

Asia forward contract debuts

The Asia-Pacific market has a new trading contract — for forward delivery of physical tonnage.

Singapore-based naphtha brokerage Gingga Petroleum and UK brokers LPG Connect launched the LPG forward contract on 21 June.

The contract is a physical forward contract for fixed-price trade for delivery into Japan and Korea. No trades have been carried out since its inception, but this may be more a reflection of the generally low liquidity in the Asia-Pacific LPG market at present.

The main draw of the forward contract is that the spot market would be more transparent — which is not to everyone's taste. As one trader says: "If this really develops, the transparency will just dominate the market and importers will never see an offer like Saudi monthly Contract Price plus \$15/t again, like they are now seeing in a bearish market desperately short of buyers."

Hopeful

Both Gingga and LPG Connect decline to predict what level of trade volumes the contract will attract. But they are hopeful that once all players get used to the contract, it could grow in the same way as open specification naphtha contract did over in time in Asia.

Given that the LPG forward contract is a new and untested development, its success really hinges on whether Japanese and South Korean end-users warm to the concept and feel comfortable trading it.

Without the participation of Japanese and South Korean firms, there is unlikely to be sufficient liquidity to make it viable. The contract will be discussed at a seminar in mid-July during the Purvin & Gertz LPG conference in Singapore — and attendance for this looks solid. But, as one Asia-Pacific trader, says: "Attendance and interest doesn't necessarily bring them to the table to play the game."

Key contract details

- 20,000t of propane (± 10 pc) or 10,000t propane/10,000t butane (± 10 pc)
- Pricing in \$/t
- Delivery: CFR, either first half month or second half month
- Origin: Arabian Gulf (excluding Iran & Iraq), Yanbu, Indonesia (Bontang only), Australia, Malaysia (propane only), Nigeria (Oso only), Algeria (propane only), North Sea (Karsto only)
- Specifications: Saudi Aramco's standard LPG specification or similar
- Vessel age: 20 years maximum

The industry's reception to the forward contract has so far been welcoming but cautious. Traders and investment banks active in LPG say they need to see more liquidity in the contract before participating. LPG brokers, both in the physical and swaps markets, are also watching its development closely. Swaps brokers broadly consider that the forward contract may benefit the swaps market — liquidity from one contract spilling to the other.

No competition

One LPG broker active in broking the physical market rather than swaps is confident that the contract will not take away business from the current spot market. "The concept may take off but I can't see everyone using it all the time," says the broker. "It will be a parallel trading mechanism but it won't replace traditional physical trade as we know it. Traders are not stupid enough to think they have to trade through one channel only."

Other physical brokers are hedging their bets, with one saying: "If it works out, we'll think about joining in and giving Gingga some competition."