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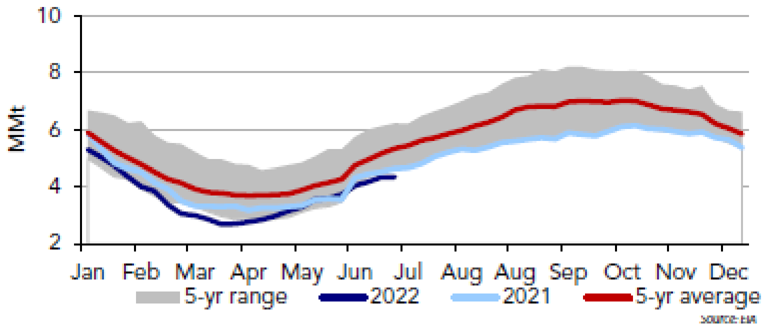
LPG in Worlds Market

US Inventories Dip Below Last Year

The US propane inventory build was 52% lower during the four weeks ending June 24 from the same time in 2021 amid higher exports. Total storage at the end of June was 54 million barrels or 4.35 MMt, 6% lower than a year ago and 18% below the five-year average for the same week, according to the US Energy Information Administration (EIA).

Ship tracking data shows a record 4.8 MMt LPG was loaded from the US export terminals in June. Of that total, roughly 50-60% is heading to Asia with most of the volumes arriving in July. US exports to Northwest Europe were at an all-time high of about 600,000 t in June,according to ship tracking data.

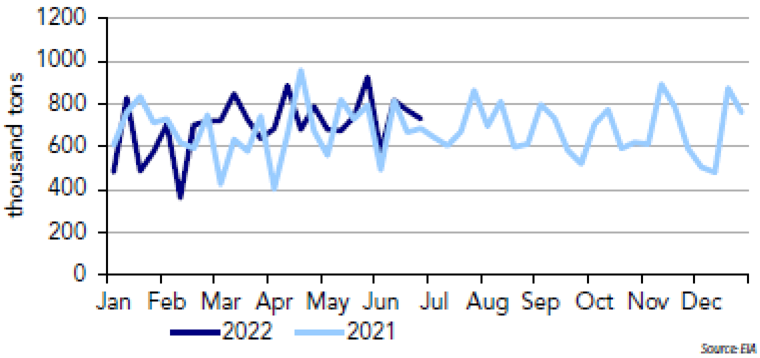
US weekly propane and propylene inventory



US exports of propane during the seven weeks ending June 24 were 15% higher than the same period in 2021, the EIA said.

Chartering activity for July loadings was down during the first half of June which indicates July exports could be lower month over month, albeit by a small percentage.

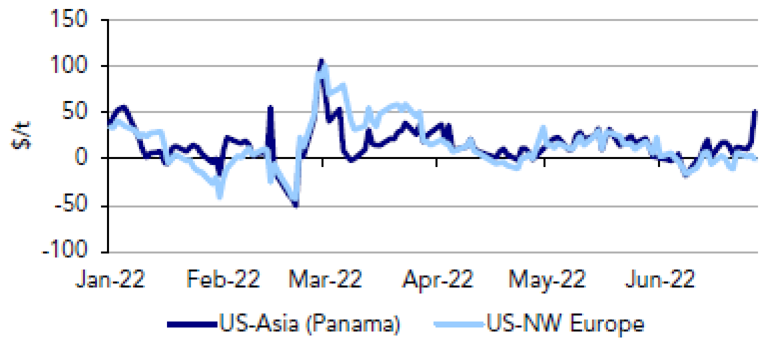
US weekly propane exports



The arbitrage between the US and Far East closed during 1H June prompting four cancellations for July loadings from the US Gulf Coast. Interest for spot cargoes from Far East buyers has increased since 2H June on expectations that LPG supplies in August could get tight as demand slowly improves. China's Bora Chemicals bought an evenly split spot VLGC cargo for July 5-6 loading at a premium of 5.5 cents/gal over Mont Belvieu in late June. The premium was higher than the current premium of 4.25-4.5 cents/gal. The very prompt laycan is most likely the reason for the higher premium but could also suggest a tightening market in August.

PDH plants and mixed-feed ethylene crackers in the region could also increase operating rates in August as they are currently operating at lower-than-normal levels due to poor margins. There are expectations that reopening of major Chinese cities should increase petrochemical demand. It is important to note that petrochemical demand for LPG faced some hurdles in June as propylene and ethylene prices are somewhat depressed.

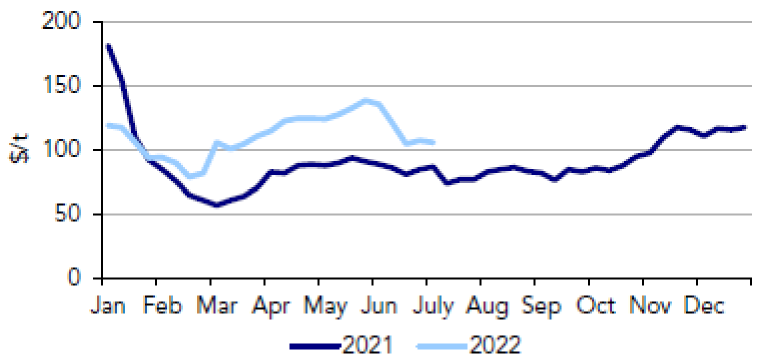
US arbitrage economics



Arbitrage between the US and Northwest Europe has been extremely poor since the start of June which is expected to result in lower imports from the US in July from the record June numbers. The Mediterranean market seems well supplied for July and demand for spot cargoes is unlikely.

However, the drop should not be drastic considering tight LPG supplies from Northwest European refineries and gas plants, while wide propane-naphtha spreads drive continued demand from regional mixed-feed crackers. More than 350,000 t of US exports are scheduled to arrive in the region in July, based on current fixture schedules.

USGC To Japan VLGC spot rates



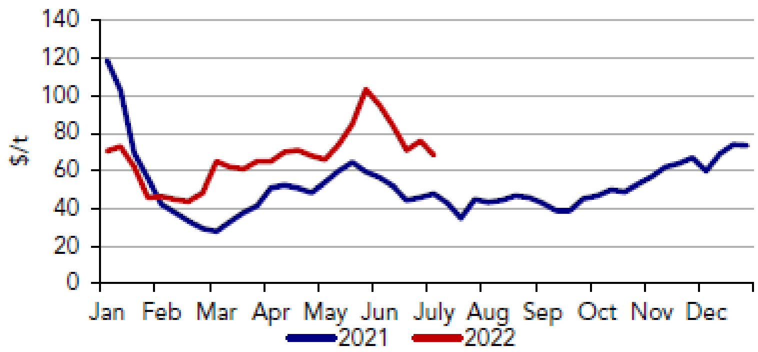
Weakness in LPG price, freights

Despite the high June exports and low inventory levels propane prices at Mont Belvieu averaged 45% of WTI crude in June, down from an average of 57% last June. The relative weakness indicates export demand is still the main driver during the summer months and will adjust to keep arbs open. LPG production is also up year-over-year in the Gulf Coast and other regions. Interestingly, propane prices in the US Midwest are once again at a steep discount to Mont Belvieu to incentivize flows to the Gulf Coast hub for exports. Midwest prices traded at a premium to Mont Belvieu during 2H 2021 due to high regional demand and low inventories.

Inventories in the US Midwest have increased this year and are 5% higher than last year amid production increase.

The Saudi Aramco propane and butane contract prices for July were set at $725/t, in line with market expectations and $25 lower than June. LPG exports from the region are up year-over-year as oil and gas producers increased production to meet higher demand. Meanwhile, spot VLGC freight rates fell in June due to tight arbitrage economics and amid few cancellations from the US.

Middle East to Japan VLGC spot rates



Spot rates for the US to Far East route fell to $106/t at the start of July from around $136/t a month ago. Rates have most likely hit the bottom and should not drop sharply from. current levels with robust exports, open arbitrage with the US and Far East, increased Panama Canal waiting times and high bunker fuel costs. Shipowners are reluctant to accept spot rates that are well below operating expenses in which bunker fuel is a key factor. Spot rates for the benchmark Middle East to Far East fell to $68.50/t in early July from $95/t a month ago.

However, Indian utilities have increased buying activity from the Middle East in recent weeks, lending support to rates. The higher level of interest should also prevent any further declines in rates.

There are many uncertainties in the commodity market which can weigh on demand. The big concern is whether high commodity prices and inflation, coupled with supply-chain bottlenecks will result in demand destruction for goods and energy commodities. For example, inflation in Turkey is extremely high weighing on LPG demand from the major autogas market. (see details in the Turkey section).

High inflation is also cutting profit margins for retailers in the emerging South Asian markets like Bangladesh. Inflation in the Eurozone hit a record in June mainly due to high energy costs which most likely will result demand destruction.