POTEN & PARTNERS
LPG in World Markets

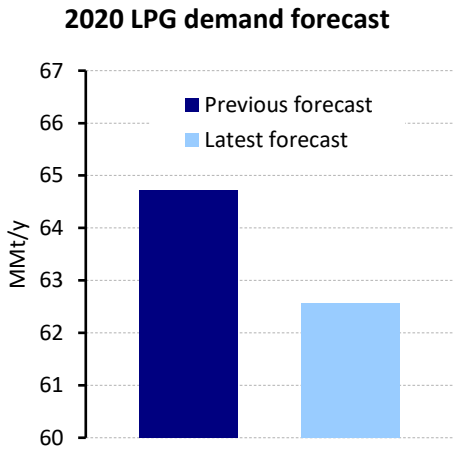
Coronavirus to decrease Chinese LPG demand by more than 2 MMt in 2020

SPECIAL UPDATE
Coronavirus impact

The novel coronavirus (COVID-19) outbreak is having a significant effect on the Chinese LPG market which is expected to decrease LPG demand by 3% for the year when compared to Poten's previous forecast in January. The decrease is driven by lower operating rates at PDH plants and declining demand from the residential and commercial sectors.

However, consumption from PDH plants and res/com demand is expected to recover in 2Q. The shipping market may also see impacts due to extended voyages, quarantine requirements and other compliance issues. If cargoes are deferred or delayed going into China, it may temporarily tighten the shipping market. Extended decreases in demand from China, on the other hand, may decrease the total number of vessels in use and lengthen the shipping market.

Poten expects LPG production to fall by roughly 11% in February from January levels as Chinese refineries cut refinery runs as they respond to an expected drop in demand of up to 15%. As a result, imports are forecast to fall by 27% for the month. On an annual basis, LPG demand is expected to reach 62.5 MMt/y for 2020, down 2.1 MMt/y from the previous forecast. LPG imports are now forecast roughly 1.6 MMt/y lower to 24.7 MMt/y in 2020. However, demand and imports will be higher than 2019 figures with the start-up four new PDH plants, assuming the impact of the CONVID-19 outbreak is not prolonged.



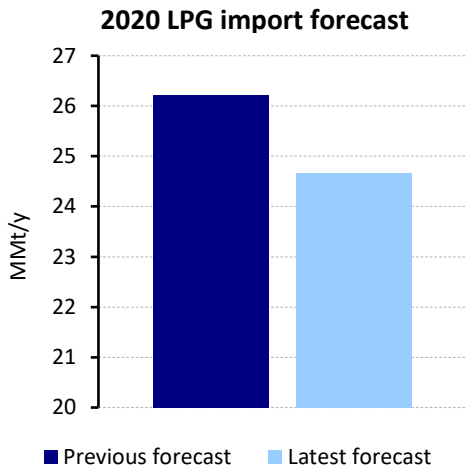
LPG demand in the residential and commercial sector, which accounts for roughly half of Chinese LPG demand, was curtailed by more than 70% in January due to restrictions on travel and the extended Lunar New Year holidays which were taken in hopes of containing the outbreak. Major chemical companies like Oriental and Wanhua with integrated downstream units are expected to continue operating their PDH units at normal rates. However, some non-integrated PDH plants are lowering operating rates amid weaker downstream demand and supply chain constraints. Others are delaying restarts following scheduled maintenance.

The extended holiday ended on 9 February; however, the economic recovery is expected to be slow as people in major cities are still avoiding coming to work and traveling in order to avoid catching the disease.

Major importers like Oriental, China Gas, Jinshan, and Jovo are in the market trying to re-sell their cargoes amid lower expected demand. Some importers are also requesting deferrals. As yet, there are no confirmed deferrals; however, if prices are depressed further, some of cargoes most likely will be sold to buyers in other counters like Indonesia, Japan, South Korea and India.

Tianjin Bohai is reportedly delaying the restart of its 600,000 t/y PDH plant from Feb. 6 until the end of the month potentially cutting LPG demand by more than 50,000 t due to weakness in the propylene market. Fujian Meide, which achieved mechanical completion of its 660,000 t/y PDH plant in 4Q 2019 is delaying startup from 1H February to 2H February. Poten expects the startup will be delayed further if the situation does not improve. Meanwhile, Zhejiang Satellite which has a 450,000 t/y PDH plant has lowered operating rates to 70-80%. Three other PDH plants have reduced operating rates but the exact amount is still unknown.

There are four new PDH plants that are expected to start in 2020. Poten expects the startup dates for all of these plants will be delayed, especially Zhejiang Petrochemical's 450,000 t/y PDH and Zhejiang Huahong New Materials' 450,000 t/y PDH both of which were scheduled to start during 1H 2020.



As of now no Chinese buyers of LPG have declared *force majeure* due to coronavirus though epidemics are often a valid reason in supply contracts.

Meanwhile, full-year domestic production is expected to fall more than 3% year-over-year in 2020 due to lower refinery run rates.

Chinese state-owned refiners are expected to cut operating rates by 20% in February compared with January due lower refined product demand, according to JLC. Sinochem Quanzhou and CNOOC refineries in Ningbo Daxie and Huizhou will cut crude runs by 5%-10%. Independent refiners in Shandong cut refinery rates to 49% in early-February and could cut rates as low as 40% later in the month. Chinese gasoline, diesel and jet fuel consumption is expected to drop by 15-20% in February due to extended holidays and restriction on travels and public gatherings. As a result, overall refined oil production is likely to drop by over 15% in February, the agency said.

The market should recover moving into the summer as health experts suggest the spread of these types of viruses subside in warmer temperatures. Until then there will be sharp drop in LPG demand and imports.

The shipping industry is also preparing for different scenarios, including potential infection of crews, quarantine measures, port restrictions and repercussion on charter party obligations, all of which could increase operating costs and cut into profits.

Vessels including VLGCs have been reported facing some delays as crews suspected of being infected are tested. If there is actual reported infection, vessels would be placed under a 14-day mandatory quarantine.

VLGC Pacific Yantai was held up for four days before it was allowed to berth at Ningbo, China even after it passed the 14-day threshold after leaving Middle East as one crew member was showing symptoms but later tested negative.

Currently, only Jiaxing Zhejiang province is having some issues related to shipping quarantines, said a source.

In such a case which party will bear the cost is still a question. "Shipowners will most likely add a provision going forward to clarify responsibility," said a source. In addition, any vessel leaving China is advised to report to discharge or bunkering ports and to the Panama Canal if it will be transiting the waterway ahead of time, according to sources. This could potentially add a premium for shipments to China.

The Singapore Maritime Port Authority (MPA) issued a circular on 1 February stating all vessels that have called at ports in mainland China or with crews that traveled there will have to submit a Maritime Declaration of Health Form. There are similar requirements from all ports in the UAE, Kuwait, Saudi Arabia and Qatar for vessels that visited China in the last 30 days prior to calling at ports. The Indian Ministry of Shipping also sent out a memo stating foreigners who have been to China on or after Jan. 15 , are not allowed to enter India from any air, land or seaport including Indo-Nepal, Indo-Bhutan, Indo-Bangladesh or Indo-Myanmar borders.

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