SIBUR for Clients
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THE GAS MARKET OUTLOOK

Participants at Argus' virtual conference discussed LPG production, consumption and export development in Russia and globally.

On 19 November, the Argus independent price assessment agency, held its annual online Argus LPG 2020: CIS and Global Market conference, devoted to the liquified petroleum gas (LPG) market development. More than 200 participants fr om 32 countries joined the online livestream. SIBUR has been the event's General Sponsor for many years.

DAVID APPLETON

"Prices for LPG will most likely exceed those for naphtha and other oil products due to a low demand from the transport sector following COVID-19 restrictions"

Conference participants discussed changes in global consumption trends, and issues facing the European LPG market and its outlook. Experts spoke on the latest development tendencies in Russia, the CIS and Central Asian states, as well as the specifics of exporting Russian LPG to China. Other matters addressed were feedstock supplies for the Russian petrochemical industry and the expansion of liquefied gas transshipment infrastructure.

David Appleton, head of business development at Argus, spoke about the key trends in the LPG market. Summarising the overview of trade flows and pricing trends in the Asia-Pacific region, Appleton noted "the market's fast adaptability to any changes, which is almost instantly reflected in prices."

"In 2021, we'll continue to follow the progress of the OPEC+ deal's impact on the global oil prices," said Appleton. If the oil price collapses, it may threaten LPG production. The results of the recent US elections will also play an important role: time will tell whether Iran will return to the transshipment market.

According to Appleton, prices for LPG will most likely exceed those for naphtha and other oil products due to a low demand from the transport sector following COVID-19 restrictions.

Alexey Markov, Director of Feedstock Supply, Hydrocarbon Feedstock Sales and Marketing at SIBUR, presented an overview of Russia's LPG market and the Company's positions in it.

“Over 9M 2020, production sank to 300 thousand tonnes of LPG, mostly because of the OPEC+ agreement to cut oil production,” said Markov. “This is a significant decrease, and we had a local deficit in Q3 exactly because of the slowdown in oil production and refining. In petrochemicals, however, LPG consumption increased thanks to ZapSibNeftekhim. Exports shrank the most, but all non-exported volumes were welcomed by ZapSibNeftekhim.”

According to Markov, in Q4, the market is under the influence of the second wave of restrictions, so the community feels only cautiously optimistic about next year. “With the worsening global epidemiological situation, the precarious supply-demand balance is at risk,” he added.

Speech by Alexey Markov.

“There is good news for the long-term horizon,” believes Markov. “LPG production will grow mainly with the gradual launch of new oil and gas projects (from 14.8 million tonnes this year to 22.6 million tonnes by 2026). The use of LPG in the utilities sector and as a motor fuel will increase marginally, but exports will mostly benefit from geographic expansion (from 0.2 million tonnes in 2020 to 9.1 million tonnes in 2026). As for SIBUR’s geographic footprint, the Company’s export share will change with the launch of new facilities.”

ALEXEY MARKOV

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In addition to the commissioning of ZapSibNeftekhim this year, SIBUR started the construction of the Amur GCC. With a focus on the Asian market, mainly China, it is set to become one of the world’s largest gas chemical facilities. Thus, according to Markov, SIBUR is now more engaged in petrochemicals and LPG production than the fuels market.

Gas exports to China were discussed by Ilya Zaymentsev, development director at Avestra Group. Zaymentsev noted that the potential for exports of Russian LPG to China is great, while the Chinese market is attractive for Russian suppliers because of its consistently high rate of consumption and lower dependence on global price fluctuations. He also spoke about the opportunities for exports through the Manzhouli Far East Gas terminal at China’s Manzhouli station.

The global changes in LPG maritime trade flows and their impact on the European market were covered by Martin Kjendlie, senior analyst at Fearnleys. The recent upward trend in US exports to northern Europe and the Mediterranean is likely to continue in the coming year, he said.

The topic was continued by Ted Young, Chief Financial Officer at Dorian LPG (USA), who presented an overview of the LPG shipping market. He estimated that 109 million tonnes of LPG were transported by sea last year and forecasts it to decline by 3% by the end of this year. US exports are expected to increase by 15% this year, while shipments from the Persian Gulf countries are expected to decline by 10%. The USA has become the world’s largest exporter and one of the Chinese market’s key LPG suppliers.

Svetlana Novolodskaya, a senior editor at Argus, explained why the COVID-19 pandemic was the key impact factor for the LPG market balance in 2020. LPG production increased by 126.6 thousand tonnes in Q1, dropped by 19% in Q2 and amounted to 1.1 million tonnes in May, which was the lowest since April 2015.

LPG exports and transportation were also restructured: shipments to the Baltic countries, which had been steadily growing until 2019, showed a sharp decline in 2020.

ILYA ZAYMENTSEV

“The Chinese market is attractive for Russian suppliers because of its consistently high rate of consumption and lower dependence on global price fluctuations”

Ukraine’s market remains flat on the 2019 level, with growing imports to Odesa, Mykolaiv and Reni.

Kazakhstan remained the strongest exporter in 2020. The country’s leading gas producer Tengizchevroil is estimated to have produced a record high 1.46 million tonnes of LPG. 9M gas exports have grown significantly year-on-year, particularly to China (almost doubling), Afghanistan (about 30%), Russia (34%), Ukraine (21%), and Georgia (7.5 times growth), and the country started exploring new export routes to Azerbaijan and Uzbekistan.

Novolodskaya also forecasts that SIBUR’s export dominance will weaken next year: “The market is waiting for new producers – Rospan International (Rosneft) and Amur GPP (Gazprom) – while Irkutsk Oil Company expects to boost the freight turnover at its railway terminal on the Chinese border to 800 ktpa by 2021-end. Stricter sulphur limits imposed by European countries will pose a new challenge: Russian exporters will have either to sell at a discount or look for other export destinations wh ere sulphur requirements are less stringent.”

Leonid Kruchinin, Deputy CEO of Impexneftekhim, closed the conference with a talk on the current feedstock availability for Russian petrochemistry.