

price
know-how

December 2011

Why won't oil prices continue to move sideways and what are the implications for polymer prices?

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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.

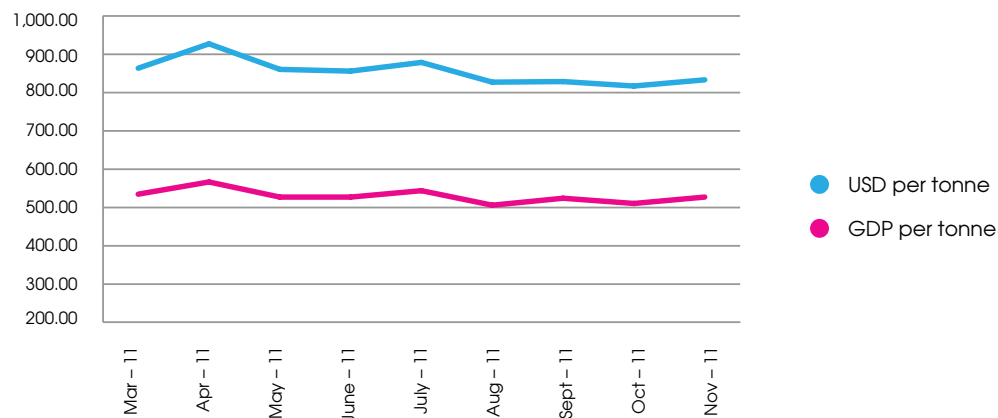
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Why won't oil prices continue to move sideways and what are the implications for polymer prices?

Brent Crude Oil – Price per tonne



As the graph above suggests Brent Crude Oil is 'range bound' with prices essentially moving sideways within a fairly tight tolerance. Of course the oil market is significantly impacted by geo-political issues and this year has witnessed the 'Arab Spring' in its various manifestations, and just when it looked possible that the uncertainties regarding security of supply were diminishing the USA starts to apply pressure on Iran and whilst no formal sanctions are yet in place strong influence is being brought to bear upon a range of oil hungry nations who currently purchase crude oil from Iran, and diversion of their supplies to other oil rich nations is likely to extend the period of high oil prices.

Some economists would suggest given the current economic turmoil that were oil in a state of 'normal' supply prices would be closer to the \$70 per barrel estimated average break-even costs.

Furthermore market analysts suggest that the current situation of price stagnation is soon to be broken with the options of either prices moving towards the figures favoured by the economist, or alternatively an upward movement which could ultimately see prices moving back towards the \$140 per barrel mark.

The question is when rather than if?

A further potential complication is that of a disconnection between oil price and polymer price.

Oil refining output is related to demand and demand is impacted by factors including consumer confidence and the weather where at present markets such as North America and Europe are so far enjoying a relatively mild winter. In this case there is the possibility that if refining output drops that the supply of petrochemical feedstocks also drop and this has the potential to tip the supply/demand balance resulting in increasing prices for monomers.

This type of interaction is illustrated in the table of monomer prices provided to the right, where increased demand for benzene for styrene production has changed the supply/demand balance in favour of the benzene producers and prices have increased in spite of weak market conditions for petrochemicals as a whole.

So what next?

The situation on polymer pricing remains on a knife-edge and given that in the last few months for many polymer producers margins have fallen below acceptable levels there are two possibilities in prospect: -

- A** Oil prices (and feedstock prices) fall and profitability is restored resulting in polymer prices continuing at or below the current levels.
- B** Oil prices remain where they are (or even increase) resulting polymer producers increasing prices (necessarily by reducing relative output)

So for now the question is when rather than if? Given a consensus that crude oil cannot remain range bound much longer we may soon have a more certain view of the future price trend.

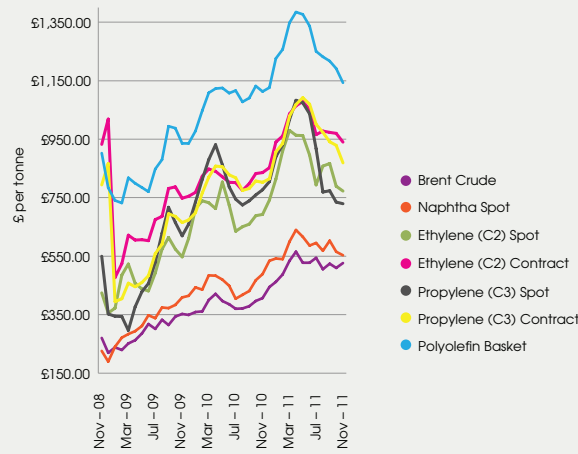
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	-£12.87
C3 (Propylene)	-£15.44
Styrene	£0.00
Benzene	£9.44
Brent Crude	-£14.50

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Polyolefins

Data provided by PIE
www.pieweb.com



↗ Supply
↘ Demand

LDPE

Demand never really recovered since the summer period, and producers continue to concentrate on managing inventory levels toward the year-end. Feedstock prices coupled with the current economic crisis continue apply pressure.

Whilst the LDPE market remains structurally tight with global under capacity, the current demand situation means that availability is good.

↗ Supply
↘ Demand

LLDPE

Slow off take from converters is resulting in improved supply.

Injection moulding grades are more balanced than film grades but feedstock and pressures from the broader economic situation continue to apply downward pressure on prices.

↗ Supply
↘ Demand

HDPE

Whilst producers remain concerned about margins the market pressures are predominant and even some significant outages have so far failed to shift the balance in the producers' favour, but it should be noted that the resistance for price concessions is increasing.

↗ Supply
↘ Demand

PP

PP is the softest of the key polyolefins which in part is due to the complexity of the grade slate.

Although producers have worked hard to reduce inventories, buyers continue to purchase on a 'hand to mouth, basis and this is adding to the pressures on producers to reduce prices further, however the poor economics are causing producers to increase their resolve and a firmer stance is in evidence.

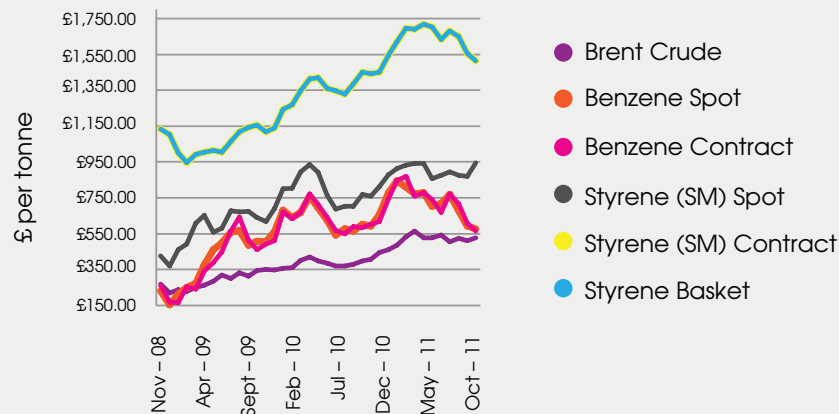
Other Polyolefins

The EVA supply situation has eased considerably since the summer period and as a result of lower demand there has been some pressure on prices, particularly for low VA content materials.

mPP and Plastomers follow the ethylene monomer price trend.

price know-how Styrenics

Data provided by PIE
www.pieweb.com



Supply Demand

PS

Further reductions in butadiene costs continue to put pressure on the premium for HIPS over GPPS.

Although increased benzene prices will erode the styrene monomer margin, it is unlikely that this will pass through to GPPS prices.

Supply Demand

ABS

Lead times are now similar for both Western European and Far Eastern sourced material.

Although prices from Asia are now generally more competitive. Prices have softened slightly on the back of lower feedstock cost.

It is notable that some Asian producers believe that prices in China have now bottomed and with a significant cut in ABS production that the balance is now moving in the favour producers.

Supply Demand

PC/ABS

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

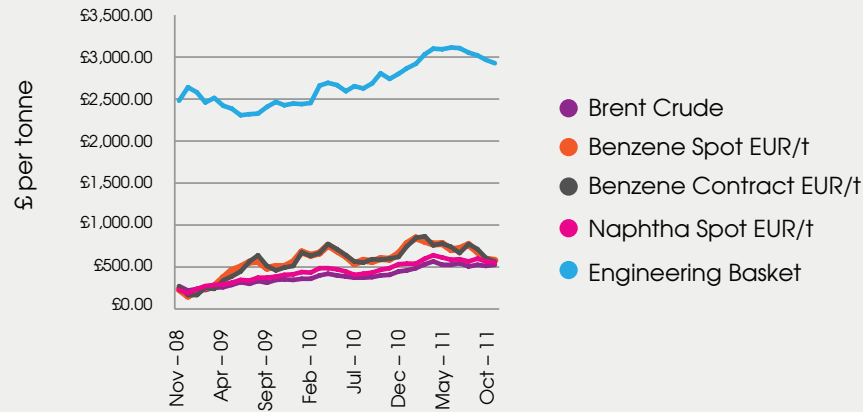
Although the effect of softening raw materials have yet to be reflected in pricing.

Other Styrenics

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

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↻ Supply
↻ Demand

PA6

Lead times continue to relax, and customers have adopted more of a 'wait and see' approach to purchasing in the expectation that falling raw material costs will increase price competition, however so far pricing has remained quite stable.

↻ Supply
↻ Demand

PA66

The situation here is basically the same as for PA6 where given an expectation that prices will at least stabilize if not fall then processors see little point in holding large inventories or making big forward commitments.

Again prices remained largely stable depending upon grade.

↻ Supply
↻ Demand

POM

Strong sentiment that prices have peaked continues to lead customers to ease back on their purchasing activity. Already some of the 'exotic' material from China looks less attractive versus some of the more established Asian sources.

The impact of increased capacity in Europe is yet to be felt.

↻ Supply
↻ Demand

PC

The price of PC is now well past the peak, and despite strong demand from a range of sectors including automotive price competition intensified at those accounts buying standard clear materials.

↻ Supply
↻ Demand

PMMA

One of the more stable materials, with producers adopting a more philosophical approach to market conditions, although the weakness of other polymers continues to generate downward price pressure.

Availability is much improved.

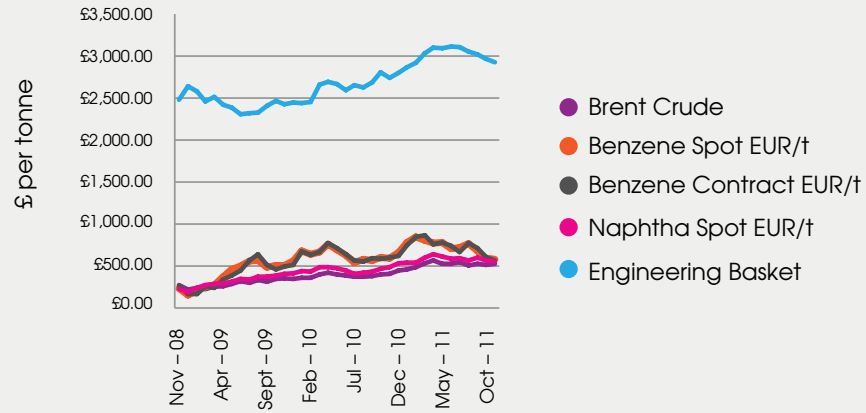
↻ Supply
↻ Demand

PBT/PET

An increase in demand has brought stability to the market, and although some attempts were even made to increase prices these did not meet with any approval in the market.

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- ↻ Supply
- ➔ Demand

PPS

The situation on PPS appears to be stabilising, following supply disruption earlier in the year.

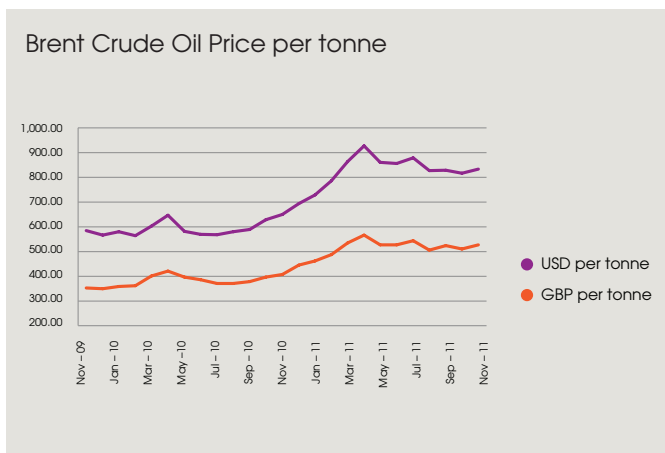
Other Engineering Polymers

In overall terms it looks as if the rate of price increase is now starting to reduce, and given the relatively high margin over feedstocks going forward very much will depend upon the global economic situation.

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Fundamentals

UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q3 2011	0.5	↘
GDP	Real GDP (Y on Y)	Q3 2011	0.5	↘
UK Output	Manufacturing (M on M)	Sept	0.1	↔
UK Output	Manufacturing (Y on Y)	Sept	2.1	↘
Sales	New Car Registrations (Y on Y)	Oct	0.9	↗
Sales	Retail Sales (M on M)	Oct	0.6	↗
Labour	Unemployment Rate	Sept	8.3	↗
Prices	CPI (Y on Y)	Oct	5.0	↘
Prices	RPI (YoY)	Oct	5.4	↘
Interest Rate	Bank of England Base Rate	Dec	0.5	↔

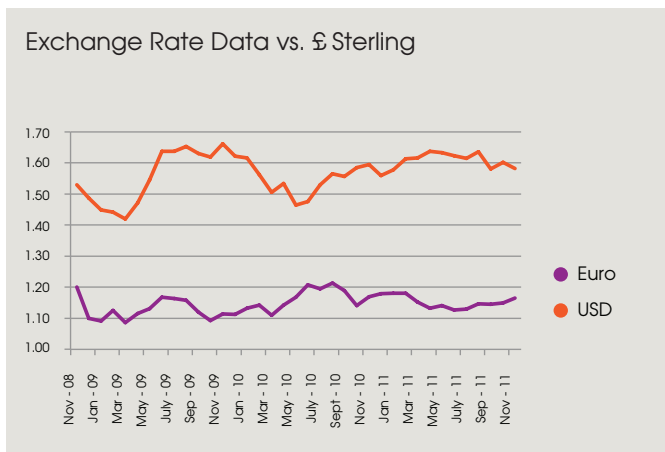


The Sterling / Euro exchange rate is a key factor in determining polymer prices, since most materials are Euro denominated. At current price level each Euro Cent change in prices represents a £10 per tonne impact on our polyolefins materials basket.

The Sterling / USD exchange rate tends to be more influential on the price of ABS, PC and POM with significant imports from Asia.

Whilst weak Sterling increases competitiveness of exports from the UK it also causes inflation on imported goods including plastic raw materials.

Overall Sterling remains closely coupled with Euro the and the dollar, and there is no reason to expect any significant change in the coming months with all three currencies facing not dissimilar challenges.



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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