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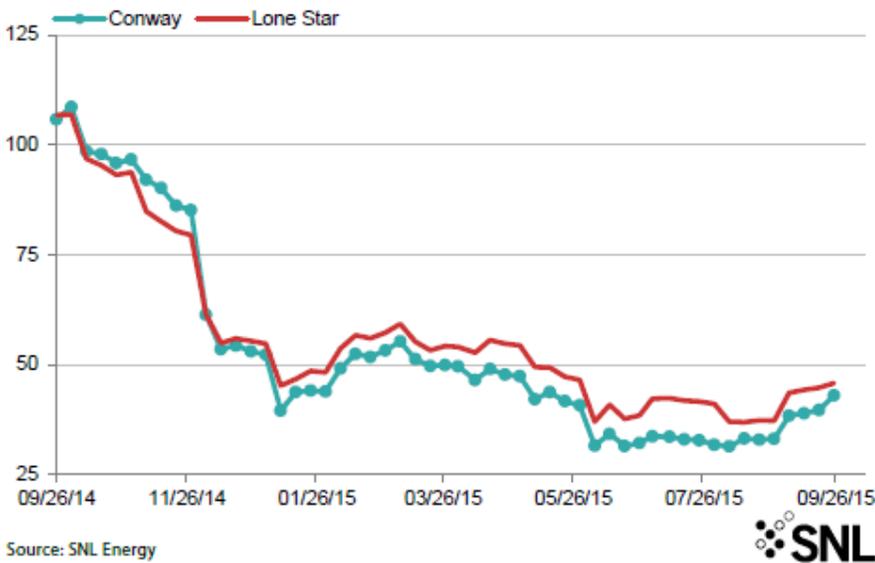
# Propane market trades firmly on early inventory drawdown

By Tom Pawlicki

The propane market advanced through the week ended Sept. 25 after inventories were drawn down several weeks earlier than usual. However, pricing spreads have tightened, according to sources, a clear signal of potential weakness has yet to be given.

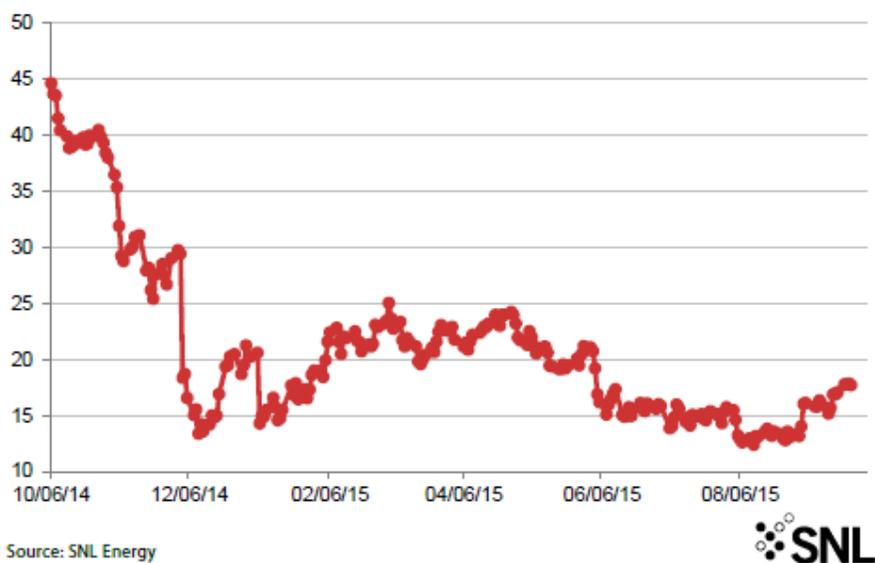
Lone Star pipeline grade propane at Mont Belvieu gained 1.00 cent to trade at 45.75 cents per gallon in the week ended Sept. 25, while non-LST propane rose 1.00 cent to trade at 45.60 cents per gallon. Prices at the hub in Conway, Kan., gained 3.35 cents and traded at 43.00 cents per gallon.

## Weekly propane prices (cents/gal)



The frac spread increased 0.82 cent to 17.68 cents per gallon on Sept. 24 and compared to 16.86 cents per gallon on Sept. 17. The price of natural gas fell 2.3% between the two dates while the average barrel of natural gas liquids rose 0.6%.

## NGL frac spread (cents/gal)



The SNL-calculated fractionation spread, or frac spread, is the difference between the weighted average price of natural gas liquids and the price of natural gas on a Btu basis. It is a general indication of the profit margin that a natural gas processor would expect to receive when the liquids are fractionated.

"Both [Conway and Mont Belvieu] hubs have very tight spreads between the buyers/sellers which seems odd given the fact that the market has been

rising," J.D. Buss, trading manager at Twin Feathers Consulting Inc., said in a note on the morning of Sept. 25. "A bull market will, and can, see sellers very willing to raise their price and keep the bullish activity in full swing. But the last couple days have seen a narrowing of the bid/ask (buy/sell) spreads which indicates a more stable market."

Buss said the market is overbought but has yet to provide a clear signal that a reversal is taking place.

One source of short-term support was provided during the week by inventories of propane and propylene, which fell 617 Mbbl in the week ended Sept. 18 to 97.08 MMbbl, according to the U.S. Energy Information Administration. The decline helped to narrow the surplus to the five-year average to 29.31 MMbbl from 30.70 MMbbl in the previous week.

The first inventory decline of the season arrived several weeks before the first drop in the five-year average, which occurs four weeks later in the week ended Oct. 16.

PADD 3 was responsible for most of the drop and fell 616 Mbbl during the survey week while PADD 2 lost 273 Mbbl. PADD 1 increased 60 Mbbl and PADDs 4 and 5 rose 212 Mbbl.

A second source of short-term support came from propane demand, which increased 269 Mbbl/d to 1.24 MMbbl/d.

While the demand increase and inventory decline may have bolstered propane prices during the week, further withdrawals from inventories are not assured over the next few weeks as weather forecasts are somewhat warm for the time of the year.

"[We] continue to have concerns about the demand situation in October and potential for stocks to still build through next month," Buss said.

[El Niño](#) conditions are anticipated to take place throughout the early part of the winter season, which could keep temperatures above normal and demand for heating fuels below-normal. Additionally, near-term weather forecasts show above-normal temperatures over the next couple weeks.

The latest six- to 10-day forecast from the National Oceanic and Atmospheric Administration shows above-normal conditions dominating the majority of the country through Oct. 5 expect for New England, the Mid-Atlantic and parts of the South Atlantic regions, which are expected to be near-normal. The eight- to 14-day forecast is similar to the six- to 10-day and projects temperatures through Oct. 9.

Prices of natural gas lost 4.1 cents during the week and settled at \$2.564/MMBtu on Sept. 25.

[Inventory data](#) from the EIA showed that an increase of 106 Bcf was made in the week ended Sept. 18, which was bearish compared to expectations from the SNL Energy [final survey](#) calling for a 93-Bcf injection.

Crude oil prices increased 68 cents in the week ended Sept. 25 and settled at \$45.70/bbl.

"The market is uncertain with a contingency of traders of the view that the global market is rebalancing and the worst of the oil glut may be over," Energy Management Institute principal Dominick Chirichella said in a note. "On the other hand there is also a segment of the market that has not bought into that view rather they see the glut as continuing and possibly even growing larger as Iran works its way back into the global market once sanctions are released. The divergent views in the market are resulting in the uncertain trading pattern ... that has been in play throughout most of the month of September."

Chirichella said that he holds the latter view that production is not going away anytime soon and that the oil market has more downside risks than upside opportunities.

"In looking at the overall global oil balances I still expect supply will continue to outstrip demand strongly through all of 2016, as additional Iranian oil will hit the market in 2016 and likely early in the year if Iran continues to meet all of the requirements set forth in the nuclear deal," Chirichella said.

The [number of rigs](#) targeting crude oil fell four to 640 in the week ended Sept. 25, according to data published by [Baker Hughes Inc.](#) Natural gas rigs lost one to reach 197 and are just one rig above the record low of 196 made in the week ended Sept. 11. Oil rigs are 12 above the low of 628 set in the week ended June 26.

*Market prices and included industry data are current as of the time of publication and are subject to change. For more detailed market data, including [SNL power](#) and [natural gas](#) index prices, as well as [forwards](#) and [futures](#), visit [SNL Energy's Commodities Pages](#).*