



# Light and Heavy Naphtha: International Market Analysis

## Prospectus



# Contents

The Market ..... 2

Objective ..... 3

Key Questions ..... 4

Scope of work ..... 5

Deliverables ..... 6

Methodology ..... 7-8

Table of Contents ..... 9-11

Expert Team ..... 12

Qualifications ..... 13

About Chemical at IHS Makit ..... 14

About Energy at IHS Makit ..... 15

About IHS Markit ..... 16

# The Market

Oversupply of North American unconventional crude oil and natural gas has increased exports of most hydrocarbons and has profoundly impacted global energy and refined products prices. A slowdown in Asian demand and capital investments coupled with increase in North American and European commerce has resulted in large drop in prices of all the commodities, and has slowed-down international trade. From oversupply of light naphtha that IHS Markit reported last year, world petrochemical feedstocks will be oversupplied in the short term. But what to expect in the longer term, up to the life span of a new asset?

Strategy, operation and planning managers from around the world are asking for how long will the energy and feedstocks prices, as well as their corporate profits, be low? And, how will eventual increase in energy, commodity prices, and emergence of new demand centers impact future refining and petrochemical investments.

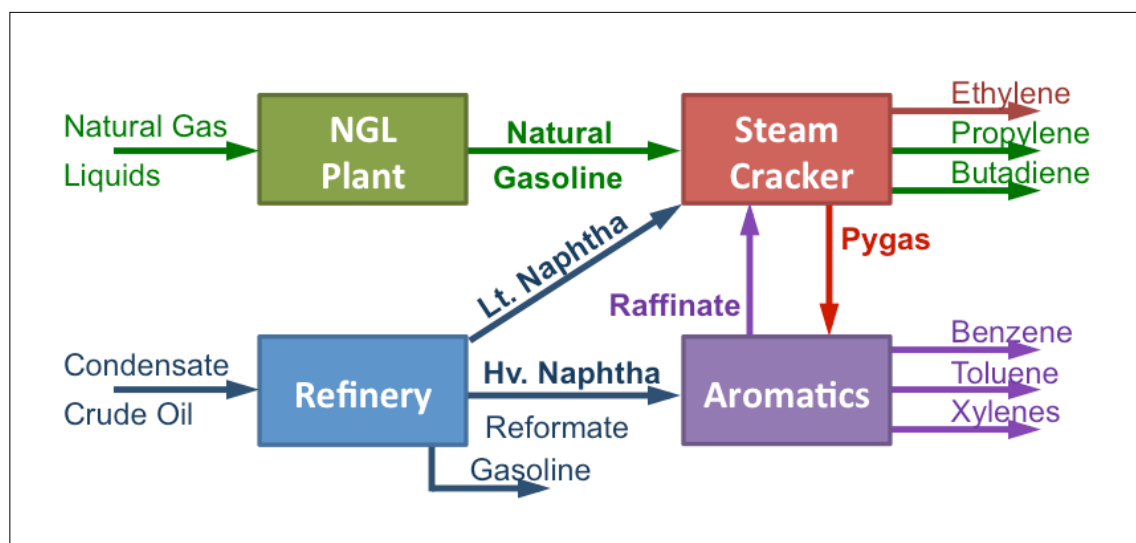
As the most important petrochemical feedstock and important gasoline blendstock, naphtha supply, demand and prices are directly or indirectly impacting refining and petrochemical margins. Knowledge of naphtha supply demand balances and prices will help you to:

- Understand gasoline and petrochemical demand growth in different regions, and whether those regions will have adequate amount of naphtha production to meet increase in demand
- See anticipated changes in naphtha trade routes and volumes, and develop longer term strategy about where should you expect to buy and where to sell naphtha
- Understand regional naphtha pricing dynamics and how much will different demand centers, like gasoline, be able to pay for naphtha in the future
- Be able to estimate the cost of production in different locations, and with that information decide in which regions around the world you should invest and in which regions you should decrease exposure
- Understand how the increased utilization of coal, natural gas and its liquids will impact supply of naphtha cracking downstream chemicals, and help you develop your company feedstock diversification strategy
- Provide you a direct access to IHS Markit naphtha experts with whom you will be able to verbally vet your understanding and ideas

# Objective

IHS Markit's Energy and Chemical provide this unique fully integrated in-depth analysis of global markets for light and heavy naphtha. This is a comprehensive global market analysis, including long-term supply, demand, trade, and price forecasts.

The Light Naphtha analysis covers light naphtha, natural gasoline, and includes heavy paraffinic naphtha that is not suitable feed for reforming. The Heavy Naphtha analysis covers naphtha with high naphthenic and aromatic content that is suitable feed for reforming. However, although with significantly different applications light and heavy naphtha balances and prices are closely intertwined. Each section quantifies, analyzes, and explains market fundamentals, trends, future risks, and opportunities through regional and global narratives. The review provides a 5-year history, the base year, and an annual 15-year forecast of supply, demand, trade, and regional pricing (2010-2030).



This analysis integrates deep our expertise in crude refining, condensate splitting, natural gas processing, aromatics, and olefins. The analysis:

- Differentiates light and heavy naphtha in supply, demand, and trade data
- Aggregates supply of light and heavy naphtha from all different sources
- Reconciles interregional trade separately for light and heavy naphtha
- Provides price forecasts of light and heavy naphtha in five main regions
- Defines price-setting mechanisms through a full price tier analysis

## Key Questions

- How will the emergence of North America unconventional oil, gas and natural gas liquids (NGL) impact Asia naphtha and gasoline markets?
- How will availability of relatively cheaper propane impact consumption of naphtha in Europe and Asia, as well as international naphtha trade?
- Will the Middle East invest in intraregional or Asian naphtha based petrochemical assets, and how will that strategy impact global naphtha and NGL markets?
- Will Asia consumption of heavy and light naphtha continue to grow in spite of recent over-investments in aromatics, olefins and refining sectors?
- Will South America light naphtha demand be more or less balanced with its production?
- How will the global light naphtha surplus be resolved?
- How and when more balanced supply/demand conditions may result in increase in naphtha prices, relative to crude and gasoline?
- How will lower energy prices impact the regional competitiveness for naphtha production?
- Where are the capital investment opportunities related to naphtha production and consumption?

# Scope of work

For light and heavy naphtha this analysis provides:

- **Market Analysis** by region, discussing key issues, market fundamentals, and trends
- **Supply/Demand Balance** by country and region (2010–2030)
  - Production from petroleum refining, natural gas processing, and condensate splitting
  - Demand from aromatics (benzene, toluene, xylene) and olefins (ethylene, propylene, butadiene)
  - Fuel-driven demand for gasoline and crude blending
  - Imports and exports by country
- **Price Forecasts** for the US Gulf Coast, Western Europe, and Asia
- **Production Capabilities** and operating rates for light and heavy naphtha, by country
- **Price Tier Economics** by end-use and region with price setting rationale

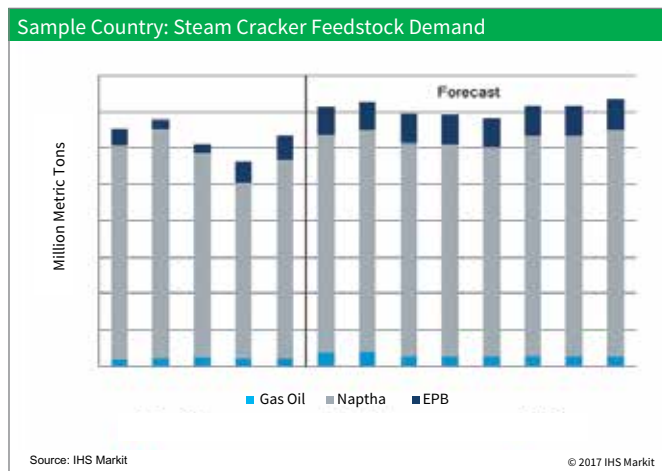
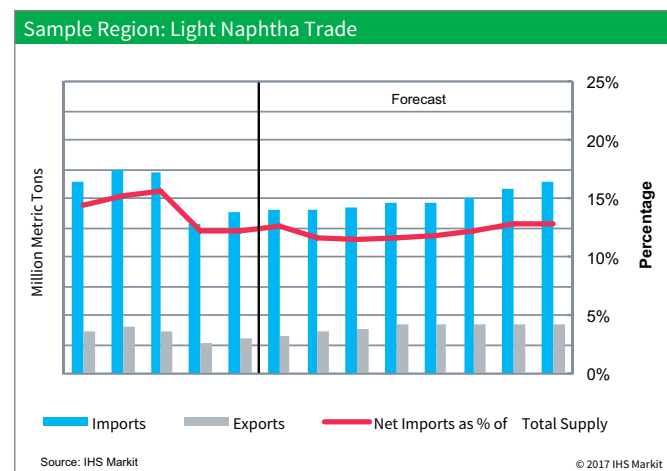
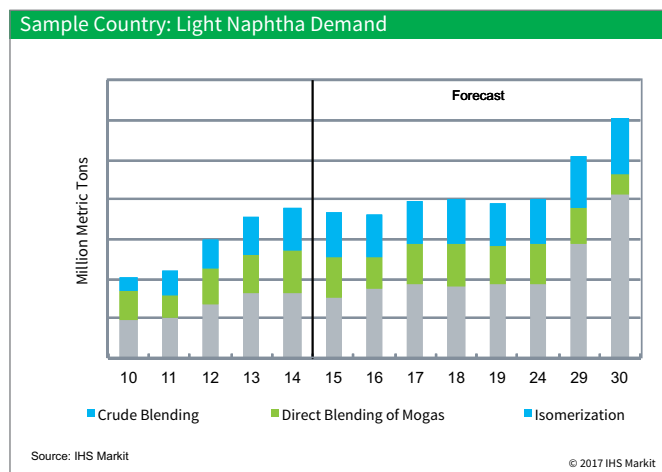
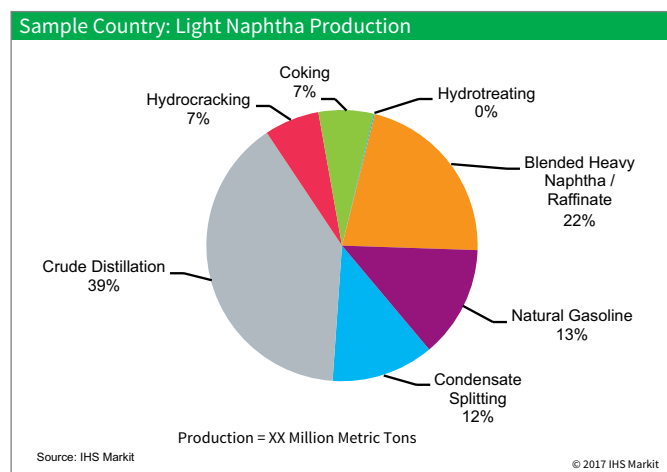


# Deliverables

This service provides:

- ✓ A full set of narratives about underlying market fundamentals, developments, and trends
- ✓ Online access to full spreadsheet file data sets
- ✓ Access to IHS Markit naphtha experts, who can provide additional explanation about market fundamentals and trends discussed in the review

## Sample Report Graphics



(y-axis values will be provided in the analysis)



# Methodology

IHS Markit's Energy and Chemical believe that this naphtha service is the first comprehensive long-term analysis that provides separate light and heavy naphtha supply and demand balances, international trade data, and prices. Traditionally, “naphtha” refers to the first liquid fraction from a crude distillation tower. In more general terms, naphtha is a refinery stream of C5–C11 material and is a major constituent of motor gasoline.

The balances account for all sources of naphtha – from the large volumes produced in refineries, condensate splitters and natural gas plants to the small amount of raffinate naphtha co-produced with aromatics and olefins. The supply and demand balances in this analysis account for all naphtha demand sectors, including production of gasoline, solvents, aromatics, olefins, methane, syngas and burning for energy.

Global naphtha is divided into two streams: light paraffinic and heavy reforming naphtha.

## Light Naphtha

The light naphtha analysis provides balances for light paraffinic / lean naphtha that is used as a feed for steam crackers, and boils typically between 50°F (C5) and 160°F. Light naphtha balances include natural gasoline, the lightest naphtha that is produced in natural gas processing plants. Light naphtha balances also include heavy naphtha that has low N+A content and is therefore a better feed for steam cracking than for heavy naphtha reforming. The majority of light naphtha is produced in refineries.

The light naphtha supply and demand balances account for:

### Light Naphtha Supply Sources:

- Natural gasoline
- Condensate splitting
- Crude distillation
- Hydrocracking
- Coking
- Hydrotreating
- Blended heavy naphtha
- Raffinate
- Gas- and Coal-to-Liquids

### Light Naphtha Demand Sectors:

- Crude blending
- Steam cracking
- Paraffinic solvents
- Direct blending of motor gasoline
- Isomerization
- Reforming to mogas and avgas
- Reforming to aromatics
- Other (e.g. burning for heat generation, gasification to methane/syngas, losses, etc.)



## Heavy Naphtha

The heavy naphtha analysis provides balances for heavy naphthenic / rich naphtha that is good feed for heavy naphtha reformers, and typically boils between 160°F and 370°F (C11). Heavy naphtha balances exclude heavy naphtha that has low N+A, content below approximately 35%. However, the heavy naphtha balances include an excess of good or slightly lower-quality heavy naphtha that is blended into full range paraffinic naphtha (which is part of the light naphtha balances), whose trade is more liquid. As with light naphtha, a majority of heavy naphtha is produced in refineries. Total production of heavy naphtha is about twice as large in volume as the production of light naphtha.

The heavy naphtha supply and demand balances account for:

### Heavy Naphtha Supply Sources:

- Condensate splitting
- Crude distillation
- Hydrocracking
- Coking
- Hydrotreating

### Heavy Naphtha Demand Sectors:

- Reforming to mogas and avgas
- Reforming to aromatics
- Direct blending of motor gasoline
- Blending of full range naphtha
- Other (burning of heat generation, gasification to methane/syngas, change in kero demand, losses, etc.)

## Production Capabilities

Production capabilities (defined as the maximum processing capability with the same quality feed) and actual production rates are fully consistent with IHS Markit natural gasoline, crude distillation, condensate splitter, refinery, aromatics, and olefins capacity databases and supply / demand balances. In order to better assess naphtha production and consumption rates, this analysis has divided production and demand capacity into several groups of processes, which yield and consume different amounts of light and heavy naphtha.

## Pricing

In this analysis, a starting point for pricing of both light and heavy naphtha was light naphtha spread versus Brent and Dubai crude in Singapore and Tokyo. On one side, this spread was assessed based on IHS Markit expectation of East-West trade, i.e. trade of full range open spec naphtha from Russia, West Europe and Mediterranean via Singapore to Northeast Asia. On the other side, the spread was assessed by IHS' expectation of refining and steam cracking margins in Asia. Although trade of full range naphtha from Middle East to Northeast Asia is much larger, the volume of marginal East-West trade is impacting price of light naphtha in Asia the most.

# Table of Contents

## **I. Methodology**

- a. Definitions
- b. Production Capabilities
- c. Supply & Demand Balancing
- d. Pricing Methodology

## **II. Executive Summary**

- a. World Overview
- b. Supply / Demand Tables for: World
- c. Inter-Regional Trade Grid Tables for 2010, 2015, 2020 and 2025
- d. Regional Price Tables

## **III. North America**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: North America, US, Canada, Mexico

## **IV. South America**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: South America, Brazil, Venezuela

## **V. Europe**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: West Europe, Central Europe

## **VI. FSU 1**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: FSU Region, Russia

## **VII. Africa**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: Africa, Algeria, Egypt

## **VIII. Middle East**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: Middle East, Iran, Kuwait, Saudi Arabia, UAE

## **IX. Indian Subcontinent**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: Indian Subcontinent, India

## **X. Northeast Asia**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: Northeast Asia, China, Japan, South Korea, Taiwan

## **XI. Southeast Asia**

- a. Market Review and Outlook
- b. Production and Demand
- c. International Trade
- d. Supply / Demand Tables for: Southeast Asia, Indonesia, Singapore, Thailand

## **XII. Price Forecasts & Price Tier Economics**

- a. Price Forecasts for: US Gulf Coast, Western Europe, Middle East, Singapore, Tokyo
- b. BEV2 for Direct Gasoline Blending
- c. Reforming BEV for Heavy Naphtha / Isomerization BEV for Light Naphtha
- d. Petrochemical Production BEV (BTX for Heavy Naphtha / Cracking for Light Naphtha)
- e. Regional Freight-Based Netbacks
- f. Fuel Value for Light Naphtha / Density Adjusted Price of Heavy Naphtha

## **XIII. Appendices**

- a. Explanatory Notes
- b. World Trade Maps for: 2010, 2015, 2020
- c. Contact List

## **XIV. On-Line**

- a. Excel Files with all Regional and Over 50 Country Supply / Demand Tables
- b. Excel Tables with Regional Pricing
- c. Inter-Regional Trade Grid Tables

## Expert Team



### **Nick Rados, Ph.D.**

Global Business Director, Chemical Feedstocks

Nick is responsible for IHS Markit business and expertise in the area of chemical feedstocks, including effects of current and anticipated changes in petroleum refining and gas plant operations onto aromatics and olefins chemicals. Nick joined IHS Markit in 2013, with 20 years of experience in the chemical and petroleum refining industries. His experience includes a 10 year tenure with ExxonMobil, working on a variety of refining and petrochemical assignments involving: business strategy, capital investment, operations improvement, competitive intelligence, and technology licensing.

Nick has a Doctorate in Chemical Engineering from Washington University in St. Louis and executive business training from Northwestern University and the University of North Carolina.



### **Debnil Chowdhury**

Director, Natural Gas Liquids Research

Debnil is the primary author of the North American NGLs research service and is responsible for global feedstocks pricing. He has also directed a number of refined product and NGLs, pricing, and market entry strategy studies for clients. He is the primary creator of the IHS Markit proprietary long-term ethane analytics price forecast model, which can be used to provide insight on and quantitatively link ethane supply/demand to long-term pricing. Prior to IHS Markit, he worked at Valero as a Senior Market Analyst, responsible for strategic planning and market analysis support for downstream, renewable, and retail assets globally and at Halliburton-KBR as a Process Engineer in Refining Technology Development.

Debnil holds a BS in Chemical Engineering and Certificate in International Affairs from the Georgia Institute of Technology, MS in Predictive Analytics from Northwestern University, and an Executive Certificate in Management and Leadership from the Massachusetts Institute of Technology's Sloan School of Management.

# Qualifications

IHS Markit's Energy and Chemical's talented industry veterans collaborate with our clients leveraging IHS's unparalleled industry knowledge, rigorous proprietary analytical techniques, and years of hands-on experience. The following projects are a few examples of the naphtha-related single-client work that Energy and Chemical has conducted in the last couple years.

## Condensate and Naphtha Analysis

IHS Markit completed a comprehensive East of Suez condensate and naphtha study for a multi-national client. The study included a country-by-country balance of both olefin and aromatics feedstocks. East of Suez supply/demand analysis and projections were included, considering impact of rapidly growing sour Middle East condensate supplies. The consumption of condensate in dedicated splitting capacity and in crude units was quantified and projected.

## Market Analysis of Naphtha-based Petrochemicals

A major National Gas Company in Asia with a presence along the entire natural gas value chain covering pipeline, gas processing, petrochemicals, city gas distribution, LNG and E&P, was exploring the possibility of setting up a naphtha-based petrochemical plant of ethylene, propylene, butadiene, pygas, and heavy oil capacities. IHS Markit assisted the client with a petrochemical market study for various products, and included naphtha sourcing options. IHS Markit provided the supply and demand data for the target market countries taking into account existing and future production and consumption. In addition to data, a description of the key supply and demand fundamentals in each of the target countries was described in a written review.

## Global Market and Logistics Review of LPG and Naphtha

A client sought market insight to develop an LPG trading business from its production facilities in Asia. A large portion of the LPG from this planned project was expected to be sold the global markets. The client requested a proposal the assistance IHS Markit for a LPG (propane and butanes) and naphtha market and logistics study in support of the project in Asia in order to evaluate the feasibility of the project from a market and commercial perspective, and to assess risks and issues arising from transporting LPG and naphtha to global markets.

## Petrochemical Evaluation

IHS Markit performed market screening evaluations for various petrochemical value chains for a major client in the Middle East to identify potential opportunities for olefins, aromatics and derivatives production. Chemical developed integrated olefins and aromatics petrochemical complex economics to evaluate a wide cross section of complex configurations including naphtha steam cracking & reforming, aromatics extraction, polyester, styrenics, cumene/phenol, and cyclohexane value chains. Modeling included cash flow and financial analysis for project return and sensitivity analysis.

# About Chemical at IHS Markit

## Best-in-Class Brands

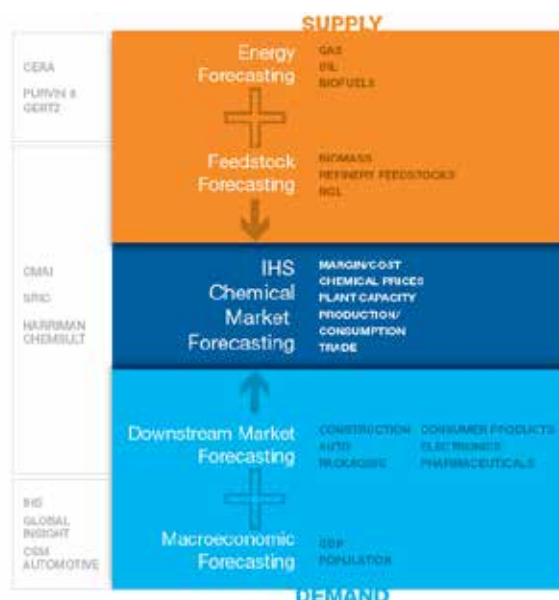
IHS Markit now combines the former CMAI and SRI Consulting groups together with Chemical Week Magazine, Harriman Chemsult, IntelliChem and PCI Acrylonitrile into one integrated business unit comprising its multiclient and single client services. Our chemical's experts, analysts and researchers who are well respected throughout the industry for their deep-rooted analysis and forecasts, extends the value that IHS Markit can now offer by connecting clients with the vast resource of insight and expertise that exists across IHS Markit including energy, supply chain and economics.



## Comprehensive Coverage

IHS Markit provides the most comprehensive chemical market content and industry expertise in the world. The company has more than 200 dedicated chemical experts working together to create a consistent and integrated view across more than 300 industrial chemical markets and 2,000 chemical processes for 95 industries. Ensure that your decisions are based on broad, comprehensive information, forecasts, intelligence, and analysis.

IHS Markit has assembled a team of chemical experts that offers an unprecedented coverage level for core chemical markets and technologies. Backing them is a larger IHS Markit community of experts covering related markets, from energy and the macro economy to the world's largest chemical-using industries, such as automotive, construction and others. Our chemical's intellectual capital is built on an operating model that utilizes over 1,800 consultants, researchers and economists to advance cross-disciplinary collaboration and analysis.

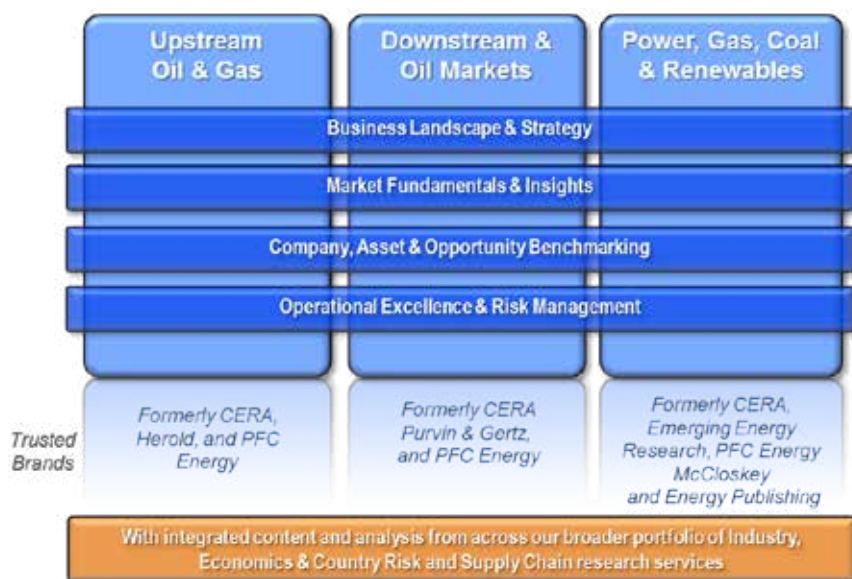




## About Energy at IHS Markit

IHS Markit is a leading provider of information and insight in the energy business. Our Energy's expertise spans the global energy business chain – from upstream oil and gas extraction, through midstream gas, oil refining, and electric power, to energy services, technology sectors, and end users. IHS Markit has been assembled through the integration of leading energy brands, including IHS CERA, IHS Purvin & Gertz, IHS ODS-Petrodata, Fekete Associates, and IHS Herold.

IHS Markit is uniquely positioned to provide timely, integrated data and insights for critical investment decisions support, with approximately 1,200 team members conducting industry and market analysis around the globe. The Energy Oil Market & Downstream Services provide regional and global market, company, and cost insights across the oil markets value chain.



### Insights & Forecasts

Short & long-term outlooks  
Detailed analyses & reporting  
Forecasts available for easy download  
Proprietary methods & industry indices  
World Class Experts

### Market Drivers

Global economics  
Geopolitical forces  
Capital factors  
Adjacent industries  
Cross fuel issues  
Renewable energy  
World balances & trade

### Global Scope

OPEC/non-OPEC  
Regions (6)  
Subcontinents (5)  
Countries (150)  
U.S. PADDs

### Crude

Produced streams  
Production forecasts  
Trade by crude type & stream  
Crude grade prices & market spreads  
Condensate trade  
Regional, sub-region & country details

### Refining & Products

Demand by product  
Operating utilization  
Projects & capacity rationalization  
Prices & Margins  
Regional trade by major product  
Regional, country & PADD analyses

### Natural Gas Liquids (NGL/LPG)

Ethane, Propane, Normal & Isobutane, Natural Gasoline  
Detailed analyses  
Forecasts of supply, demand & trade  
Pricing & freight  
Weekly Economics  
Stock Reports

### Waterborne LPG

LPG flow data: monthly gross & net export / import volumes by vessel, terminal, destination, source  
Propane/Butane/Isobutane volumes differentiated  
Vessel Schedules  
Spot Prices, freight rates, netback tables

### Petrochemical Feedstocks

Naphtha, Ethylene, Propylene, Benzene, Paraxylene  
Supply & regional demand outlooks  
Cracking economics  
Downtime outlook  
Pricing & margins  
Project impacts

### Canadian Oil Sands Dialogue

Publicly released independent analysis addressing the benefits, costs, and impacts of choices associated with Canadian oil sands development  
Research focus based on facilitated dialogue with community, industry and government stakeholders

### Downstream Country Profiles (150 markets)

Downstream value chain analysis by country & across seven regions (ME, AF, Asia, EU, CIS, LA, NA)  

- Refining, midstream & marketing
- Regulatory
- Competitive landscape

### Downstream Company Profiles (24 companies)

Benchmarking of refining and marketing businesses of major operators:  

- Strategies
- Asset portfolio
- Operating metrics
- High-level financials

### Downstream Financial Benchmarking

Detailed financial performance benchmarking (earnings-focused) of individual downstream companies vs. industry averages.  
Covers IOCs & regional players in North America, Europe/FSU & Asia

### Lubricants & Base Oils

Base oil margins  
Global finished lubricant markets and competitors  
Global lubricants demand database  
Infl marine lubricant markets and competitors  
\*Finished lubricants & marine lubricants demand models also available

### Global Retail (55 countries)

Gasoline and Diesel retail demand  
Monthly Prices & Margins  
Quarterly Retail Trends  
Analysis by country and market

## About IHS Markit

IHS Markit is the leading source of information, insight and analytics in critical areas that shape today's business landscape. Businesses and governments in more than 165 countries around the globe rely on the comprehensive content, expert independent analysis and flexible delivery methods of IHS Markit to make high-impact decisions and develop strategies with speed and confidence.

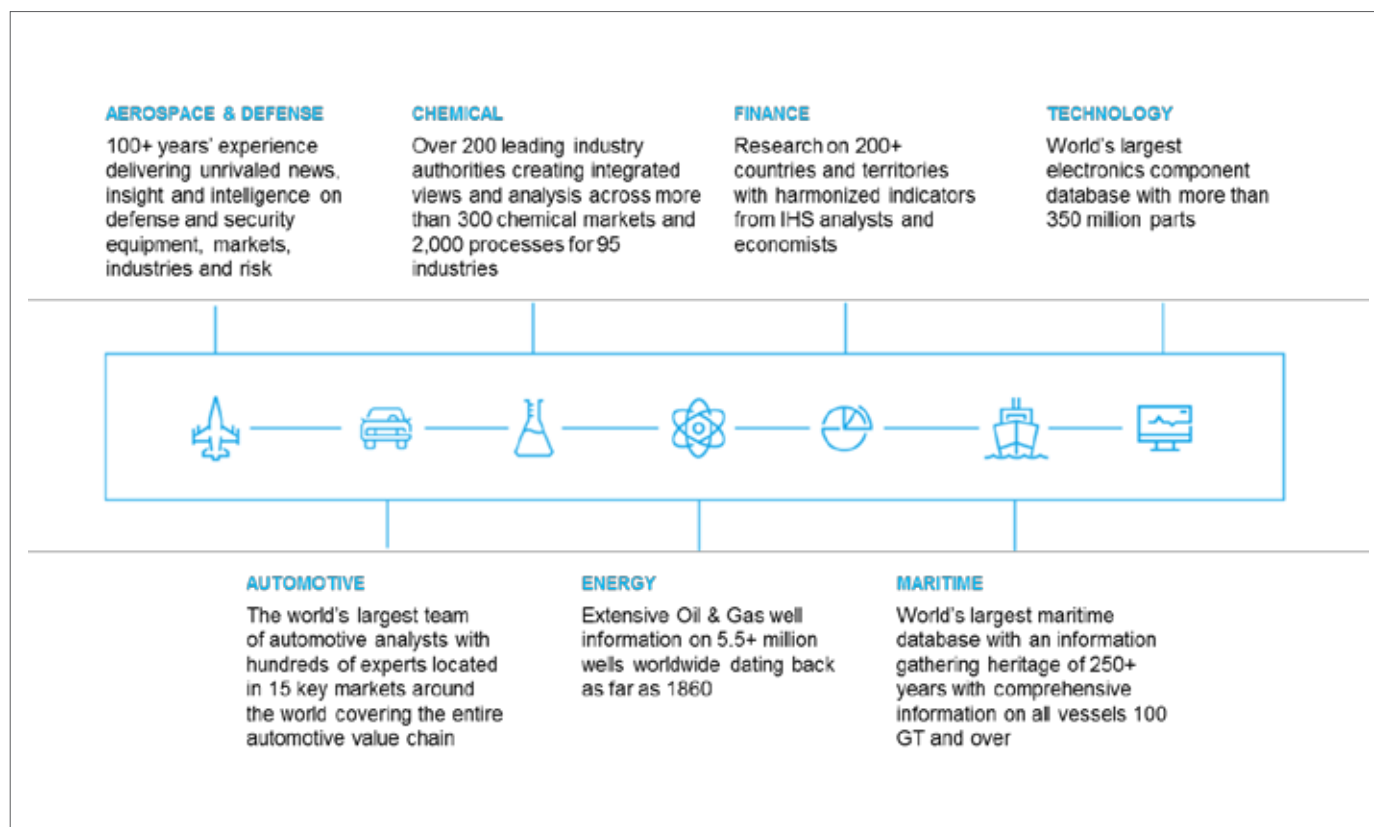
IHS Markit has been in business since 1959 and became a publicly traded company on the New York Stock Exchange in 2005. Headquartered in Englewood, Colorado, USA, IHS Markit is committed to sustainable, profitable growth and employs more than 8,000 people in 31 countries speaking 50 languages around the world.

IHS Markit serves businesses and all levels of governments worldwide ranging from 85% of Global Fortune 500 to small businesses. IHS Markit provides comprehensive content, software and expert analysis and forecasts to more customers in more than 180 countries worldwide.



## Information, analytics, and expertise

IHS Markit offers must-have business information, advanced research and analytics, and deep expertise in core industry sectors, such as energy and natural resources, chemicals, electronics, and transportation.



For more information [www.ihsmarkit.com/chemical](http://www.ihsmarkit.com/chemical)

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### About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.