



LPG in World Markets

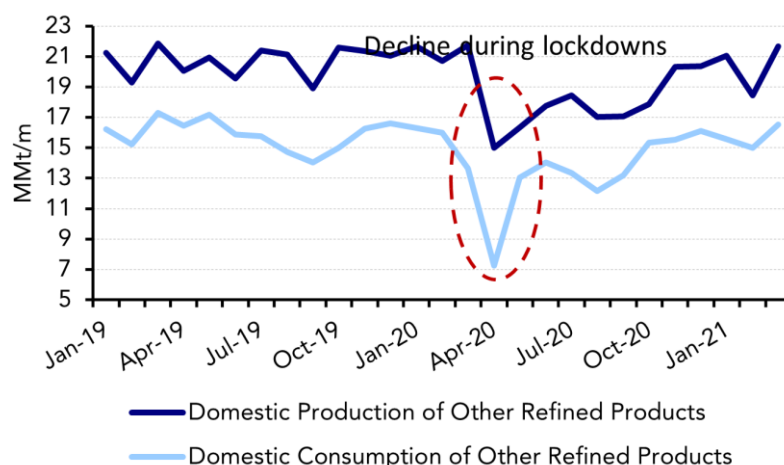
Fresh crisis in India not expected to boost LPG imports

The recent surge of coronavirus cases in India is a crisis of exceptional magnitude. The country has recorded an exponential rise in the number of cases since mid-April. Although the central government so far has resisted calls for a nationwide lockdown, many states have already announced complete or partial lockdowns, allowing only essential services to operate.

The crisis has far reaching implications, not only on economic activity but also on energy supply and demand, including that of LPG. However, energy supply and demand has so far been relatively buoyant despite the spike in infections without a nationwide lockdown like the one last year. Last year's lockdown cut demand in the second quarter of 2020.

Lockdowns and restrictions on movement were seen affecting demand for refined products, including that for LPG, last year. According to the Petroleum Planning and Analysis Cell (PPAC), domestic consumption for other refined products, excluding LPG, declined by 31% y-o-y during the second quarter of 2020, the peak lockdown period. On absolute basis, domestic consumption of other refined products in India, excluding LPG, declined from around 49.5 MMt during the second quarter of 2019 to around 34.3 MMt in the second quarter of 2020.

Production and consumption of other refined products

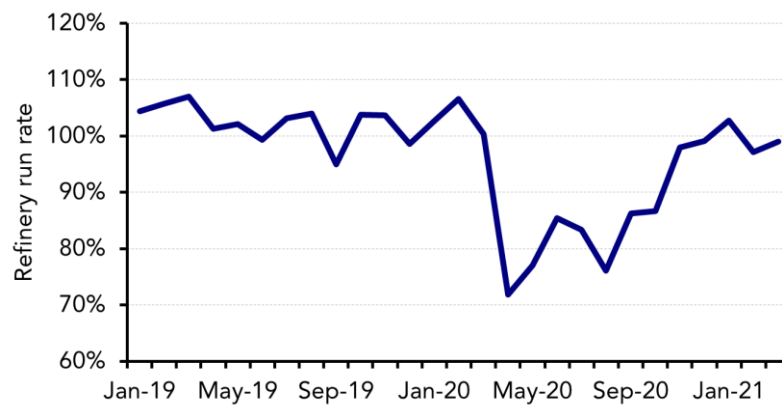


Given the current grim situation, it appears that demand for refined products took a hit in Apr 2021. According to the state-owned refiner, Bharat Petroleum Corporation Limited (BPCL), overall fuel demand in the country was down by around 7% in Apr 2021 when compared to demand in Apr 2019. Gasoline sales in the country were down 6.3% m-o-m in Apr 2021 and were down 4.1% when

compared to sales in Apr 2019. Similarly, according to BPCL, diesel sales were down 1.7% m-o-m and down 9.9% from Apr 2019 levels. These media reports indicate that LPG sales were down by 3.3% m-o-m in Apr 2021. However, LPG sales were up 11.6% when compared to the sale volumes of Apr 2019.

However, according to market sources, refinery run rates did not decline in tandem with declining demand for refined products in the country. Average refinery utilization rate was 103% in Jan 2021, which declined to around 97% in Feb but increased to 99% in Mar. In 2020, average utilization rate was 103% for Jan, which increased to 107% in Feb but declined to 100% in Mar 2020.

Indian Refinery utilization rate



According to reports coming in from the country, refineries, which could export surplus refined products, were running at normal utilization rates in Apr, due largely to favorable arbitrage economics to the Atlantic basin. Some refineries that could not export appeared to be dialing back. However, any further decline in domestic demand could weigh on overall refinery utilization rates.

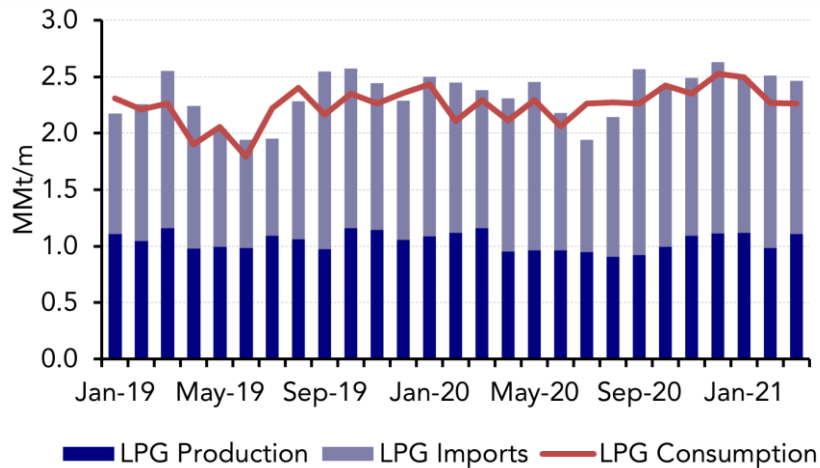
Unlike last year when the government announced free cylinders for BPL families, the government has not come out with any LPG-specific package this time. Neither has there been a rush for cylinder refills that was seen last year. The national government has also withdrawn the subsidy on the 14.2kg cylinders for people above poverty line.

LPG has emerged as the preferred cooking fuel in the country due to government's push to make clean energy accessible to all. According to the state-owned refiner, Indian Oil Corporation (IOC), LPG penetration in India has increased from 55% in 2014 to more than 99% as of 10 March 2021. MoPNG has provided 80 million LPG connections to PMUY beneficiaries. Union Budget for fiscal year 2021-22 extended the scheme for one more year to include 10 million more BPL families.

However, new LPG connections may also take a pause due to the widespread infections. Demand for commercial LPG cylinders from restaurants and hotels is also expected to slow down as more people stay indoors. As such, even though we can expect a decline in domestic LPG production in May and Jun as refineries scale down operations with more states imposing either partial or full lockdowns, domestic consumption of LPG is not expected to rise in tandem.

This is also supported by the level of LPG imports in Apr. Preliminary reports indicate that LPG imports by the country declined by around 5% m-o-m, and 5% y-o-y, to 1.3 MMt in Apr 2021.

India: LPG production, consumption & imports



In 2020 the situation was much different, 2020 refinery run rates declined, from around 100% throughout the second quarter of 2019 to just about 72% in Apr 2020. Although refinery run rates recovered to 77% in May 2020 and to 85% in Jun, refinery utilization rates remained well below 100% until Oct 2020, indicating the lingering effects of the lockdowns weighing on economic activity. Average utilization rates of domestic refineries were more than 100% during Jan-Mar 2020 period.

PPAC data further show that domestic production of other refined products also declined, from around 60.6 MMt in 2Q19 to around 49.1 MMt in 2Q20, down 19% y-o-y.

However, domestic consumption of LPG registered a rise, increasing from around 5.7 MMt in the second quarter of 2019 to 6.5 MMt in the second quarter of 2020, or an increase of 13% y-o-y.

The mandatory nationwide lockdown resulted in an increase in demand for LPG cylinders as people were cooking at home while remaining indoors. Moreover, as part of the US \$23 billion Covid-19 stimulus package aimed at mitigating economic impact of the lockdown, the Indian government announced three free cooking gas cylinders of 14.2kg each to the beneficiaries under Pradhan Mantri Ujjwala Yojana (PMUY) during between April 1 and June 30, 2020. The official circular stated that in case a PMUY beneficiary was not able to take refills in the three-month period, then the beneficiary could utilize it up to March 31, 2021. According to local media reports, there was a noticeable rise in demand for LPG cylinder refills during the last week of Mar and early Apr last year as people wanted to secure supplies during the lockdown.

The surge in LPG demand coincided with lower crude processing by refiners hit by collapsing demand for other refined products because of the lockdown, thus forcing the country to rely more on imports. PPAC data indicate that domestic production of LPG declined by 3% y-o-y to 2.9 MMt in the second quarter of 2020. As a result, LPG imports increased by 25% y-o-y to 4.1 MMt in 2Q20 to

meet higher demand.

The latest surge in infections so far has not impacted port operations and seaborne imports by the country; however, shipowners appeared avoiding calling at Indian ports of late due to the current meltdown. According to sources, no quarantine regulations have been imposed on vessels calling at Indian ports at present. However, many shipowners consider the regulatory environment for calling at Indian ports as fluid which could change swiftly. In case quarantine regulations are imposed, it would impact vessels calling at Indian ports, especially vessels doing short voyages from the Middle East. A few ships were heading to the West instead of ballasting back to the Middle East as they were not keen to compete for Indian cargoes. This also stems from many countries banning vessels which called at Indian ports in the previous 14 days.