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LPG shipping prospects - a volatile voyage ahead

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The LPG shipping market enjoyed a boom in 2014 and 2015 resulting in a surge in VLGC orders, leading to overcapacity, and the market now looks to be in for a rough ride until 2020.

A recent Evercore/ ISI webinar featured a presentation by Poten & Partners' Houston-based LPG guru, Michael Parsa who described 2016 as "a challenging year for the LPG market". A year in which US exports continued to increase, driven by increased demand into Asia, but a big increase in Saudi exports was described as "the big surprise".

Overall growth from the Middle East region was pegged at 3m tons. On the demand side, increases were small, and "not enough to balance the market" even with burgeoning imports into Chinese and S Korean petrochemical facilities.

The shipping dynamic shifted in 2015, as the energy price matrix ratcheted downward to one of oversupply. Parsa pointed to a Baltic $ per ton rate - on a 44,000 ton cargo, Middle East to Asia - for VLGCs that averaged $92 per ton in 2014-2015 - driven especially by the US exports to Asia - dropping to $30/ton in 2016, as newbuilds ordered in the boom time now entered a market where fundamentals driving growth had turned downward.

Delving into the underlying markets for LPG, he showed that, in much of 2016, the "arbs" - difference between price in Asia versus the price at the US Gulf "Mount Belvieu" hub - could not support freight rates that owners needed.

Going forward, the forecast suggests that "global LPG trades decelerates towards 2020," with the Middle East exports growing more rapidly than those from the Americas. On the import side, incremental demand into Asia continues to grow the fastest.

Parsa delved deeply into the underlying situation, showing that the continued growth of Asian petrochemical usages (PDH- a process for making propylene, and steam cracking, a process for freeing up lighter hydrocarbons) will be critical for creating the demand that will balance the market. For LPG shipping, the implications will depend on the volumes and destinations of cargoes coming out of the US, which will have biggest impact on the ton miles.

"The more LPG going to Asia.....the more ton miles.....and the happier that shipowners will be," the Poten analyst said. Still, he offered a cautious view on freights for VLGCs showing continuous downward pressure with vessel supply exceeding likely vessel demand, through 2020 when vessel supply and demand might come into balance.

He said, "We expect that 2017 will be the worst year for VLGC shipping....as more vessels are coming into the market...." Perversely, the opening of the new locks at the Panama Canal, with the Panama Canal Authority pointing to LPG cargoes as an important component of its cargo growth, post-widening, is actually a depressant on ton-miles- when compared to the longer Cape transit on US Gulf/ Asia liftings.

The bright spot, if there is one, is that the TCE's for VLGC's took a turn upward, in late 2016, with hires now slightly above daily opex (not the case in mid year), though daily capex is not being covered. Looking ahead,

Panas sees volatile freight rates in the next couple of years, fluctuating between $15 per ton, which equates to coverage of opex, and $30 per ton, basis the Baltic rate, with rates above $30 per ton going towards 2020 "provided that shipowners will not add more VLGCs on the water".

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