

# Propane Market Pulse



## Adjusting to the new global dynamic

by Adam DeLawyer,  
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There are significant changes going on in the propane industry and the articles in this edition directly address some of the largest changes. So, while I know it's a busy time of year, I strongly encourage you to take a few minutes to read them and consider incorporating some of these strategies into your business plans.

Over the past few years, we have been talking about all the changes coming in the propane world and the potential effects on your day-to-day business. We are now seeing the impacts of these changes begin to play out, which is shifting the way our industry has traditionally functioned. The infrastructure that, in recent years, has been built out to enable the current record levels of exports has completely altered supply flows. This new global dynamic is here to stay and we all have to adjust to it and the new way it affects pricing and supply.

Having been a leader at a propane retailer, I understand well how challenging these changes can be for customers. I also understand how many opportunities there will be for those retailers who do a good job of planning.

At CHS we have built industry-leading tools to help our customers be prepared to turn these challenges into opportunities. Developed with a long-term outlook, these tools will be more valuable than ever before in a world where increased risk management and supply planning will be crucial to success.

We don't see these new market dynamics easing up any time soon. In fact, changes are more likely to only accelerate in the coming years. We are focused on preparing for these changes in propane, and we look forward to helping you do the same as we navigate the future together.

## Propane buying strategies to minimize winter risk

The possibility of propane supply challenges this winter is real. Revisiting your supply plan and pricing strategies now can help you minimize supply risk and avoid costly premiums during seasonal price spikes.

"We're coming into the winter season with the lowest fall propane inventories seen in the last five years," says Dennis St. Aubin, CHS Propane western sales director. "Current inventories are about 20 percent below the five-year average. That market factor, coupled with both growing global demand as manufacturing rebounds from the COVID-19 pandemic and the typical high domestic winter demand, sets us up for potential propane supply and pricing challenges in the months ahead."

The Upper Midwest may start the winter season with a colder-than-average December, according to a prominent weather model, which projects 829 heating degree days (HDD), compared to 796 last December and the 10-year average of 786 HDD for December.

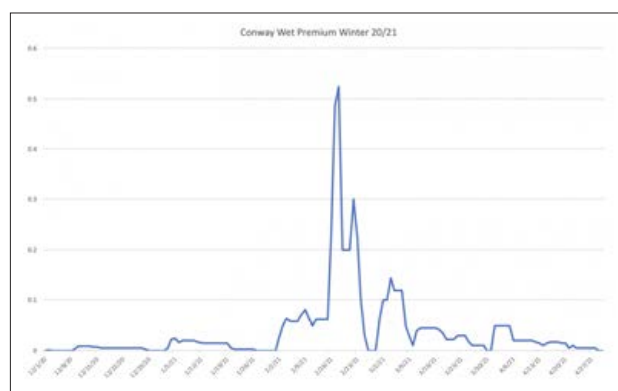
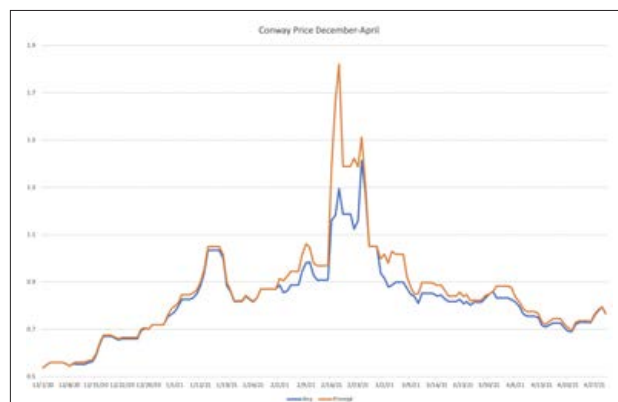
"It's important that retailers act now to update their supply plans to try to stay ahead of these looming market factors," says St. Aubin.

### Plan now to avoid wet premiums

Last February's severe cold snap into the southern United States serves as a lesson on how quickly the propane supply system can get slammed, he notes. "The big storm and frigid cold across much of the country caused propane demand to jump, and the infrastructure was

challenged to meet that demand. Suppliers had to increase the number of prompt gallons being put into the system, prices spiked and wet premiums appeared."

What exactly is a wet premium? In the propane industry, a wet premium represents the separation between the "any current month" price of propane versus the "prompt current month" price, explains St. Aubin. "During times of tight supply, barrels purchased on an any basis are not delivered until the end of the month. If you specifically need gallons prior to the end of the month, you need to pay an increased prompt



Conway - Wet Premiums

price for near term delivery in times of tight supply. The prompt price can become a lot more expensive than the any price.” When the two values diverge, it creates a wet premium.

A good strategy for minimizing such price risk is to price presold gallons ahead of the month that they’re needed, which helps reduce the risk of hub values spiking, he says. “If your risk strategy has been to purchase indexes, it may be in your best interests to fix a hub value on gallons ahead of the month you plan to lift them. This will minimize the risk of, or even prevent, lifting wet premium gallons.

“It’s also important to review terminal positions daily leading up to and throughout the busy winter season,” he adds. “Watch for key industry developments, including natural gas curtailments due to cold weather, which usually lead to sharp increases in propane demand.”

#### Tools to help manage risk

There are a variety of tools and mechanisms available to help retailers refine both supply

and price risk management. St. Aubin offered the following tips for supply and price planning.

#### Frequently update your plan.

Regular review and revision to your supply plan is crucial to staying on top of the markets and ensuring adequate supplies. The CHS Propane Control Room is a convenient supply planning tool that simplifies the process.

#### Communicate with suppliers.

Good communication is a two-way street and, in order to help customers meet their goals and secure adequate and timely propane supplies, your account manager needs to be connected and working with you in real time. This way, they can react, or hopefully stay ahead, of market developments and regional supply issues.

#### Diversify supply sources.

Use multiple terminal options, including pipelines, rail terminals and gas plants, if available. This provides flexibility in dealing with unexpected infrastructure problems.

#### Seek out market intelligence.

Reliable suppliers are a good source of market intelligence and industry insights. CHS offers a free Texting Tool that delivers up-to-the-minute information on propane pricing and terminal updates. You can sign up for this timely intelligence source in the CHS Propane Control Room. Another great online source is the daily Market Pulse bulletin provided by CHS Propane.

Propane marketers should work with their CHS account managers for help with tracking industry trends and updating their supply plan to incorporate these strategies for reducing risk and meeting procurement needs.

“Your CHS Propane account manager is looking out for your best interests,” adds St. Aubin. “Working with our organization puts a wealth of market knowledge and industry expertise at your disposal.”

To learn more about partnering with CHS Propane, visit [CHS Propane Insights](#) or call 1-800-852-8184.

## What’s new with Energy Equipment Cabela’s Rewards Program

Now you don’t have to wait months to receive your Cabela’s gift cards earned through the Energy Equipment Rewards Program. Earn a \$25 Cabela’s gift card for qualifying orders placed through the CHS Propane or Petroleum Equipment online Stores, and warehouse (except direct ship orders) and receive your gift card(s) the following month. Please see details below for important changes to the Cabela’s Reward program:

- Earn a \$25 Cabela’s Gift Card for every \$2,500 in merchandise purchased through the **CHS Petroleum** or **Propane Equipment Store** and warehouse (except direct ship orders). Rewards for each online store are based on total purchases from September 1 through August 31.
- For the CHS **Propane Equipment Store**, purchase \$2,500 in merchandise between September 1 through August 31 from one of the following vendors, Bergquist, FEI, or GEC and qualify for a \$25 Cabela’s gift card. Multiple vendors may be used in placing an order, but orders will only qualify for a gift card with total purchases of \$2,500 in merchandise from a single vendor.
- Purchases are automatically tallied and at the beginning of each month your earned Cabela’s Gift Cards are shipped to the parent location.

To start receiving your Cabela’s Gift Card Rewards, sign up for the CHS Propane Equipment Online Store at [www.chspropaneequipment.com](http://www.chspropaneequipment.com). Click on the “Login” icon and follow the instructions.



## Get carriers carded ahead of the busy season

Help yourself and the industry prepare this season by having your carrier schedule terminal driver training before the demand season arrives. This process ensures drivers are qualified to load at the necessary terminals and helps avoid the impact on the terminal and operators if training occurs during the busy time of the year.

Please discuss with your CHS Propane Account Manager which terminals your carrier should be prepared to use this season, including your second and third options.



## Tight fall propane outlook makes a supply plan essential

Over the past decade, U.S. propane production has more than doubled, but propane exports have increased nearly tenfold. The impacts of that latter trend were felt this summer in the form of lower-than-average domestic inventories and the highest August propane prices since 2011.

Several developments earlier this year have compounded the impact of those trends, says Ben Lyden, CHS director of trading and risk for NGLs. “A start to recovery in global manufacturing and trade after the 2020 COVID-19 pandemic slowdown has sparked renewed demand for propane from countries including Japan and China. Last February’s cold snap across the southern United States caused natural gas prices to skyrocket and drew down propane inventories even further.

“The result is that we’re now facing propane supply challenges across the country, and especially in the Midwest, as we move into the fall and winter seasons,” he says. “It’s important to update your supply plan to reflect this reality.”

### Low U.S. inventories

The U.S. is going into the coming winter season with some of the lowest inventories seen at this time of year in the last five years — specifically less inventory than one year ago. “If we have demand equal to or better than last year through the fall and winter months, there won’t be enough physical gallons in certain regions,” Lyden says.

The Midwest in particular is seeing inventories well below those of the last five years. Gulf Coast inventories have also been low this summer and, when supplies

get tight there, that region is likely to pull from other regions, including Conway in the Midwest, which could further exacerbate regional logistical constraints, according to Lyden.

Another important propane metric to watch is the U.S. days of supply level, which dropped below the 20-day level back in July and has been at the lowest levels in the past five years for much of this past summer.

### Continued strong exports

“The global economic recovery we’ve started to see this year, after the impacts of the pandemic in 2020, has had a positive impact on U.S. propane export demand,” says Lyden. “Some of the biggest demand growth has come from China, which is a bit of a black hole for future LPG demand with all of its manufacturing and processing.”

LPG demand in that country has quadrupled in the last decade, he notes. “Even over this past year, when demand dropped from most other U.S. export markets, demand from China increased 6%.”

Currently, the U.S. leads the globe in LPG net export tons, with the next closest exporters Qatar and the United Arab Emirates each exporting less than half of what the U.S. shipped abroad. “With as much as two-thirds of U.S. propane now being exported, the U.S. domestic market will need to compete for those gallons and keep them here for winter demand season,” adds Lyden.

### Best supply strategies

Lyden says U.S. propane buyers will have to earmark contracted gallons sooner than usual in order to ensure supply is there when they need it this fall and winter.

“If you don’t have physical gallons in place or don’t have them contracted, you should expect to pay wet premiums similar to or even higher than those paid last winter, which were 50 to 60 cents per gallon.”

While the contracted gallon provides the earmark on the gallon, your rack supply plan is a forecast and



should be revisited with your wholesaler to position sufficient gallons, which is critical for the season ahead.

There are other valuable supply risk management strategies to consider as well:

- **Right-size tanks.** Now is a good time to reassess your storage volumes, says Lyden. “If you have storage that holds only a few days of supply, consider investing in additional storage so you have enough to make it through a crunch time. It’s a good way to reduce supply risk.”
- **Know your terminal options.** Maintaining reliable supplies might mean looking at alternative terminal options. “This is where your CHS account manager can provide regional insights and logistical expertise,” notes Lyden.
- **Consider transportation tightness.** Truck drivers are in short supply in many parts of the country, and the shortage is often felt the most during peak demand times like fall. That’s why Lyden recommends maintaining good relationships with carriers and including transportation considerations in your supply plans. “There can be plenty of gallons at a terminal, but it won’t matter if you can’t get it transported to the customer.” As you consider your transportation needs, remember to get carriers carded ahead of the busy season. Help prepare for this season by having your carrier schedule terminal driver training before the October/November season arrives. This process ensures drivers are qualified to load at the necessary terminals and avoids impacting the terminal and operators if training occurs during the busy time of year.

Propane marketers should work with their CHS account managers for help with the supply plan process and to make sure they have alternative fuel sources for the winter season ahead. Those interested in partnering with CHS Propane can learn more by visiting [CHS Propane Insights](#) or by calling 1-800-852-8184.

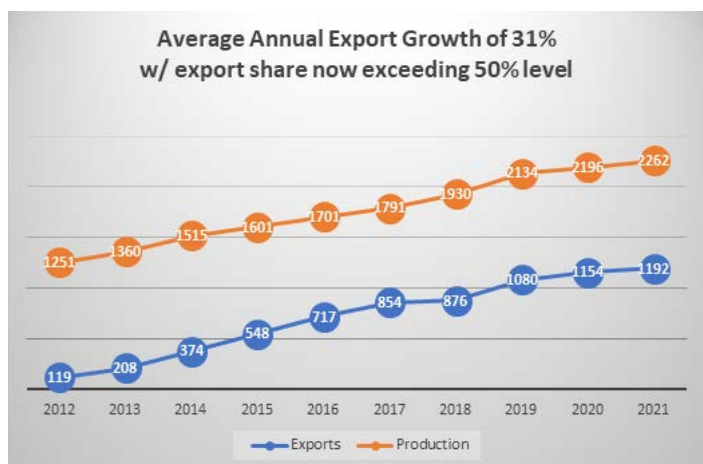


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