



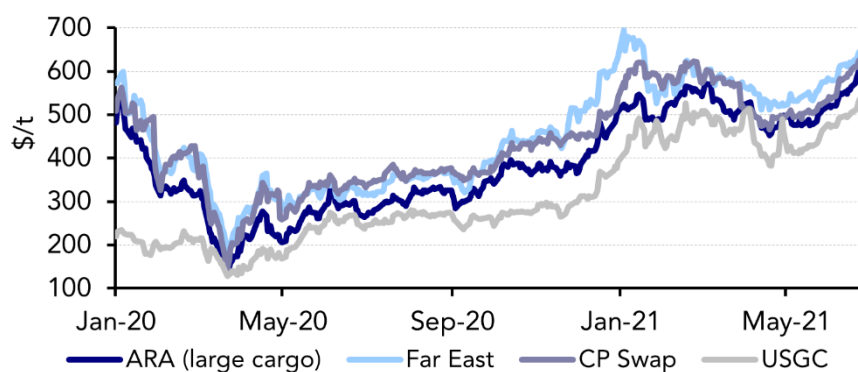
LPG in World Markets

A tight supply/demand balance boosts prices across the globe

LPG prices are surging across the globe amid concerns of supply tightness; however, the forward curve is backwardated in every major market, suggesting the supply concerns could be short term. US Gulf Coast propane prices hit a seven year high in early July after steady increase in June. The sharp increase in price in June comes after several weeks of low inventory builds due to the high level of exports and slow growth in production.

Rising crude prices have also been a factor behind the higher LPG price. However, US oil producers have not ramped up drilling activity despite the sharp increase in the crude price. Meanwhile, one of the major US export terminals has been buying back cargoes on a spot basis since the second half June, which is adding to the market sentiment that supplies will be tight in the near term and without higher production, US LPG exports may not see much increase in the second half of the year.

Propane price trend

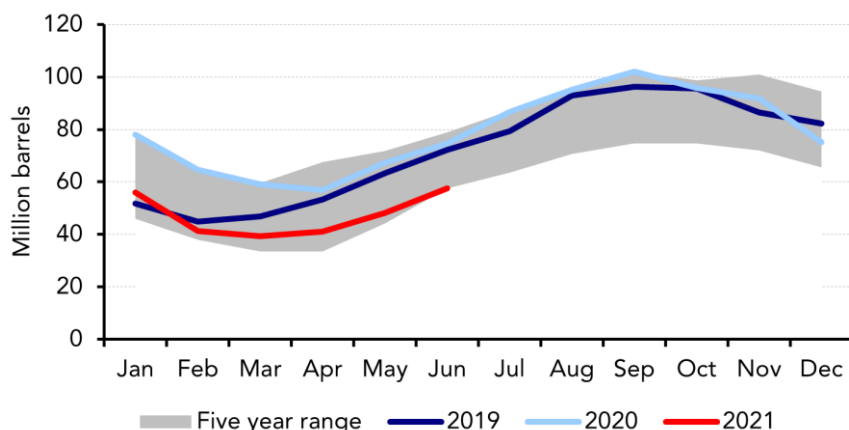


USGC term lifters cancelled six cargoes for June loading due to poor arbitrage but those were resold on a spot basis by export terminals later in June as the FOB spot premium improved from cancellation levels. The FOB premium was assessed around 4 cents/ gallon for propane and 3.5 cents/gallon for butane in early-July for 1H August loadings, 5 cents/gallon lower than previous week due to the recent surge in LPG prices which narrowed the netback with Asia.

There is speculation that one late-July and one August cargo have been cancelled by USGC term lifters and additional cargoes most likely will be cancelled unless the arb with Asia widens. The surging USGC prices narrowed the arbitrage between the US and Far East as Asian buyers showed lack of buying interest in June.

Demand is usually lower in the Far East during the summer due to lower consumption from the residential sector. In addition, the higher LPG price in the Far East discouraged LPG cracking. Propane was at a premium to naphtha in early-July trading. FEI propane swaps traded at a premium to Far East naphtha swaps through February 2022 in recent sessions which would continue to discourage LPG in the cracking pool if the trend does not shift. Importers are assessing the current supply situation, and some have delayed their buying decision since the markets were backwardated.

US weekly propane/propylene stocks

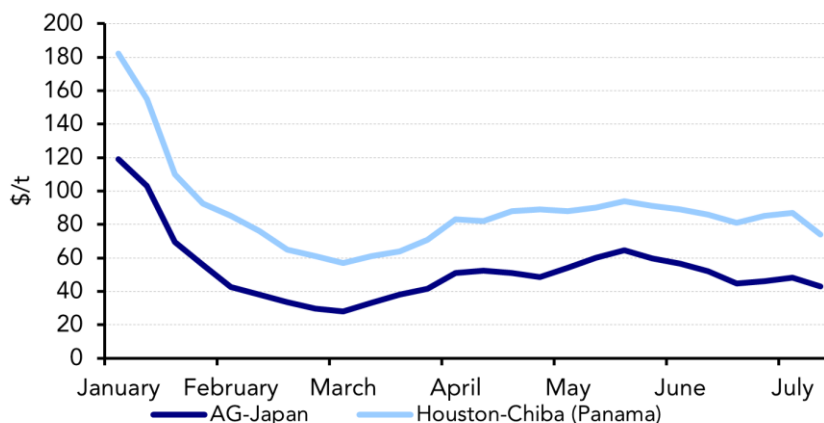


However, concerns for a looming tight market are growing among market players. The sentiment was bolstered following the sharp increase in the Saudi Aramco July contract price (CP), which increased \$90/t to \$620/t for propane. The butane CP jumped \$95/t to \$620/t. The increases in Saudi CPs are attributed to US supply concerns and recent production issues in Abu Dhabi and Saudi Arabia, which reduced supplies from the Middle East.

Expectations are that Far East prices should see an uptick to open the arbitrage with the US. Recent buying interest from Indonesia’s Pertamina and Vietnam’s Hyosung Vina Chemicals as well as from some Far East importers for August propane cargoes are adding to the bullish sentiment.

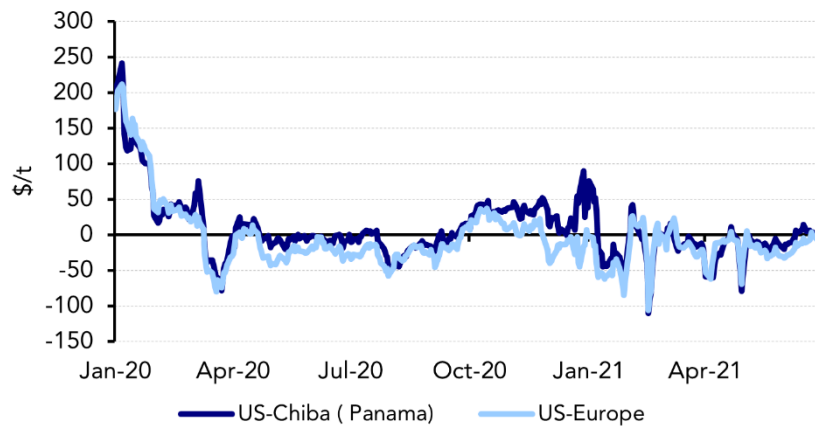
Prices in Northwest Europe are also on the rise with supplies looking increasingly tight in the region. Imports from the US have been limited in June as higher netbacks drove most US exports to Asia. LPG arrivals from the US are estimated at around 380,000 t in June down from 680,000 t in May. So far, only four VLGCs from the US are scheduled to arrive in Northwest Europe and three to the Mediterranean region in July, according to sources.

Weekly spot VLGC freight rates



There is more buying interest in the spot market and several players who are normally sellers have turned to buyers, sources said. Supplies of both propane and butane are increasingly becoming tight and supplies from North Sea will not be able to meet the demand. Current freight rates and spot prices suggest that netbacks will still favor US cargoes being sent to Asia rather than Northwest Europe. Prices in the region need to increase further to attract additional US cargoes.

US arbitrage economics



VLGC spot freight rates fell during first half of June due to lack of spot fixing activity. That changed during the third week of the month amid a flurry of fixing from the US which also lent support to the Baltic rate. Spot fixing was down once again in the final week of June from the US due to tight arbitrage economics; however, there were few fixtures from the Middle East which supported spot VLGC rates. The ongoing strength in LPG prices and concerns of USGC cancellation are expected to put downward pressure on spot freight rates.

US VLGC/LGC exports were about 3.1 MMt in June about same as May but up from 2.3 MMt in May 2020. Exports to Northeast Asia accounted for majority of the volume at around 2 MMt slightly higher than May. VLGC/LGC exports from the Middle East were around 2.3 MMt, higher than May volume of about 2 MMt. The increase in Middle East shipments were driven by the UAE and Kuwait.