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Asia's Petchem Wave Seen Helping Naphtha Prices

Naphtha prices have dived in Asia over the past two months but the light product, used mainly as a petrochemical feedstock, is expected to rebound as new petchem projects start coming on line over the next few years.

Fears that demand for transportation fuels could peak by 2030 as vehicles become more efficient and new energy vehicles gain global traction are prompting refiners to think of new outlets for refined products. In Asia, where the petrochemical industry uses mainly naphtha as a feedstock, this is translating into a slew of new projects.

"In Asia-Pacific, refining additions are mainly seen as a petrochemical feedstock generator," Petronas trader Wong Yoke Phooi told the Condensate and Naphtha Forum in Singapore. The Malaysian state-run firm, which expects to start up its 300,000 barrel per day Rapid integrated refinery and petchem scheme in 2019, sees up to 3.38 million b/d of new refining capacity coming on stream in Asia from 2019-25, all with petchem units.

Energy Intelligence's Research & Advisory service forecasts that Asia will account for over 40% of annual global petrochemical demand growth through 2025.

In China alone, which suffers from refining overcapacity and where new, stand-alone refineries are unlikely to be approved, five petchem investment proposals have been announced since July. All are likely to rely at least partly on naphtha as a feedstock (EIF Nov.7'18).

While the Asia-Pacific region has traditionally been short of naphtha, the product's price has nonetheless been battered this year by the low price of gasoline — the other main outlet for naphtha. It has also faced steep competition from rival liquefied petroleum gas (LPG), and weak ethylene margins attributed to the start-up of three US ethane crackers in the past year.

Naphtha's crack, or premium, to Brent has fallen sharply to under $15 per ton in Singapore, its lowest level in over two years. Producing and selling naphtha is usually seen as profitable when the crack is at $75/ton or wider. It has been below that level for almost a month and appears to be in free fall.

"Our six-month outlook is beearish but there is some light at the end of the tunnel," Sri Paravaikkarasu, head of East of Suez Oil for consultancy FGE told the forum, organized by Conference Connection.

New petchem capacity will lead to Asia's naphtha deficit deepening from around 1.4 million b/d this year to 1.8 million b/d by 2025, helping a partial recovery in naphtha cracks, Paravaikkarasu said. This will be capped, however, by large volumes of naphtha available in the US and Europe.

The question is how long the naphtha price recovery will last? With petchems the latest panacea for falling oil demand, the risk is that too much investment leads to overcapacity, and undermines the competitiveness of some projects.

The low cost of US ethane projects and Mideast petchem schemes may make it hard for Asian players to compete on the global petchem stage.

The US petrochemical revival may be coming to an end but Middle East state oil companies are preparing their own wave of downstream integration, seeking to take advantage of their cheap feedstocks, from ethane to naphtha and LPG, which they export to Asia — and even crude oil to produce higher-value products (IOD May15'18).

Security of supply will be the obvious advantage for Mideast over Asian projects, according to an analyst with a Middle East company. "China is the biggest customer but it does not have raw materials. It already imports more than 60% of its crude," he told Energy Intelligence. "The worst is South Korea, which imports 100% of its crude. The petchem projects could be hit badly if there are no supplies.". ■

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