



Baltic rate plummets

The Baltic rate started the year on a great note and the weekly average of the benchmark Ras Tanura-Chiba assessment recorded five-year highs (2016-2020) during the first 14 weeks of 2020. Since the index witnessed five-year lows during Jan-Feb 2019, it gained support and was able to sustain the momentum for more than a year largely due to a mix of healthy LPG supply-demand fundamentals and weather-related delays leading to intermittent tightening of prompt vessel supply in key regions.

The index increased by almost one and half times year-over-year in January and recorded five-year highs during the first quarter of 2020.

One of the most important factors pushing Baltic rates up in the first quarter of current year was robust exports from the US and the Middle East. Many vessel owners/operators preferred to re-position their vessels on the US-Far East trade lane where returns were better as a wide US-Asia arbitrage helped US barrels to move to Asia, leading to a decline in prompt availability of vessels in the Middle East. Many traders preferred to send their owned/operated vessel to the West and charter hire “other” available tonnage in the Middle East. Petchem buyers in NW Europe and the Med were also actively importing from the US owing to favorable arbitrage opportunities while propane was trading at a deep discount to naphtha.

However, Covid-19 related lockdowns in many countries across the globe weighed on demand for refined products raising oil demand concerns which led to a steep decline in crude

oil prices. With declining crude oil prices, naphtha prices also took a nosedive. Although major LPG price benchmarks declined, it was proportionately less when compared to crude benchmarks. As a result, naphtha regained its competitive edge over LPG, leading to a sharp decline in imports by regional petrochemical players from across the Atlantic since March.

Mont Belvieu prices have been moving up since late-March on production fears of the impact of production cuts while Asian benchmarks did not register a proportionate increase. As a result, the FOB resale premium is ranging as low as around 3 cpg to 4 cpg levels for 2H Jun/1H Jul loadings, thus killing the arb to move US grades to the Far East. Talks of US cancellations resurfaced in the last week of May with speculations that a 1H Jun cargo has been cancelled. As many as five June cargoes could be cancelled, according to market sources.

Although robust LPG demand from India supported freight rates in April,

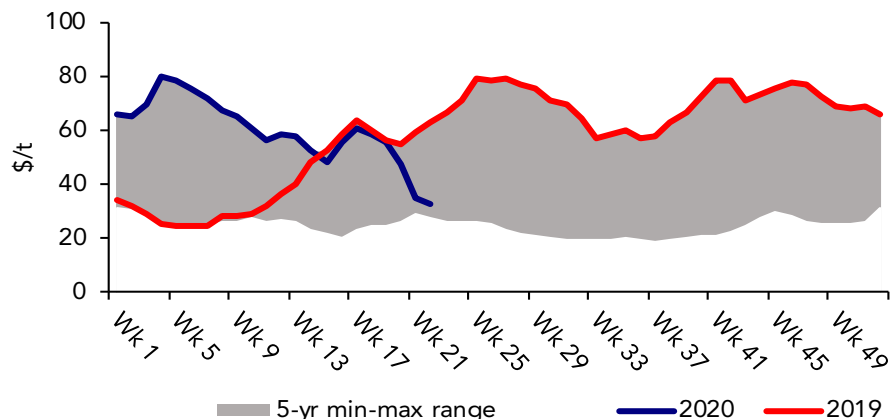
Indian importers overbooked cargoes that they were unable to absorb and were trying to defer or resell.

Preliminary shiptracking data indicates that LPG exports from the Middle East were almost unchanged year-over-year in the first five months of 2020. However, Saudi Aramco cut down export volumes for Apr, May, and June liftings after the OPEC+ agreement on oil production cuts. Poten understands that Aramco cancelled or deferred four term cargoes in April and nine cargoes each for May and Jun loading dates. KPC also appeared to have cut three cargoes each in May and Jun, while there are no cancellations or deferrals from the UAE or Qatar.

As a result, spot rates for VLGCs doing the AG-Japan voyages nosedived in May. The Baltic rate declined from a high of \$61.57/t on 22 April to \$31.43/t on 29 May. Spot freight rates for VLGCs doing the US Gulf-Japan voyages declined from \$98/t for the week ending 17 April to \$64/t for the week ending 29 May.

There is a possibility that VLGC earnings may decline further in the coming

Weekly average Baltic rate



Source: The Baltic Exchange

weeks because of lengthy open positions and many re-lets amid expected lower exports from key exporting regions. Although there has been a premium for VLGCs trading in the West compared to the East markets, unworkable arbitrage is most likely expected to wipe out the premium levels. In that case, owners/operators will have a tough call in deciding where to position their ships next. With time-charter rates also taking a hit, owners appeared reluctant on chartering out their vessels on longer term leaving their ships in the spot markets.

Baltic Rate against West premium & vessel position

