



## RLA Chemical Market Insights – Wednesday, 27 May 2026

### China Turns to US Ethane as Middle East Naphtha and LPG Flows Plunge

Amid ongoing US-Iran tensions and constrained chemical supply from the Middle East, China has strengthened its position as a major chemical and polymer exporter in Asia. Restricted Middle Eastern flows have encouraged buyers in ASEAN countries and India to look for alternative supply sources, and China has stepped in by increasing exports of key products such as styrene, polypropylene (PP) and polyethylene (PE).

A major factor supporting China's export competitiveness is the flexibility of its chemical producers. While many Asian producers remain exposed to naphtha-based cracking economics, Chinese producers have benefited from access to alternative feedstocks including coal, methanol, LPG and ethane. This adaptability has helped soften the impact of higher crude oil and naphtha prices, allowing Chinese producers to maintain stronger margins and operating rates. Coal-to-olefins complexes, in particular, have played a central role in keeping China's olefins and polymer production stable, enabling the country to meet demand across regional commodity chemical and polymer markets.

Feedstock security has become increasingly important for China. The country has relied heavily on Australian coal to produce olefins, which are then converted into polymers and finished goods. At the same time, China is expanding its use of ethane, a comparatively low-cost feedstock imported mainly from the US. In 2026, China's US ethane imports surged to more than 1.0 million tonnes in April, the highest level recorded so far.

This shift was reinforced by a sharp fall in Middle Eastern feedstock imports. In April, China's naphtha imports from the Middle East dropped 77% year on year to around 155,000 tonnes, while LPG imports fell 71% to about 432,000 tonnes. With Middle East shipping routes disrupted, Chinese crackers increased ethane consumption, particularly because China's ethane supply comes entirely from the US and is therefore less exposed to Middle East logistics risks. Satellite Chemical and Wanhua Chemical were among the main consumers of imported ethane.

Disruptions to LPG shipping through the Strait of Hormuz, tight very large gas carrier supply in the US Gulf, and congestion at the Panama Canal continue to limit China's LPG imports and keep delivered propane costs high. These pressures are weighing heavily on China's propane dehydrogenation sector, where margins remain negative amid expensive feedstock and weak downstream demand.

China's LPG imports fell sharply in April mainly due to supply constraints. VLGC availability in the US Gulf stayed tight in May, while Panama Canal congestion and high auction fees pushed some vessels to reroute via the Cape of Good Hope. This increased freight costs and kept China's propane import economics under pressure.

Ethane also offered far superior economics compared with other feedstocks. Northeast Asian ethane cracking margins rose to around \$583/tonne in April, while LPG margins stood at only \$67/tonne and naphtha cracking recorded losses of about \$289/tonne. This margin advantage made ethane an attractive option for Chinese producers seeking to protect profitability.

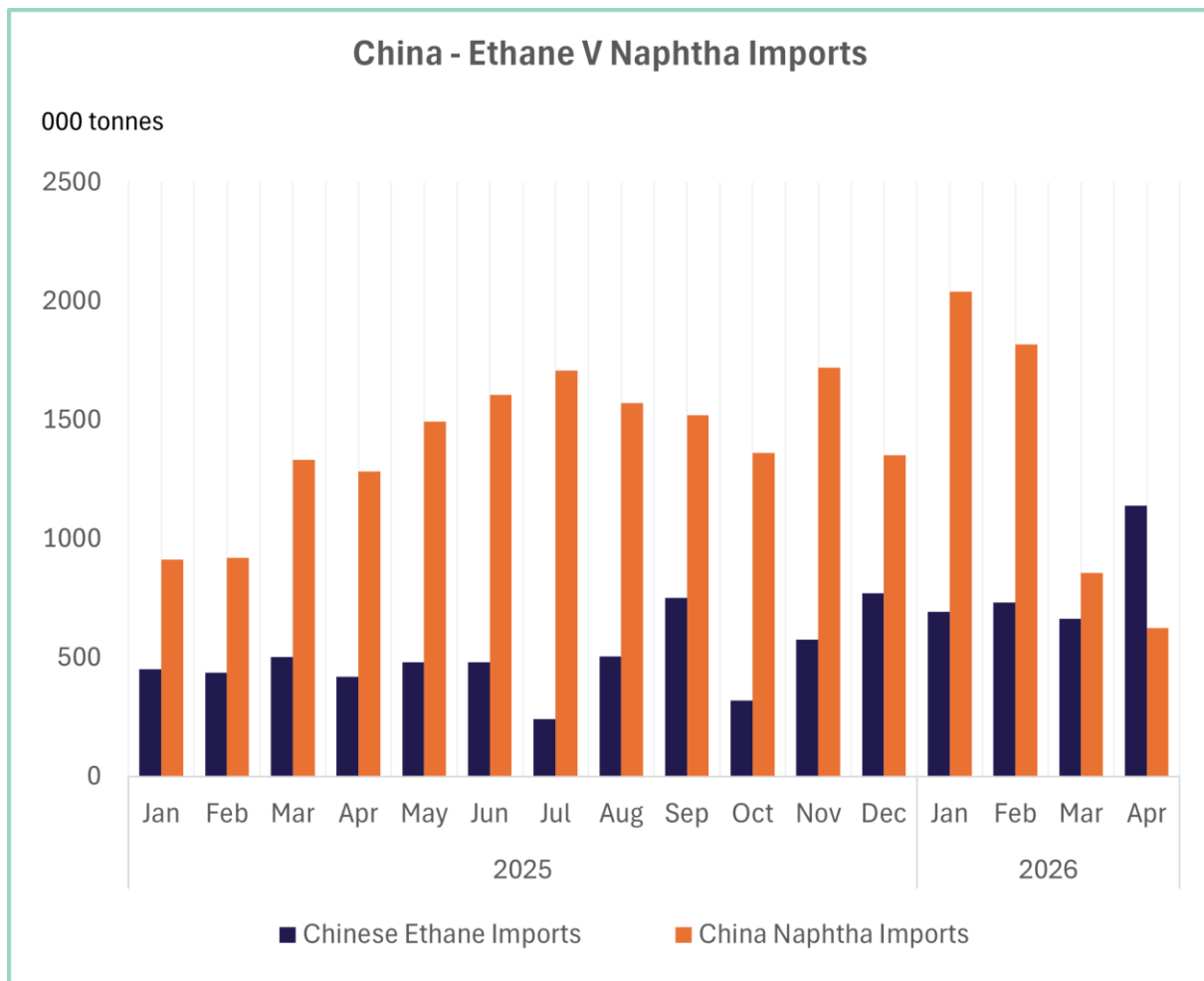
However, the April spike in ethane imports may not be sustained. Imports are expected to slow in May as demand weakens and some of April's buying appears to have been panic-driven. A potential US-Iran



agreement and reopening of stable Middle East flows through the Strait of Hormuz could restore naphtha and LPG availability, reducing China's need for elevated ethane purchases.

Given current demand conditions, VLEC freight rates on the US Gulf-China route have edged higher, while Panama Canal transit costs have risen to around \$4 million. It remains to be seen whether China can continue sourcing ethane from the US if the Strait of Hormuz stays blocked.

**A graph for Chinese Ethane V Naphtha Imports since 2025 has been provided below.**





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