



LPG World Markets

Long waiting times at Panama Canal expected to ease

Delays at the Panama Canal have led to tightness in the global VLGC shipping fleet. When the new locks opened in 2016, transits per day were limited to six (three in each direction), which caused a backlog of approximately 8-10 days as vessels lined up to make the passage. As the Panama Canal Authority (ACP) has added slots, waiting times for vessels passing through the new locks fell to around five-to-six days in 2018 and to four-to-five days in 2019.

Waiting time for neopanamax vessels reportedly fell to around one-to-two days from June 2020 until early August 2020. However, waiting times worsened to around three days in each direction at the start of September, which further worsened to around four days for northbound transit and five days for southbound by the end of the month.

Vessels also are required to operate at a slower speed between August and November to protect whales.

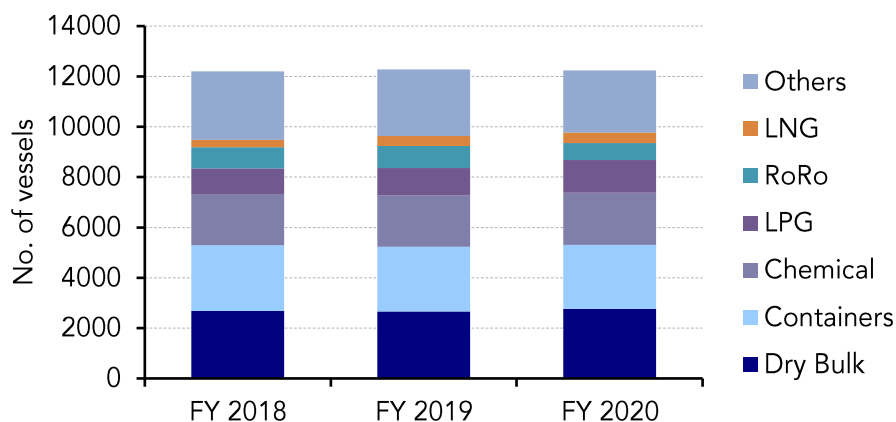
As of October 30, delays were around 13 days on the northbound leg and eight days for the southbound passage. Worsening transit delays and burgeoning backlog of vessels led the ACP on October 12 to increase the number of slots in a bid to clear the backlog.

The constraints in October have increased the journey time for US barrels arriving in Asian markets and was one of the main reasons for higher LPG prices in the past month when cash differentials for cargoes arriving in the East turned positive against FEI. Stronger demand in Asia Pac was also a factor behind this turnaround in prices.

A typical VLGC loading from Houston can usually make around six round-trip voyages to Chiba in a year if there are no delays at the canal. However, if the vessel must wait for 10 days on each leg while transiting the canal, this will result less than five complete voyages in a year, reducing volume by 24%.

This recent performance at the Canal is in direct opposition to overall trends in the Canal since the opening of the expansion. According to the ACP, there were 12,245 vessel transits through the Panama Canal for the fiscal year ending September 30, 2020, down 0.3% year-over-year. Despite the overall decrease, there was a sharp increase in LPG vessel transits.

Panama Canal vessel traffic by vessel segment



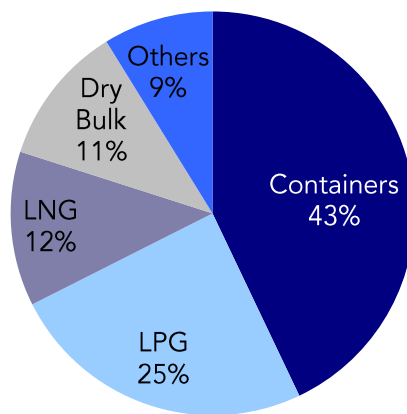
The number of LPG vessels transiting the canal has increased over the years – from 449 (around 4% of total transits) in FY 2016 to 1,305 transits (11% of all passages) in FY 2020.

Canal traffic during FY 2020 told two different stories. While the first half of the fiscal year exceeded expectation, vessel traffic during the second half was affected by the pandemic that disrupted the global economy. The effect of the pandemic on vessel traffic peaked in the second half of FY 2020 (Apr-Sept 2020) with vessel traffic through the new locks registering a decline of 10% when compared to the first half. The decline in overall traffic was mainly due to a decline in passenger ships, vehicle carriers, LNG carriers and dry bulk vessels. However, vessel traffic appeared to be returning to normal in October 2020 as total neopanamax transits exceeded the average monthly passage through the new locks in FY 2020, and was down around 3% when compared to average monthly transits in the first half.

Since the new locks opened, LPG carriers have been frequent users and have been the second busiest vessel segment after container ships. The overwhelming majority of LPG vessels moving through the new locks are Asia Pac-bound VLGCs. Around 79% of laden VLGCs headed for Asia from the US Gulf transited the canal in 2018, up from 76% in 2019. During the first nine months of this year, the ratio was 81%.

The PCA has reduced the number of slots during May-Sep due to staff constraints caused by the pandemic.

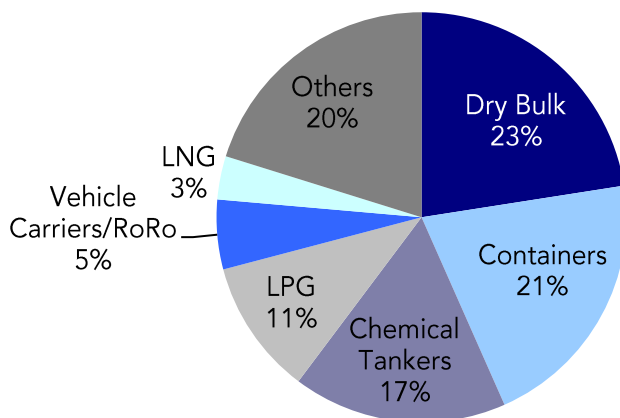
Share of traffic through new Panama Canal locks in FY 2020



LPG vessels accounted for 25% of vessel transits through the new locks, second behind container ships in FY 2020, up from 24% in FY 2019. A total 808 LPG vessel transits passed through the new locks in FY 2020, an increase of 13% from the previous year.

Container vessels accounted for 43% of all transits through the new locks in FY 2020. However, the share of container ships through the new locks has declined from around 49% in FY 2018.

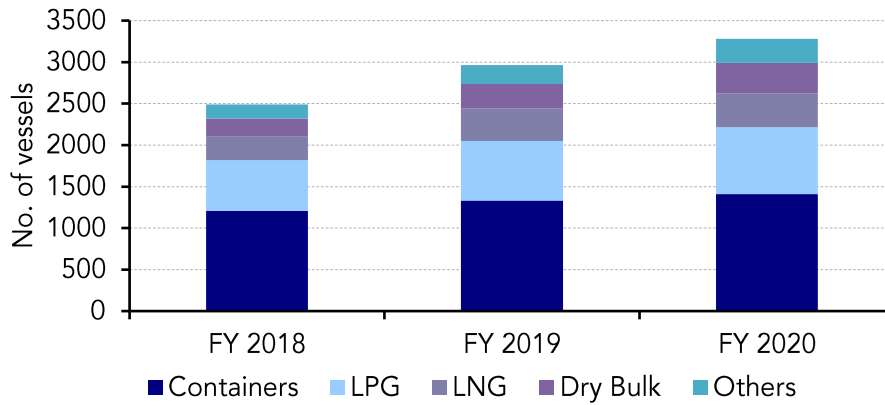
Share of Panama Canal transits in FY 2020



*Source: Poten, ACP

Dry bulk accounted for 23% of total transits through both the old and new locks in FY 2020, up from 22% in FY 2019. The share of container vessels remained unchanged y-o-y at 21% and was in the second spot, followed by chemical tankers (17% for both FY 2019 and 2020).

Panama Canal traffic through new locks



Overall, 3,280 vessels, accounting for 27% of cumulative traffic through the Panama Canal, passed through the new locks in FY 2020, an increase of 11% y-o-y in terms of the number of vessel transits. In FY 2019, around 24% of the vessels transited through the new locks.

Despite, shippers reserving and paying for slots, in most cases LPG vessels compete with LNG carriers as well as with container vessels and cruise liners which usually get preference. With more LNG production flowing to Asia Pac, LNG traffic through the new locks is likely to increase. When container trade is back to normal levels and cruise liners resume normal operations, these vessels will likely push up waiting time for LPG vessels further.