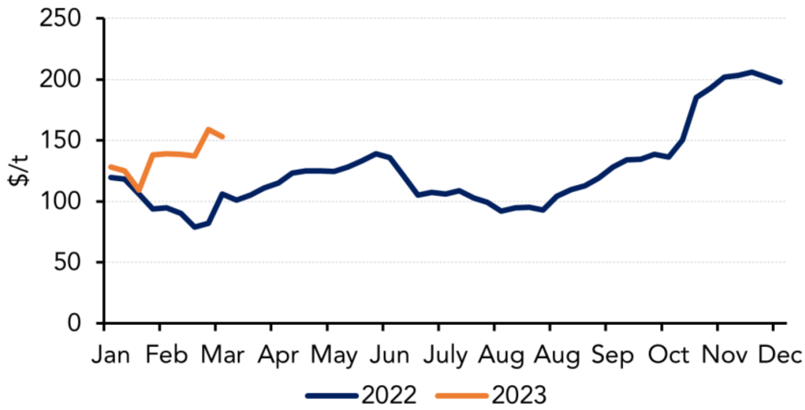
Freights Up Sharply on the Year

Spot VLGC freight rates from the US Gulf Coast (USGC) to Japan via the Panama Canal have been trending up since the second half of January amid improving cargo demand from China and open arbitrage between the US and Far East. Last year spot freight rates trended down during the same period.

The USGC to Japan spot VLGC rate at the beginning of March was at $153/t after falling to just $109/t six weeks ago, posting a 40% increase during those six weeks. The time charter equivalent also gained momentum.

It appears the sharp increase in the February Saudi Aramco propane contract price (CP) and lower exports from the Middle East drove demand for relatively cheaper US spot cargoes from Far East traders as well as from South Korean and Chinese petrochemical companies last month.

USGC to Japan via Panama Spot VLGC Rates



US propane and propylene exports were a record 4.5 MMbbl during the four weeks ending February 24, roughly 45% more than the same weeks in 2022 and 8% more than the previous four weeks, according to the US Energy Information Administration (EIA).

To facilitate the higher exports, spot chartering also picked up in February and increased ton-mile demand.

Robust chartering activity during February for March loadings indicate US exports should remain high in March.

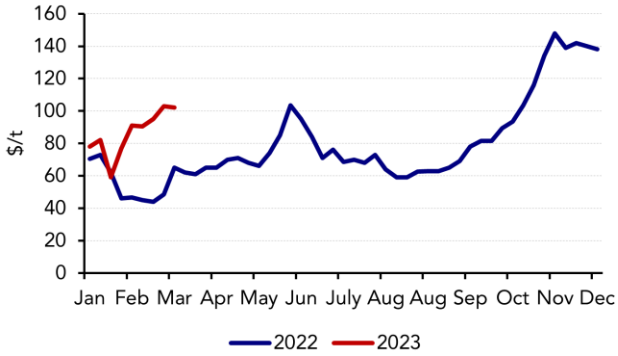
Around 28 spot VLGCs have been fixed to lift cargoes from the US with March loading dates, compared with 32 spot fixtures for February, according to Poten records.

The incremental ton-mile demand in February and for March also supported higher freight rates for the Middle East to Japan route, despite lower exports from ADNOC and Saudi Aramco due to some maintenance at Ruwais and Yanbu. The spot rate for the route in the first week of March was at $102/t, up nearly 73% from six weeks before.

However, spot chartering from the US in the first week of March slowed significantly with just one fixture for late-April which suggests April exports could be lower.

The USGC to Far East spot freight rates came under pressure in the past few days due to the lack of freights enquiries with many market players away from their desks attending several industry events. Spot rates could face further downward pressure in the coming weeks if the lack of activity continues.

Middle East to Japan Spot VLGC



Besides the increase in exports from the USGC to the Far East in February, other factors are also boosting ton-mile demand.

Some ship owners are opting to ballast back from the Far East to USGC through the Suez Canal or around the Cape of Good Hope instead of transiting the Panama Canal, increasing ton-mile demand.

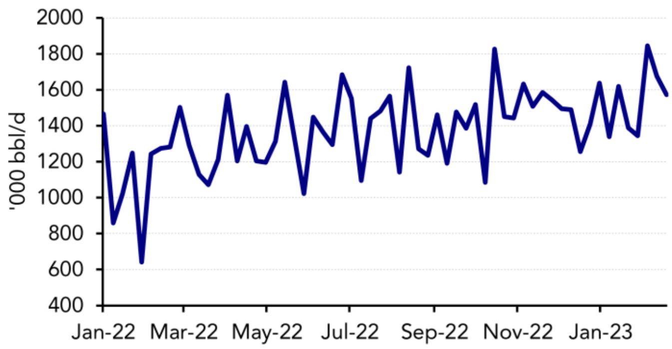
The unpredictable waiting time at the Panama Canal and high booking fees are the main reasons for the decision. Additionally, opting for the Suez Canal provides optionality to employ an open ship to lift cargoes from the Middle East.

European buyers were also interested in buying US cargoes with a potential tight supply in March in the region; however, fixing vessels for Transatlantic trades were difficult as the netback between the US and Far East was more favorable. Additionally, shipowners generally prefer to employ ships for longer routes. As a result, USGC exports to Northwest Europe in February fell to the lowest level since the start of Russia-Ukraine crisis.

On the demand side Chinese end buyers have increased activity since the removal of the zero-Covid policies. China's manufacturing and service companies showed recovery in activity in February.

However, analysts remain cautious as the recovery is slow and Covid-19 is still disrupting businesses and plant operations. The average PDH operating rate is still low.

Average Weekly Chinese PDH Operating Rates



Several PDH plants were heard to be planning to go into maintenance ahead of schedule due to weak downstream demand and on the hope it will recover going forward.

In Europe, a wide propane-naphtha spread in February and in the forward months should drive demand from the petrochemical sector but have been outbid by Asian buyers so far. Improving North Sea supply and mild winter weather in the west have also played a role as there was no urgency to lift cargoes to replenish inventories.

On the supply side high inventory and continued production growth in the US will keep prices in the USGC relatively cheap to drive exports.

LPG demand in the US has been low this winter due to mild weather. Additionally, demand from the petrochemical sector should be low in 2023, especially for butane.

Most US ethylene crackers are ethane based; however, there are some flexible crackers which also use LPG (mainly butane) in addition to naphtha. In general, US crackers are expected to run at lower rates this year due to weak demand for petrochemicals. The reduction in operating rates is expected to be more for the mixed-feed crackers, as producers will optimize ethane to ethylene production. Margins for ethane-based production are expected to be significantly higher due to low ethane prices, caused by depressed natural gas prices.