

## Forward contract shows signs of life

The Asian forward “open-specification” LPG contract is gathering momentum — albeit slowly.

The terms of the contract, created by brokers Ginga Petroleum and LPG Connect, have been further fine-tuned after a special forum on the issue held last month during the Purvin & Gertz LPG seminar in Singapore (*LPGW*, 21 July, p1). But one key issue that cropped up, namely the inclusion of Iranian-origin cargoes, remains unresolved.

Although no deals have been reported so far, there are encouraging signs of a pick-up in interest.

*Argus* understands that 13 companies have so far submitted either bids or offers. Of these, 10 are western traders. More encouraging, perhaps, is that the other three were importers — two South Korean companies and one Japanese firm.

### Make or break

These are the companies whose decision about participation will make or break the forward contract, as it is intended as a useful hedging tool for Japanese and South Korean firms importing LPG from the Middle East and elsewhere.

Another positive signal is that the bid-offer spread on the contract has narrowed, making the possibility of a deal tantalisingly close. In the early stage of the contract’s life, bids and offers were sometimes separated by a gulf spanning as much as \$30/t.

The general reluctance to be the first to try out this new trading platform has been a big setback. Ginga Petroleum and LPG Connect jointly rolled the contract out on 21 June. They are hopeful that, once a deal has been done, liquidity will pick up as players grow more comfortable with the new trading platform. As it is, there is no shortage of support

### Amended contract details

- **Quantity**
  - Old:** propane 20,000t ±10%, propane 10,000t ±10% & butane 10,000t ±10%
  - New:** propane 22,000t ±5%, propane 11,000t ±5% & butane 11,000t ±5%
- **Vessel age (maximum)**
  - Old:** 20 years
  - New:** 25 years
- **Timing of nomination:**
  - Old:** The previous contract stipulated that the seller had to make his nomination 15 days before the period of delivery, which is either the first or second half of a month.
  - New:** under the revised contract, the seller makes his nomination 15 days prior to the first day of the 5-day arrival range.
  - For example, if the delivery date range is 26-31 August (2H August):*
  - Old:** seller previously had to nominate on 1 August.
  - New:** nomination is due on the 11 August.
- **Working hours**
  - (One-hour extension)
  - Old:** 10am-6pm Tokyo time
  - New:** 10am-7pm Tokyo time

from the market. Traders and importers alike continue to express support and reiterate their hopes that the contract will succeed. But international investment banks and trading houses with the financial clout and muscle needed to boost liquidity — such as Morgan Stanley and J Aron — are still keeping their distance, reiterating their stance that they need to see liquidity before coming into the market.

The hold that the monthly Saudi contract price (CP) has over the Asia-Pacific market is a more difficult obstacle to overcome. Trading usually takes a hiatus in the run-up to the new CP announcement, stifling forward trading in the process. And this trading pattern looks unlikely to change.