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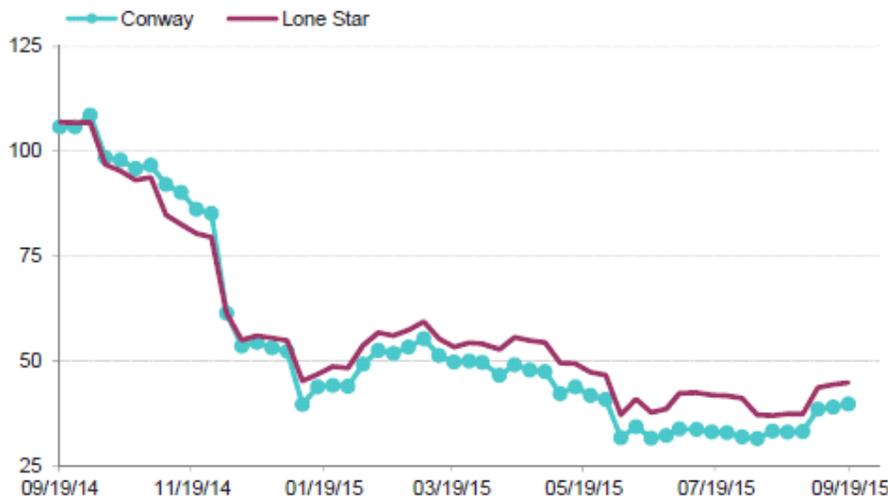
# Propane prices rise marginally with fall and winter demand around the corner

By Tom Pawlicki

The propane market advanced less than a penny during the week ended Sept. 18, with prices at the Mont Belvieu, Texas, hub rising for the third consecutive week. Support came mostly from the approach of the crop-drying and space-heating seasons, as inventory surpluses expanded sharply.

Lone Star pipeline grade propane at Mont Belvieu gained 0.45 cent to trade at 44.75 cents per gallon in the week ended Sept. 18, while non-LST propane rose 0.45 cent to trade at 44.60 cents per gallon. Prices at the hub in Conway, Kan., gained 0.70 cent and traded at 39.65 cents per gallon.

**Weekly propane prices (cents/gal)**



Source: SNL Energy



The frac spread increased 0.53 cent to 16.86 cents per gallon on Sept. 17 and compared to 16.33 cents per gallon on Sept. 10. The price of natural gas fell 1.2% between the two dates while the average barrel of natural gas liquids rose 0.6%.

**NGL frac spread (cents/gal)**



Source: SNL Energy



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.

"We've said it before and will say it again – as crude goes, so goes propane right now," J.D. Buss, trading manager at Twin Feathers Consulting Inc., said in a note on the morning of Sept. 18. "For the last few days we've also been saying that propane was and is heavily overbought. If today's price activity continues to show some slide, it could signal a turning point in the short term trend for propane."

The view that the propane market is overbought is helped by indications from the U.S. Energy Information Administration, which reported that demand for the fuel fell 189 Mbb/d in the week ended Sept. 11 to 975 Mbb/d.

In addition to weak demand, inventories of propane and propylene increased 1.14 MMbbl to a new record of 97.69 MMbbl. The increase helped to boost the surplus to the five-year average to 30.70 MMbbl from 30.17 MMbbl in the previous week. The record surplus of 31.654 MMbbl was set in the week ended June 5.

The five-year average will peak at 69.14 MMbbl in the week ended Oct. 9 this year, when demand gains tied to fall crop-drying and winter heating begin outpacing inventory replenishment.

Some support for propane prices came perhaps from inventories in the Midwest PADD 2, which increased 304 Mbb to 26.71 MMbbl. Despite the increase, the surplus to the five-year average fell to 405 Mbb compared to 695 Mbb in the prior week. The build only recouped about a third of the sharp drop seen in the [prior week](#) of 913 Mbb.

Lower natural gas prices provided some bearish influence on the propane market, as October futures lost 8.8 cents during the trading week to settle at \$2.605/MMBtu on Sept. 18.

[Inventory data](#) from the EIA showed a 73-Bcf injection into inventories in the week ended Sept. 11, which was in line with expectations from the SNL Energy [final survey](#) calling for the same amount. The addition compared to a 90-Bcf injection in the corresponding week in 2014 and a 75-Bcf five-year average build.

"NYMEX gas prices have held in the \$2.59-\$3.01/Mcf range since mid-May with a YTD average of \$2.77/Mcf; 38% below the comparable period last year," Brian Gibbons, analyst at CreditSights, said. "We continue to forecast a \$2.75/Mcf NYMEX average for 2015 and \$3.25/Mcf for 2016."

Milder weather over the upcoming winter and increased LNG shipments to New England could mean [less volatile](#) spot natural gas prices this winter, according a report released by Barclays Capital.

In the latest six- to 10-day forecast, temperatures are anticipated to be above-normal across almost the entire country except for the Pacific Northwest, which is expected to see below-normal temperatures, according to the National Oceanic and Atmospheric Administration. Most of Florida and southeastern Georgia may be near normal.

October crude oil prices rose 5 cents on the week and settled at \$44.68/bbl on Sept. 18.

Oil inventories fell 2.10 MMbbl in the week ended Sept. 11, however, inventories of gasoline and distillates increased 2.84 MMbbl and 3.06 MMbbl respectively.

"[T]he strong build in products in this week's report and the longer term increase in distillates should be a reminder that refinery margins have been the current savior for crude prices," Buss said. "Lose the incentive to refine products and crude inventories keep growing."

Buss said that it was difficult to suggest that the build in product inventories would be bearish for crude oil prices in the medium to long-term because the market could merely see an extended sideways movement that lacks overall direction. In the short-term, however, Buss thought that bearish action should continue.

Rig counts were mixed in Friday's report from Baker Hughes, which showed that rigs targeting crude oil fell eight and rigs targeting natural gas were up two. Gas rigs increased from the all-time low set in the preceding week at 196.

*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](#).*