

## John Wenzel

Senior Risk Manager

john.wenzel@stonex.com

INTL FCStone Financial Inc. - FCM Division



# Propane Market Outlook: 2021 & Beyond



## PROPANE DEHYDROGENATION PLANT BREAKTHROUGH

Recent advances in catalyst technologies have made it viable to take propane and strip the hydrogen molecules off to create propylene, the precursor to polypropylene plastic.



## PLASTIC DEMAND SEEN DOUBLING IN 10 YEARS!

Polypropylene is the most preferred material for packaging. Its light weight, strength and low energy use in production make it an ideal packaging material.

Industry experts expect use growth rates high enough to double overall use in 10 years.

## 2021 to 2022 Season Outlook

Propane inventory balances in the United States are at low historic levels for this time of year. Exports to China are thought to be increasing at a faster rate than US propane production, limiting inventory builds.

With less propane available entering the winter high demand season, many market participants are predicting higher prices this winter. Market forces could demand US propane prices rise higher to discourage exports and ration the available US production.

Globally, there is about 100 KB/day of new propane feedstock use by petrochemical plants, primarily propane dehydrogenation plants. This global export demand could be quite price resilient.

### RECOMMENDATIONS:

- Favor physical contract for gallons you know you can lift, favoring a swap for flex gallons or 10-20% of total contracts
- Buy low cost caps above the market with a put spread sold to minimize cost. Target 20% of non-contract sales for this protection in case market prices elevate fast. This will buffer the margin compression that can occur in a rising market.

## Longer Term Market Changes

The propane supply and demand balance is shifting from a typically oversupplied market to one that is under supplied.

The longer term issue for propane is that propane production is not a variable that can easily be increased, even if prices are higher.

The dynamics of the shift in supply and demand balance is switching the propane market from one that frequently had undervalued product pricing, to one that could experience more periodic overvalued price spikes. This makes it even more important for customer to contract their winter propane usage.

**More frequent price spikes makes it even more important for customers to contract their winter propane usage.**

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