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When The Dust Settles:
Condensate & Naphtha In A Post-COVID World

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Naphtha key support for condensate value in the short term: FGE

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**Firm light naphtha market underpins condensate value

**Condensates with high light naphtha yield in demand

Strength and tightness in the light naphtha segment followed by eventual improvement in middle distillates next year could help strengthen condensate valuations, said Facts Global Energy, or FGE, on Oct. 21 in a presentation at the Condensate & Naphtha Digital Forum 2020 organized by Conference Connection.

"In the short term we certainly see much more support from the olefins complex than we are seeing both on the transport fuel side of things as well as on the aromatics side of things," said Thomas Olney, global head of NGLs at FGE.

"In the olefins side of it we are certainly seeing support -- a lot of cracker projects, LPG-naphtha flexibility -- and we are not really seeing availability on the supply side in order to feed those projects," Olney said.

Steam crackers use light, high paraffin content naphtha grades to produce olefins, for which the margins have been in positive territory for integrated producers for several months.

S&P Global Platts data showed the spread between CFR Northeast Asia ethylene and feedstock CFR Japan naphtha physical assessments has been above integrated producers' breakeven spread of about \$250/mt since May 12. Platts last assessed the spread at \$452.125/mt at the Oct. 20 Asian close.

The positive olefins margins have driven Asian steam crackers' demand, with most operating at full capacity, but limited supply had driven up prices for these light naphtha grades suitable for cracker feedstock, market sources said.

LIGHT NAPHTHA-RICH CONDENSATE

An expected increase in petrochemical capacity in the next five years, which will have a focus on LPG-naphtha flexibility as feedstock, will also drive condensate premiums in the East of Suez, Olney said.

In addition, Middle East projects focusing on producing clean fuels could reduce naphtha availability in the market, he noted.

"The Middle East is cutting back on its availability so that will strengthen the naphtha market, particularly for the lighter naphtha cut, and strengthen condensate that have more favorability to light naphtha [production]," said Olney.

Price differentials of Australia's North West Shelf condensate have taken a beating for most of this year, plunging to discounts of \$14.60/b to Platts Dated Brent crude assessment, FOB, at its lowest in May from premiums of 40 cents/b in January, Platts data showed.

An uptick in end-user demand, however, has improved differentials in recent weeks, with the condensate last assessed at 55 cents/b discount to Platts Dated Brent, the data showed.

Refineries have increased uptake of ultra-light crudes and condensate to increase naphtha yields and minimize distillate output, sources said.

"So if you got a grade of condensate that minimizes distillate yield and maximizes light naphtha cut, I think it will be a favourite grade within the market going forward," Olney said.

While the economic downturn due to the coronavirus pandemic has taken its toll on middle distillates, Olney said looking ahead, the segment was expected to improve in line with industrial activity in 2021, further improving pricing for condensate.

"Not forgetting you basically still have 10 years of ships that need low sulfur fuel oil," Olney said.

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