

price
know-how

August 2012

Will crude oil prices sustain the upward price trend on polyolefins and how soon will other materials be affected?

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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.

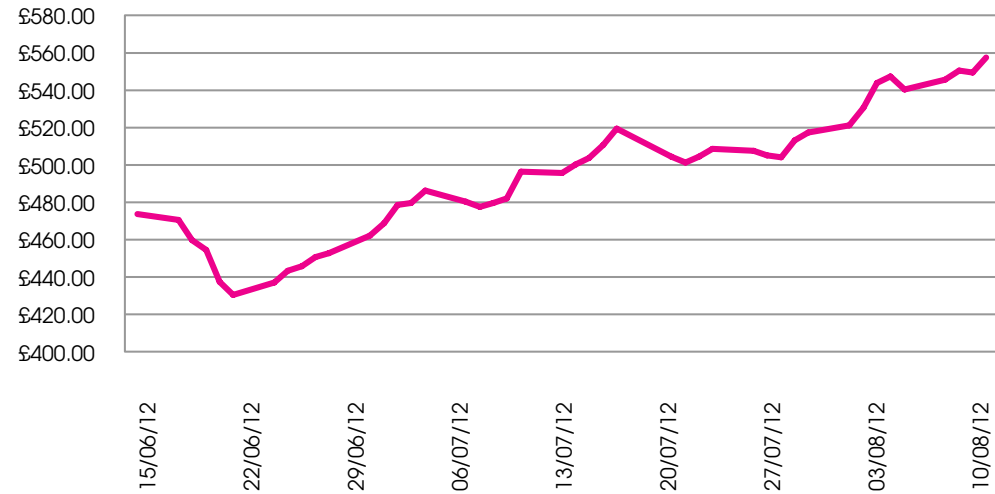
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Will crude oil prices sustain the upward price trend on polyolefins and how soon will other materials be affected?

Brent Crude £ per Tonne



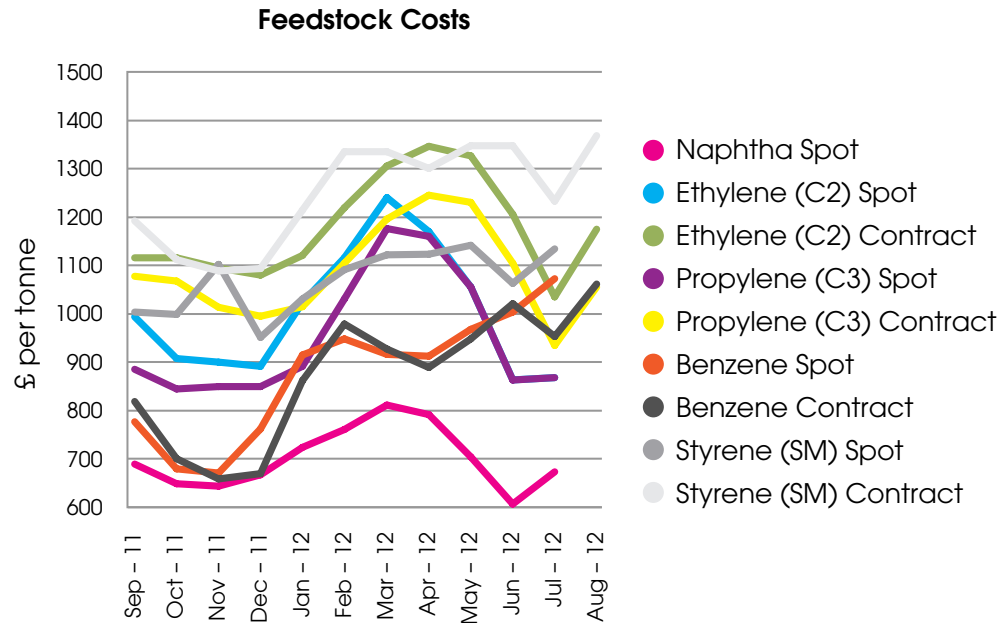
The Polyolefin graph on page 5, and Styrenic graph on page 6 struggle to reflect the remarkable, and possibly unprecedented events that took place at the beginning of July where after a significant reduction in polymer price demand increased dramatically as converters adopted defensive buying strategies. In an initial response producers increased prices and subsequently closed order books as sales volumes significantly exceeded their plans.

The counteraction of closing order books early is expected to minimise the impact of pre-buying on demand in both August and September, and so further support the producers' intentions to retain margin.

Upon analysis it appears that the increase in crude oil prices at the end of June sent a trigger to the market and a buying frenzy ensued. Since this time the price of Brent Crude has been steadily increasing, and within less than a month has notched up a total increase equivalent to £130 per tonne. This trend in oil prices looks set to continue.

The change in crude oil price was almost immediately reflected in the prices of all the key polymer feedstocks, as is clearly depicted above.

Will crude oil prices sustain the upward price trend on polyolefins and how soon will other materials be affected?



As you will read in the following commentary, in many cases polymer prices have increased dramatically if not considerable pressure is mounting to increase prices in order to increase or restore margins.

Since the 2008 crash it is evident that producers are extremely capable of reducing output to balance with demand and hence ensure that margins can be maintained even in a global recession.

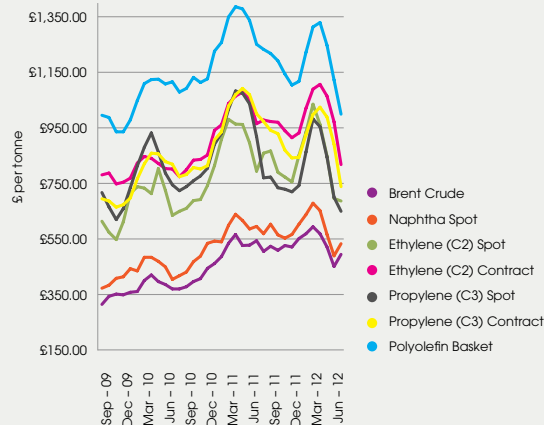
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pleweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£110.61
C3 (Propylene)	£102.71
Styrene	-£90.86
Benzene	£85.33
Brent Crude	£43.20

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



Supply Demand

LDPE

After the very strong buying activity in July, August business has been conducted in a more orderly fashion. Supply has improved due to lower demand particularly from Southern European countries where many processors shut down for their summer vacation.

Again order books are being closed early and it is expected that the market will again become very tight towards the end of the month as buyers look to secure increased volumes for September.

Supply Demand

LLDPE

As with LDPE seasonal factors have taken some of the heat out of the LLDPE market, but again activity looks set to increase at the end of the month, and given the anticipated short supply of LDPE many buyers will look to substitute LLDPE to cover any shortfall.

Supply Demand

HDPE

Despite the seasonal drop in demand the market remains well balanced.

Some producers who are undergoing maintenance shutdowns, or who have experienced unplanned outages are struggling to meet demands following the strong demand in July that depleted inventories.

Supply Demand

PP

Producer inventories have been significantly reduced since the strong period of demand in July.

Due to this pre-buying demand from converters has been pretty average, but given the likely short supply of propylene in September as a number of European Naptha Crackers undergo planned maintenance shutdowns.

Other Polyolefins

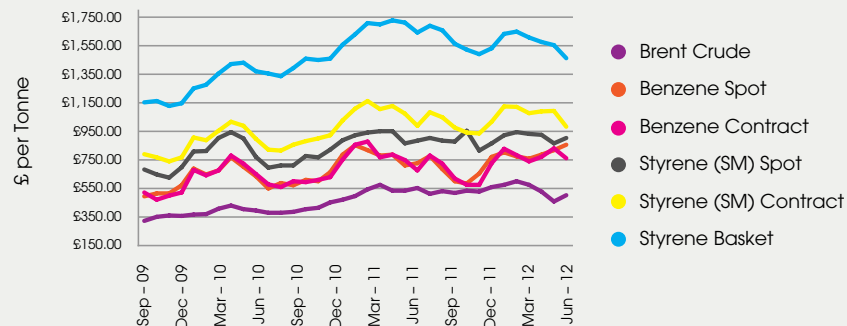
EVA succumbed to a combination of feedstock price reductions and pressure from buyers, and price concessions have resulted.

mPE producers will look to take advantage of the LLDPE shortage of supply, and processors will, where possible, take advantage of the higher performance of these grades to offset increases through down-gauging and increased operating rates.

Plastomers continue to follow the monomer price trend.

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Styrenics

Data provided by PIE
www.pieweb.com



Supply
Demand

PS

Short supply of Benzene resulted in a record high for this feedstock for styrene and hence there were significant hikes in PS prices.

The situation on Benzene coupled with lower rates of PS production are likely to result in the more balanced fundamentals remaining in place.

Supply
Demand

ABS

Producers have been reducing output rates in order to more closely match supply with demand. Whilst in July producers could enjoy acceptable margins due to the fall in feedstock costs, in August there is considerable pressure on margins particularly resulting from the Benzene/Styrene issue (see PS above), but also butadiene cost have increased. September prices increases look possible, particularly because Asian imports of ABS look quite sparse.

Supply
Demand

PC/ABS

Some reduction lead times may occur due to the seasonal lull in demand from the automotive sector.

The current stability of ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the coming months. Imports are rather limited and the market remains tight.

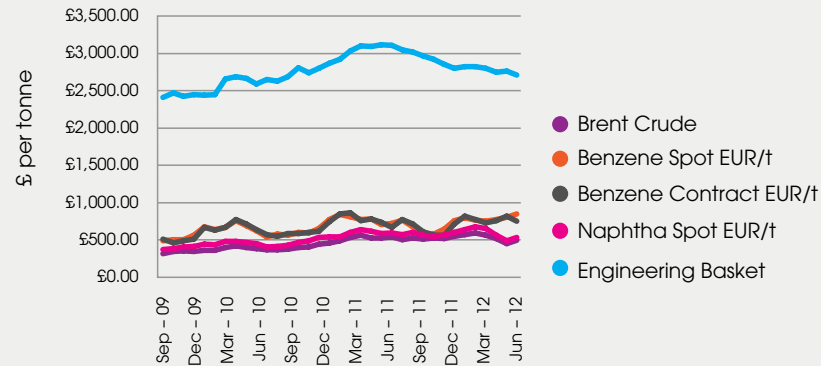
Other Styrenics

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

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Engineering Polymers

Data provided by PIE
www.pieweb.com



➔ Supply
➔ Demand

PA6

The market appears to be slightly balanced in favour of buyers, and following the usual round of producer plant shutdowns intended to match seasonally lower consumption from converters much will depend upon demand in September.

↗ Supply
↘ Demand

PA66

The market situation on PA66 appears to be relatively stable.

Compared to PA6 a stronger presence in the automotive sector results in a larger swing in demand due to automotive plant shutdowns, this is a historic situation that is easily factored into managing inventories.

➔ Supply
↘ Demand

POM

The market appears to be well balanced. Plans for price increases have been shelved for the time being.

As with PA66, demand from the significant automotive sector was seasonally reduced, but again producers are well aware of this annual event and manage their expectations accordingly.

➔ Supply
➔ Demand

PC

The extremely high price of benzene will impact on phenol prices, a key feedstock. With producers happy with demand this feedstock cost pressure is likely to result in a fresh round of price increases in September.

➔ Supply
➔ Demand

PMMA

European prices have recently increased. The market fundamentals are likely to remain strong as two major European players have plant outages due to scheduled maintenance.

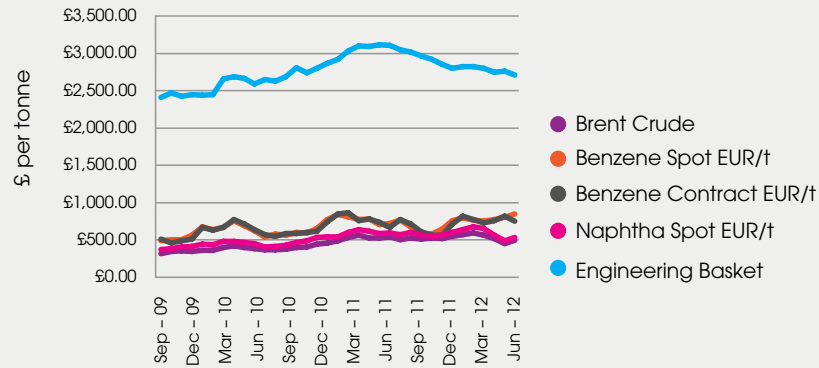
↗ Supply
↘ Demand

PBT/PET

Demand has seasonally reduced due to the seasonal shutdowns affecting the automotive sector and producers are quite prepared to live with variations in demand rather than attempting to stimulate demand through price concessions.

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**Engineering
Polymers**

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- ➔ Supply
- ➔ Demand

PPS

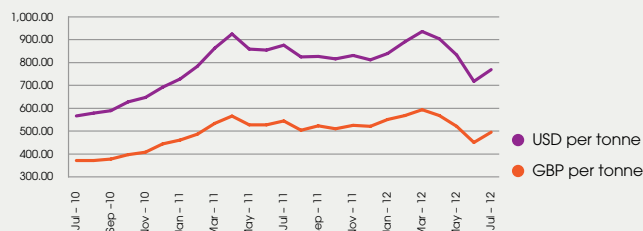
The situation on PPS appears to be stable, following supply disruption last year.

Other Engineering Polymers

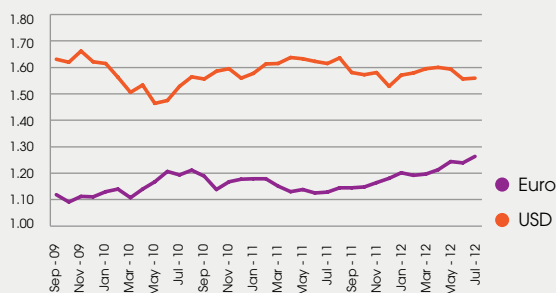
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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)	Q1 2012	-0.3	↻
GDP	Real GDP (Y on Y)	Q1 2012	-0.2	⬇
UK Output	Manufacturing (M on M)	Apr	-0.9	⬇
UK Output	Manufacturing (Y on Y)	Apr	-1.8	⬇
Sales	New Car Registrations (Y on Y)	June	4.8	↻
Sales	Retail Sales (M on M)	June	0.1	⬇
Labour	Unemployment Rate	May	8.1	⬇
Prices	CPI (Y on Y)	June	2.4	⬇
Prices	RPI (YoY)	June	2.8	⬇
Interest Rate	Bank of England Base Rate	Aug	0.5	↻

In GBP terms oil prices have fallen quite significantly, until the end of June, but in the since the beginning of July prices have rallied (see introduction). Subject to this trend on oil prices continuing there will be pressure for price increases across the whole spectrum of petrochemical products including polymers.

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 Stirling increases competitiveness of exports from the UK it also causes inflation on imported goods including plastic raw materials. Sterling has weakened against the dollar and strengthened against the Euro. At the same time the Euro has remained weak against the dollar. Given that both crude oil and feedstocks are priced in dollars this is also an inflationary pressure on polymer pricing.

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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