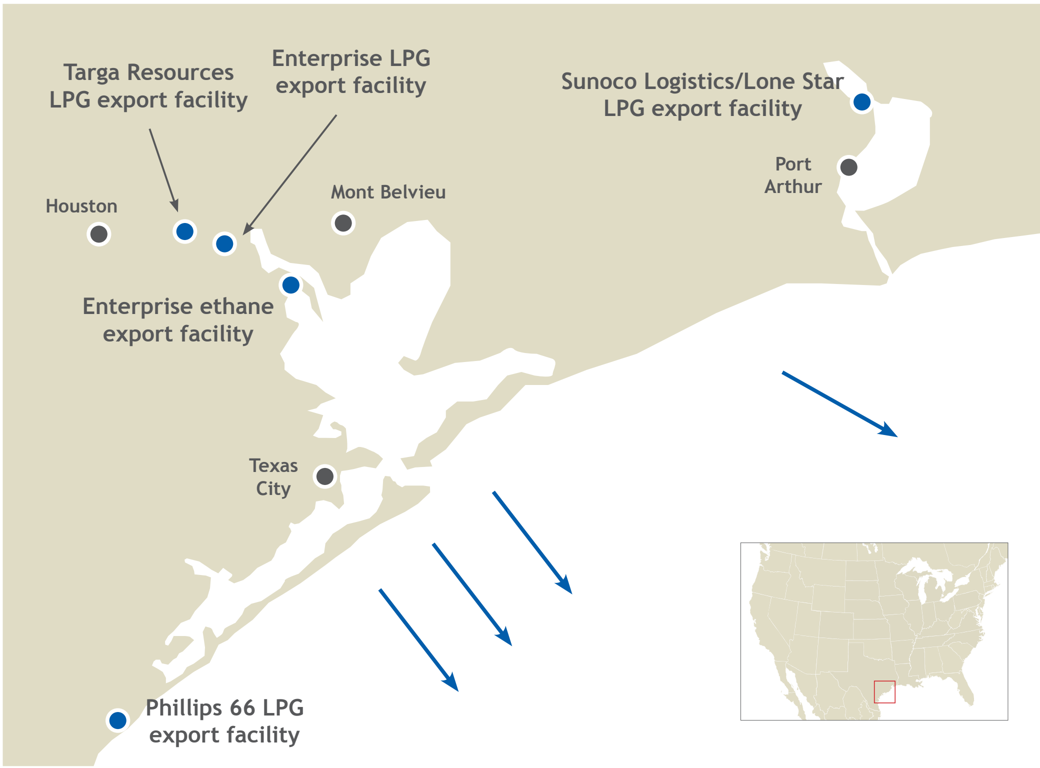
Argus Propane fob USGC

Emerging Gulf Coast spot market

Gulf coast terminal operators exported half-million barrels of propane each day last year, up 40pc from 2014 and more than double 2013 shipments. Much of that left the country on very large gas carriers (VLGCs), each of which can carry at least 550,000bl of propane. The ships load propane and butane at terminals near Houston or Nederland, Texas, discharging as close as Latin America or as far away as Japan.

With terminal capacity-holders now reselling cargoes and swapping loading dates, a robust propane spot market is starting to emerge, providing traders with a liquid market and clear price discovery. That liquidity is set to grow, as more terminal capacity comes online, more VLGCs are delivered, and new arbitrages open and close.

LPG export facilities



Effective February 2016, Argus begins new coverage of this emerging Gulf coast spot market.

The new assessment – Propane fob USGC

Argus Propane fob USGC reflects the going price of VLGC cargoes loading 30-45 days forward, free on board (fob) at Gulf coast terminals. It represents an evolution of Argus' existing market coverage, replacing the previous "USGC export" assessment, which reflected the price of waterborne propane under long-term contract.

How does Argus cover this new market?

Propane fob USGC is assessed and expressed on a Mont Belvieu plus basis, the same form in which trade takes place. The differential to Mont Belvieu is published in Argus NGL Americas and Argus International LPG.

Propane fob USGC is also expressed as an outright price – calculated by adding together the differential and basis – to help analysts and traders better gauge the arbitrage to other markets.

The basis is calculated by weighting Argus' Mont Belvieu Enterprise propane assessments according to the number of days of the 30-45 day assessment window that fall in each month. As you can see in the example to the right, 22 February basis equals 33.44 (¢/USG).

Days forward	Date	Propane Enterprise contract mo	Propane Enterprise (¢/USG)
0	2/22/2016	February	32
1	2/23/2016	February	32
2	2/24/2016	February	32
...	...	...	...
...	...	...	...
...	...	...	...
27	3/20/2016	March	33
28	3/21/2016	March	33
29	3/22/2016	March	33
30	3/23/2016	March	33
31	3/24/2016	March	33
32	3/25/2016	March	33
33	3/26/2016	March	33
34	3/27/2016	March	33
35	3/28/2016	March	33
36	3/29/2016	March	33
37	3/30/2016	March	33
38	3/31/2016	March	33
39	4/1/2016	April	34
40	4/2/2016	April	34
41	4/3/2016	April	34
42	4/4/2016	April	34
43	4/5/2016	April	34
44	4/6/2016	April	34
45	4/7/2016	April	34
46	4/8/2016	April	34
47	4/9/2016	April	34
48	4/10/2016	April	34

BASIS = 33.44 (¢/USG)

How do market forces set the price?

As the arbitrage from the US Gulf Coast to other regions and spot freight rates move continually, term lifters at US export terminals sometimes determine it is more profitable to resell a cargo than cancel it altogether. A term buyer will calculate the difference between the agreed cost of loading and the agreed cancellation fee, and then attempt to resell the cargo above the cancellation level in the spot fob market.

For example, a term lifter who agreed to a terminalling fee of Mont Belvieu +8¢/USG may resell cargoes at Mont Belvieu +3¢/USG rather than face an agreed 6¢ cancellation fee. If the difference between the terminalling fee and the cancellation fee (in this case 2¢/USG) is less than the spot fob price, then the term buyer will benefit from reselling the cargo rather than cancelling it.

In other situations, the arbitrage to move cargoes to other regions may be open, but the term lifter may have no access to a vessel. This may force the lifter to sell the allotted cargo on a spot basis, or perhaps swap loading dates with another lifter in a similar predicament.

Traders and other buyers of these resold cargoes are monitoring these "spot fob prices" very closely to take full advantage of these opportunities. By offering market participants a clearer view of the spot cargo market, Argus allows term lifters and traders to better evaluate their options.

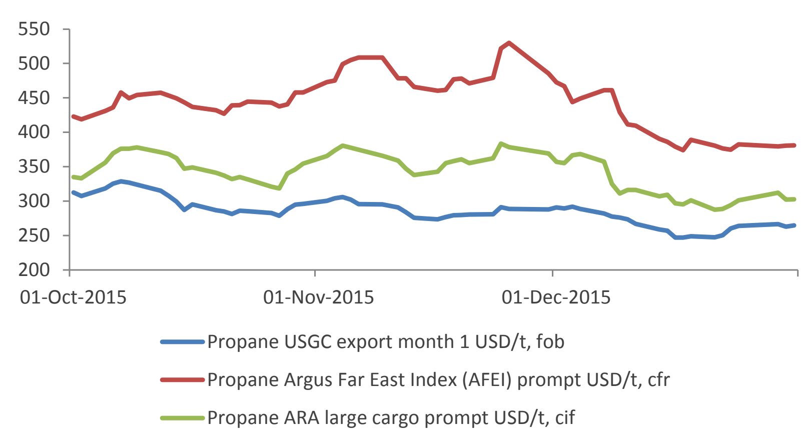
The cost of freight

The cost of moving propane out of the US Gulf can vary enormously depending on global demand for vessels. Owners of very large gas carriers (VLGCs) typically charter them out on a dollars-per-day basis, although some will occasionally offer a $/t price for a single, spot voyage. Argus assesses the cost of spot voyages from the US Gulf to Flushing and Chiba, providing readers with an all-in cost (AUSE and AUSJ) for bringing US origin propane in to the European and Japanese markets.

These assessments are published in both Argus NGL Americas and Argus International LPG.

Fore more information or to request a complimentary trial of Argus NGL Americas or Argus International LPG, please contact us at: moreinfo@argusmedia.com

Propane exports compared to large cargo prompt



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