still commanding premiums near mid-teen levels, with the latest cargo heard purchased by petrochemical maker LG Chem at around plus $13/mt to Mean of Platts Japan naphtha assessment, on a CFR Korea basis.

"The cash differentials are doing the work, and there are still LR2s loading in the Black Sea and the Central Mediterranean," said a European source.