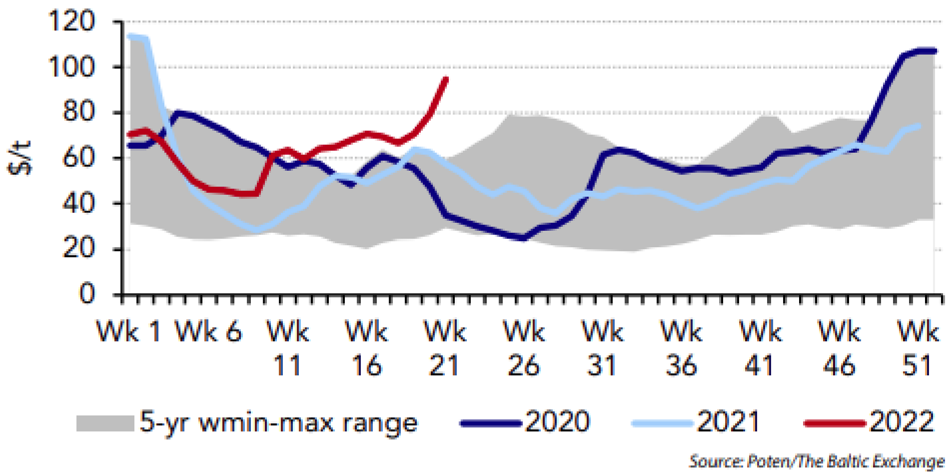
Spot VLGC Rates Reach 16-Months Highs

Baltic LPG Indices hit a 16-month high in late May buoyed by tight VLGC availability in both East and West of the Suez regions due to firm vessel demand. The benchmark Ras Tanura to Chiba assessment (BLPG1) has increased by 147% in three months from a year-to-date low of $42.64/t as of 1 March 2022 to $105.14/t on 30 May 2022. The index has also been trending over the five-year (2017-2021) weekly average for the past 12 weeks.

One of the most crucial factors exerting upwards pressure on freight rates this year has been the decline in prompt availability of VLGCs in the Middle East. Many vessel owners and operators opted to position their tonnage on the US-Far East trade route where it was more profitable compared to the Middle East-Far East trade during most part of the year.

The nearby chart depicts BLPG1 against “West-to-East premium” on a weekly basis until 27 May 2022. The difference between Poten’s assessment of the fixed rate for Houston-Chiba trade route via Panama, and the floating rate (BLPG1 converted into Houston-Chiba spot freight rate via Panama expressed in $/t terms) is what we call generally “West-to-East premium” or “fixed vs floating differential”.

Weekly average Baltic rate (BLPG1)

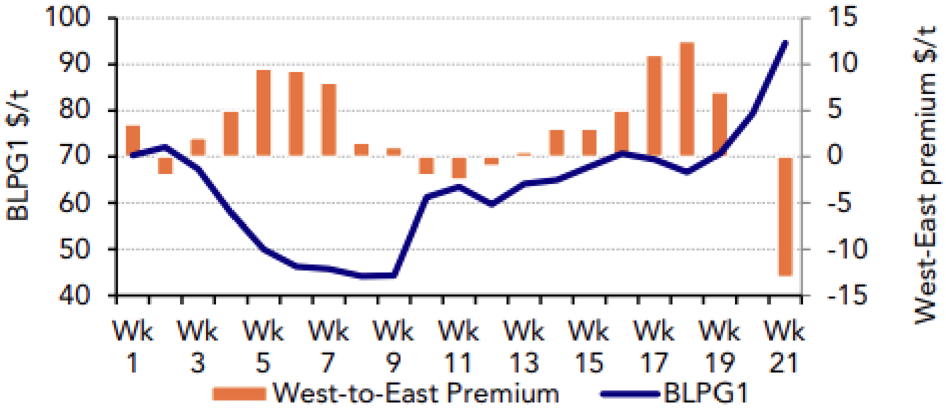


The fixed vs floating differential was negative during March but returned to positive territory at the start of April and steadily climbed to $13/t by the first week of May. It has since declined to a discount of $13/t on 27 May on improving Baltic rates.

Behind the strengthening East premium and declining prompt availability of vessels in the Middle East lies the arbitrage economics to ship US cargoes to the Far East which fetched favorable margins on resales and better earnings for vessels.

The chart below depicts arbitrage spread between Mont Belvieu (MB) propane and front-month FEI propane price as well as with two-months’ ahead FEI propane. Tall bars for the first quarter of the current year clearly depicts a healthy and favorable spread prompting robust US exports to Asia providing support to freight markets.

BLPG1 and West-to-East premium



Source: Poten/The Baltic Exchange

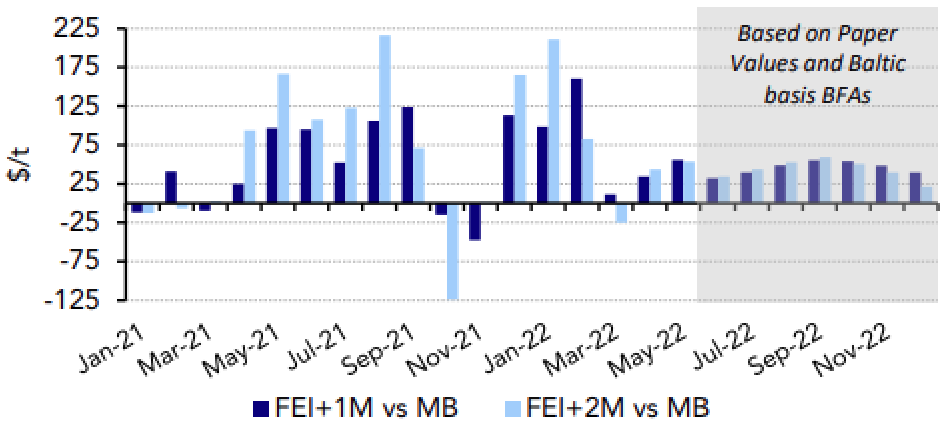
Looking at the Baltic Time Charter Equivalent (TCE) rates, BLPG3 TCE was higher than that of BLPG1 for most of April and May 2022, drawing tonnage towards the US Gulf as owners sought to benefit from the buoyant TCE achievable in the region.

In addition to the arbitrage spread, delays at Indian ports have also exerted further strain on vessel availability in the East of Suez market, holding up discharges and causing vessels to miss future laycans. The port of Haldia suspended operations at its Oil Jetty 2 (HOJ-2) for 45 days with effect from May 3 for civil works and upgrading of the firefighting facility. The port's Oil Jetty 1 (HOJ-1) is also scheduled for similar maintenance works from Jun 25 to Aug 9.

Along with the vessel supply constraint, robust Middle East exports have also helped in supporting freight rates. VLGC liftings in the Middle East have increased since Feb 2022, with the number of VLGC loadings from the region increasing from 52 in February to 59 in March and 68 in April, before declining to 64 in May, according to ship-tracking data.

In the US Gulf, spot rate assessment for Houston to Chiba voyages has similarly been trending above its five-year weekly average over the past 12 weeks. The BLPG3 index has increased by approximately 80% from \$77.57/t recorded at the start of March to \$139.86/t as of May 30.

US-Far East arb spreads



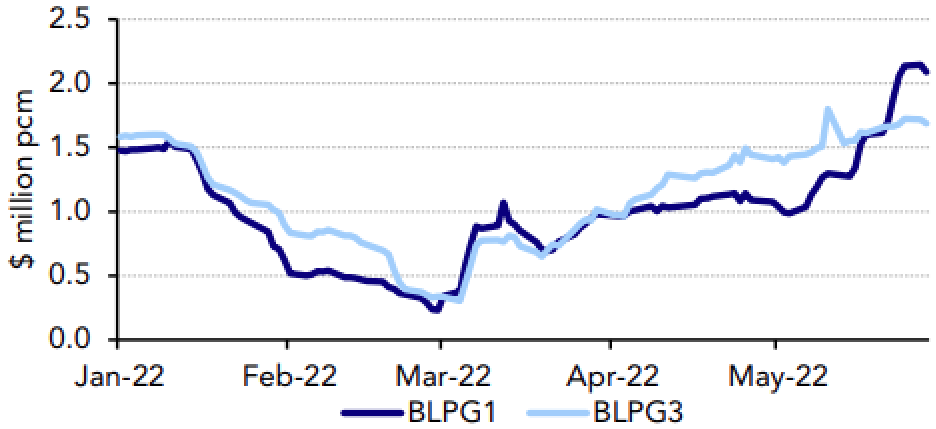
Source: OPIS/Reuters

Across the same period, the Houston-Flushing route (BLPG2) more than doubled from \$39.00/t to \$79.46/t. One of the main attributing factors for the tightening of vessel availability in the US Gulf that led to firm freight rates was the congestion at the Panama Canal, with waiting times at the Neopanamax locks consistently hitting double-digits for both northbound and southbound transits during the period starting lateApril through mid-May.

The delay for northbound ballast legs reached its highest level since mid-Nov 2021, with 17 days recorded for May 11, and double-digit waiting times for the duration of May 04-18, prompting shipowners and traders to direct vessels along alternative ballast routes to the US Gulf, such as, through the Suez Canal or round the Cape of Good Hope. Delays for southbound laden trips fared slightly better on average, with a peak of 13 days on May 2 and several shorter periods of double-digit delays.

Meanwhile, tight regional LPG supply in NW Europe meant the region had to rely more on US tons for which it had to compete with Asia to secure VLGCs in the US Gulf, thus supporting freight sentiments. Supply from the North Sea has been down due to producers choosing to reinject NGLs into the natural gas stream as it is more valuable amidst firm natural gas prices. Coupled with the aversion for Russia-origin cargoes as well as maintenance works at processing sites in Mongstad and Karsto in Norway, LPG supply within the region has been tight in recent months.

Baltic TCE rates

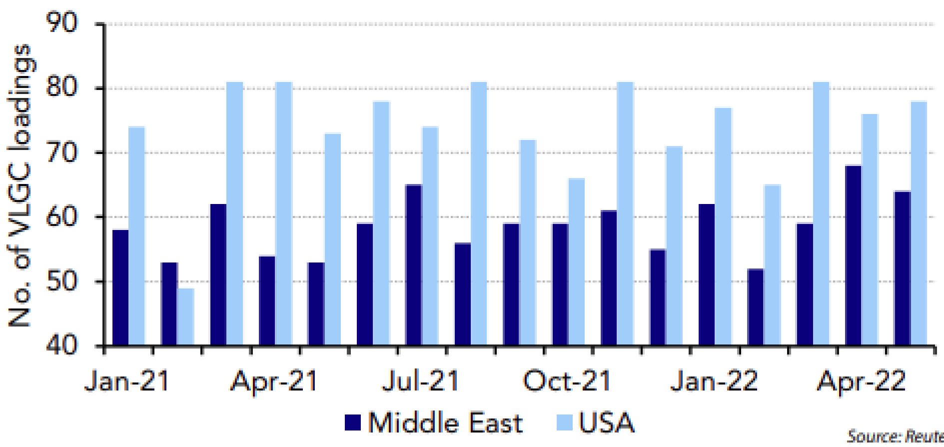


Source: The Baltic Exchange

Moreover, the double-digits propane-naphtha spread has incentivized the mix-feed stream crackers in the region to choose LPG over naphtha, increasing demand for the former in the petrochemical sector. According to shiptracking data, 10 cargoes that originated from the US were discharged in NW Europe during April, as compared to six and five discharges for February and March respectively.

That has since declined to eight cargoes for May. With the vessel supply constraint on one side, robust exports from the Middle East and the US Gulf on the other side also kept freight markets for VLGC buoyant. VLGC loadings from the US rose from 65 in February 2022 to 81 in March. Although VLGC loadings declined to 76 for April and 78 for May, it kept VLGC demand afloat.

Monthly VLGC loadings



Source: Reuters

The VLGC freight market has been soaring in recent weeks. The East market is now trading at a significant premium to the West which will draw tonnage back into the East of Suez region, which may help balance the spread in the coming months. However, vessel positions in the Middle East for June look tight, giving credence to the notion that the market may remain firm moving into June as well.

In the West, Panama Canal delays have started to ease, with waiting times for both Northbound and Southbound transits narrowing around mid-to-low single digits. The reduction in backlog at the Neopanamax locks may alleviate some of the vessel supply constraint in the US Gulf, dampening momentum. Tight arbitrage economics for shipping US LPG to Asia can also dampen trading sentiments in coming weeks.

However, a weakening Asian CFR market may prompt owners to lock their tonnage on a long-haul US GulfEast voyage at current freight levels amid worries over potential July US Gulf cancellations, which can also help cool down the otherwise heated freight market.

Weekly average US-Chiba rate (BLPG3)