

price know-how

April 2012

What will happen to polymer prices now that oil prices appear to have stabilized?

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Welcome to price know-how

A monthly publication looking at key factors that affects UK polymer markets.

The concept of a user friendly market report came from feedback about an article published in PRW (Plastics & Rubber Weekly) about the 2011 market outlook to which Plastribution made a significant contribution.

Whilst some price surveys currently exist they are often difficult to interpret, use foreign currencies, and differing units of measure. Price Know-how aims to be relevant by providing an overview, material group specific reports and more general economic information including exchange rates and GDP growth.

To keep things relevant the report is in £ Sterling with tonnes as the common unit of measure.

The objective of the report is to form the basis of discussion about issues such as pricing and availability and so be a basis on which to consider purchasing strategies.

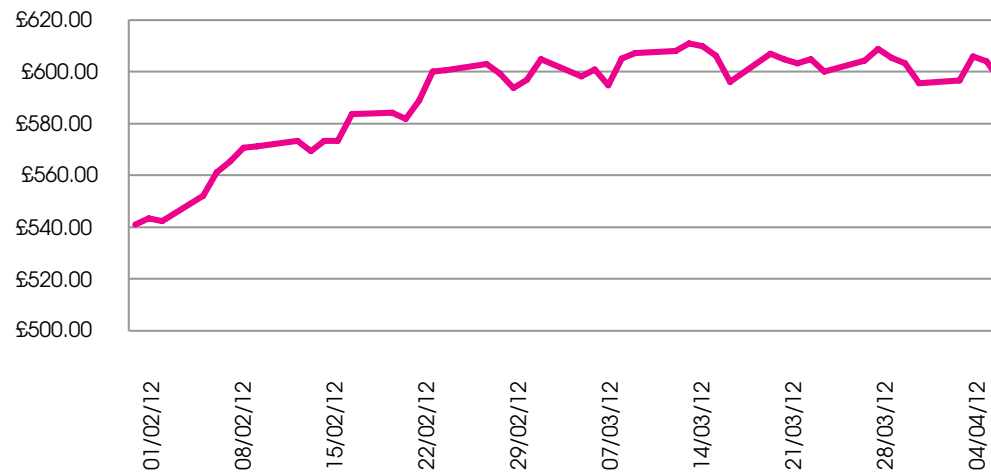
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

As always we would welcome your feedback, and as ever your sales team is available to discuss your specific requirements.

The Plastribution Team

What will happen to polymer prices now that oil prices appear to have stabilized?

Brent Crude £ per Tonne



As the graph above clearly depicts crude oil prices have become relatively consistent since February and are currently trading around £600 per tonne.

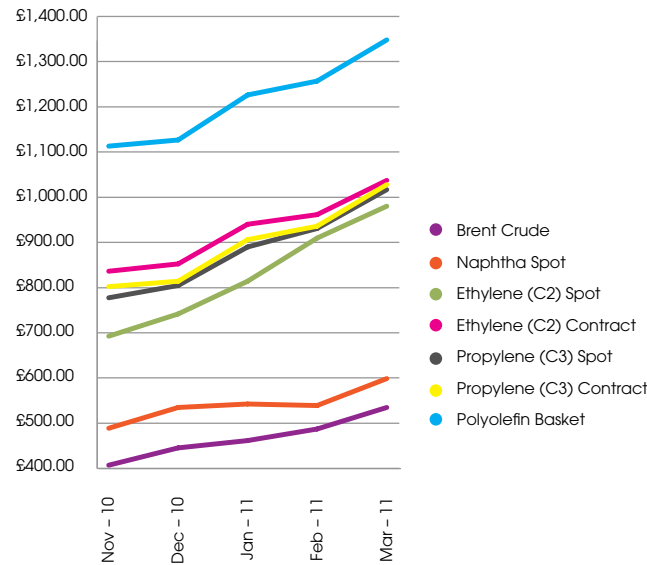
This latest escalation in price has largely been attributed to geo-political issues and in particular the increasing tensions between Iran and the West regarding nuclear proliferation and potential recriminations against trade sanctions affecting shipping oil from the Middle East through the straight of Hormuz.

Given dull demand in Western Europe and stability in the price of oil many polymer buyers are speculating about how polymer pricing will evolve.

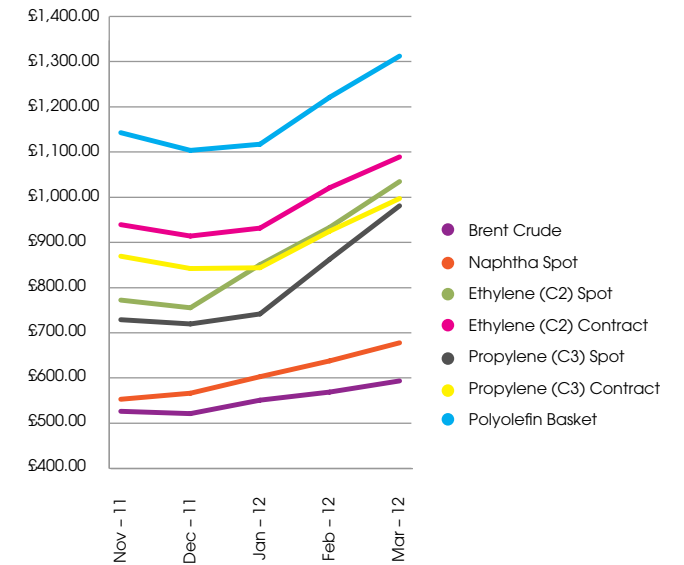
In particular many players are suggesting that prices will follow a similar pattern to 2011, and are of the opinion that prices may now have peaked.

What will happen to polymer prices now that oil prices appear to have stabilized?

Polyolefins November 10 - March 11



Polyolefins November 11 - March 12

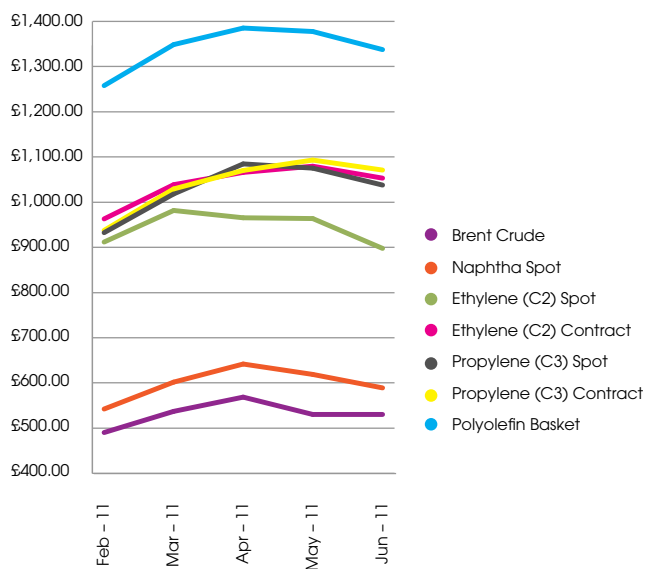


The following two graphs compare the periods November 2010 to March 2011 and November 2011 to March 2012, and depict a similar trend for each period particularly in their respective January to March Periods.

However neither graph gives any indication of ensuing price reductions. However if the similar data is analysed over the period February 2011 to June 2011, it appears that spot ethylene prices provide the initial signal for price erosion, and this is augmented by a subsequent fall in crude oil prices in May.

What will happen to polymer prices now that oil prices appear to have stabilized?

Polyolefins February 11 - June 11



In terms of polymer price going forward either a fall in spot monomer costs, or a fall in crude oil and consequently Naphtha costs are possible early indicators of a change in the market. However a further increase in C2 and C3 contract prices at the beginning of April suggest that producers believe that the market is balanced in their favour and that the spot market is also likely to remain firm.

However the implementation of price increases for C2 & C3 monomer contracts will need to be balanced against increased outputs resulting from Naptha crackers that have now come back on stream. April therefore will be a critical month in terms of pricing.

Recovery in demand from China for polymer imports will may come as a relief to polymer producers and in particular those in Western Europe where dependence on Naphtha derived feedstocks has put operating margins under severe pressure, and any fall in polymer prices would quickly result in a return to the negative margins present in Q4 2011.

In terms of styrenics the weakness in the benzene market is starting to influence PS pricing. In the case of engineering polymers producers have nominated a range of increases in Q1 in an attempt to recover their increased costs, and this is evident in the detail provided further on in this report.

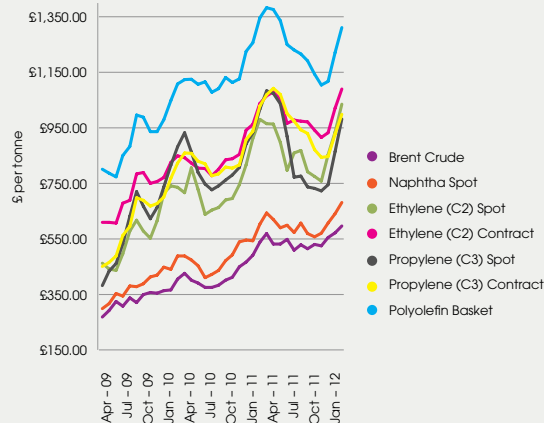
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£33.39
C3 (Propylene)	£41.74
Styrene	£0.00
Benzene	-£30.89
Brent Crude	£24.99

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Data provided by PIE
www.pieweb.com



Supply Demand

LDPE

The availability of ethylene was adversely affected by two cracker outages in March. This has ensured that the market remained tight. Pricing is on a knife edge as customers are exhibiting strong reticence to producers calls for further LDPE price hikes.

Supply Demand

LLDPE

Imports from the Middle East remain quite limited, and the market remains tight. The reduction in demand from the industrial sector was offset by increased off-take into agricultural products. Injection moulding grades remain extremely tight.

Supply Demand

HDPE

The effect of the Total Petrochemicals HDPE unscheduled outage served to tighten the market quickly, and some film grades have become very scarce. The availability of injection and blow moulding grades remains tight.

Supply Demand

PP

From the supply side PP has tightened considerably, and film grades are becoming more difficult to purchase.

Seasonal demand for food and paint containers, in addition to strong buying in the domestic appliance business has significantly increased consumption.

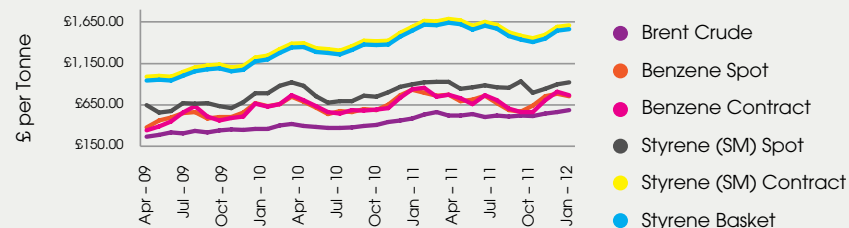
Other Polyolefins

EVA following the strong Q1 increases reflecting higher ethylene and VAM a more moderate increase slightly above C2 looks likely in April for high VA grades. Increased supply of lower VA grades means pricing may come under pressure.

mPP and Plastomers follow the ethylene monomer price trend.

price know-how Styrenics

Data provided by PIE
www.pieweb.com



Supply Demand

PS

The strategy of buyers only buying according to their requirements ensured that polystyrene prices remained stable in March.

Producers continue to raise the issue of poor margins, in particular for HIPS where butadiene costs have significantly increased. Much focus will be placed on contract styrene monomer costs.

Supply Demand

ABS

Demand picked up quite nicely on the back of automotive, domestic appliance and consumer electronics sales.

Following increases to recover increases in butadiene and acrylonitrile further price rises are likely. In particular the supply of specialist grades is tight following the unplanned Styrolution outage in March.

Supply Demand

PC/ABS

Long lead times persist and demand from the automotive sector remains strong.

The current upward pressure on ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the preceding months.

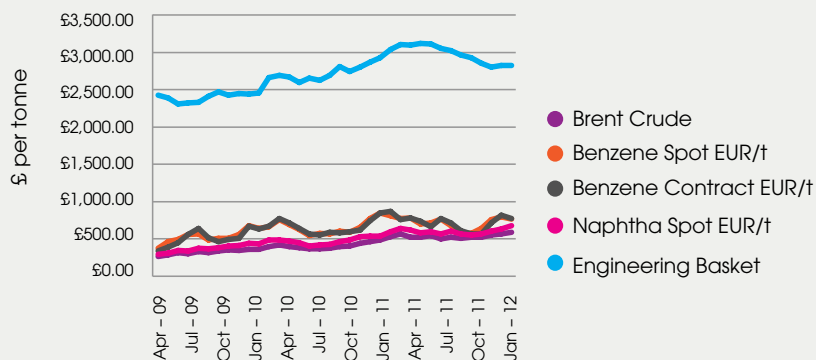
Other Styrenics

SAN and specialities such as ASA and SMMA continue to follow the price trend of styrene monomer.

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Engineering Polymers

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Supply
Demand

PA6

Whilst the market is well balanced, producers continue to look to recover lost margin.

The already tight supply situation affecting caprolactam is set to continue and further price hikes are inevitable, which will, in turn lead to further PA6 price increases.

Supply
Demand

PA66

Further increases in both butadiene and adipic acid costs, coupled with good demand are likely to result in a call for further price increases.

Demand from the automotive sector remains buoyant.

Supply
Demand

POM

Supply from Asia was limited due to scheduled plant maintenance.

So far the calls for price increases have gone unheeded in March but are likely to be pushed hard in Q2.

Supply
Demand

PC

Producers remain intent on restoring margins; a combination of increased demand and restrictions on feedstock availability are likely to result in some hefty increases being applied in Q2.

Supply
Demand

PMMA

Whilst European prices have remained stable, significant increases have been applied in the Asian and North American markets.

It therefore looks inevitable that increases will be applied throughout Europe in Q2.

Supply
Demand

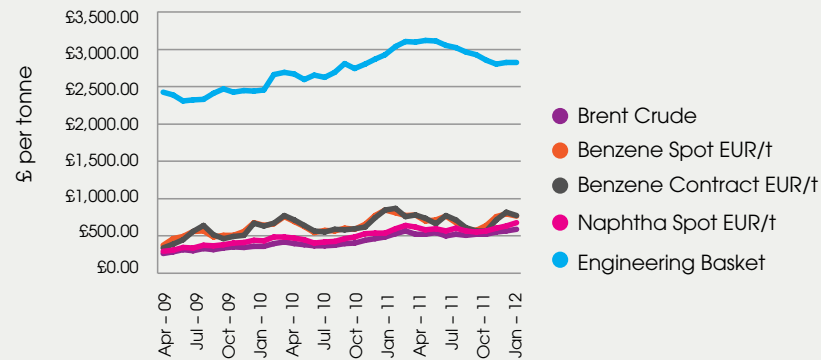
PBT/PET

Demand has increased in the E&E, hand tool & garden equipment markets and the automotive sector remains buoyant.

Significant increases for BDO feedstock coupled with lively off-take is likely to result in a fresh round of price increases.

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**Engineering
Polymers**

Data provided by PIE
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- ➔ Supply
- ➔ Demand

PPS

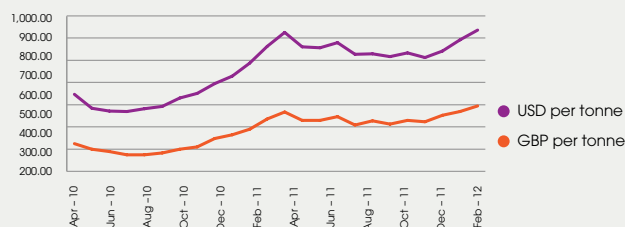
The situation on PPS appears to be stable, following supply disruption last year.

Other Engineering Polymers

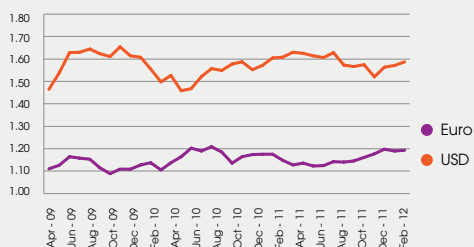
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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Fundamentals

Brent Crude Oil Price per tonne



Exchange Rates



UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q4 2011	0.5	↗
GDP	Real GDP (Y on Y)	Q4 2011	0.3	↗
UK Output	Manufacturing (M on M)	Jan	0.1	↘
UK Output	Manufacturing (Y on Y)	Jan	0	↗
Sales	New Car Registrations (Y on Y)	Feb	-1.9	↗
Sales	Retail Sales (M on M)	Feb	-0.8	↘
Labour	Unemployment Rate	Jan	8.4	↘
Prices	CPI (Y on Y)	Feb	3.4	↘
Prices	RPI (YoY)	Feb	3.7	↘
Interest Rate	Bank of England Base Rate	Feb	0.5	↘

In GBP terms oil prices have almost recovered to the peak level they achieved in May 2011, which also represented the turning point in terms of polymer pricing.

As discussed in the introduction high oil prices create the fundamentals for high polymer pricing so following decreases in H2 2011 polymer price increases are likely to remain a significant feature in the coming months.

The Sterling / Euro exchange rate is a key factor in determining polymer prices, since most materials are Euro denominated. At current price level each Euro Cent change in prices represents a £10 per tonne impact on our polyolefins materials basket.

The Sterling / USD exchange rate tends to be more influential on the price of ABS, PC and POM with significant imports from Asia and Euro weakness is placing pressure on raw material imports such as crude oil into the Eurozone, and is making sales to Asia look relatively more attractive.

Whilst weak Sterling increases competitiveness of exports from the UK it also causes inflation on imported goods including plastic raw materials. Sterling is now showing less weakness against the dollar than the Euro, and increasingly is being viewed as a 'safe currency' in the financial markets bringing the likelihood of continuing strength.

Methodology

This report is produced based upon the following fundamentals: -

- EURO based pricing for feedstock and polymer pricing
- Conversion of Euro and USD based prices at prevailing exchange rates
- Product baskets weighted according to UK consumption

Acknowledgements

We would like to thank the following organisations for their support in producing this report: -



PIE (Plastics Information Europe) www.pieweb.com

HM Treasury www.hm-treasury.gov.uk

Disclaimers

The information provided in this report are based upon data available from both external and internal sources, and whilst care is exercised in producing this report we give no guarantee of accuracy.

Furthermore we accept no liability for purchasing decisions based upon the information provided as the petrochemical market is complex and volatile.

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