

price
know-how

February 2012

Rocketing feedstock prices set to impact heavily on 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.

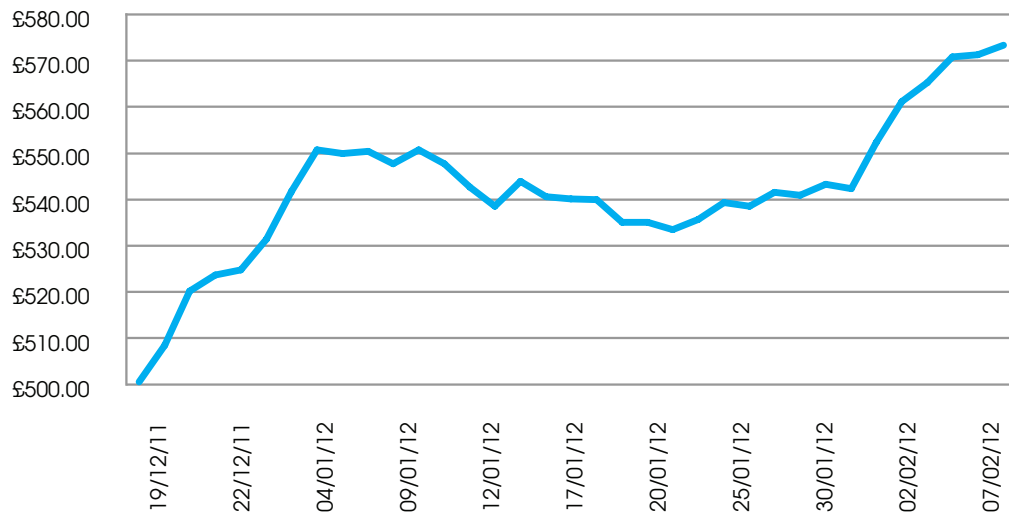
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Rocketing feedstock prices set to impact heavily on polymer prices

Brent Crude £ per Tonne



Oil prices have risen by more than 14% since the middle of December, and further increases look likely as a combination of legal sanctions and political pressures stem the flow of oil from Iran.

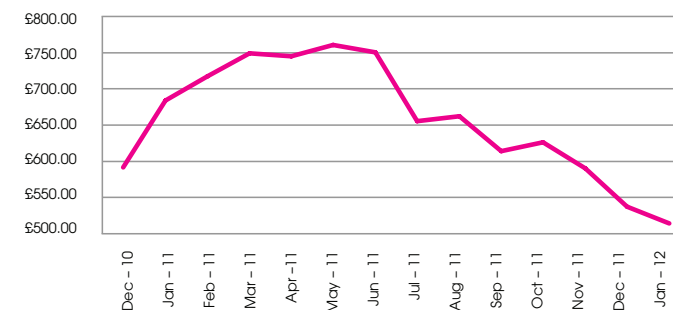
The pressures faced in the polymers sector of the petrochemicals sector are also in evidence in the refining sector where poor margins were no doubt a significant factor in Petroplus, Europe's largest independent refiner by capacity, going into administration at the end of December.

In the plastics sector the scale of price increases implemented in January was moderate, and for the UK the increased strength of the £ vs. € has softened the impact.

Whilst these initial moves perhaps reflect sentiment of weakness in the broader economy, and lacklustre demand from polymer processors, large increases have been implemented for February and more is expected for March.

Also as an alternative to closing February order books early some producers are even pondering a second round of increases within the month.

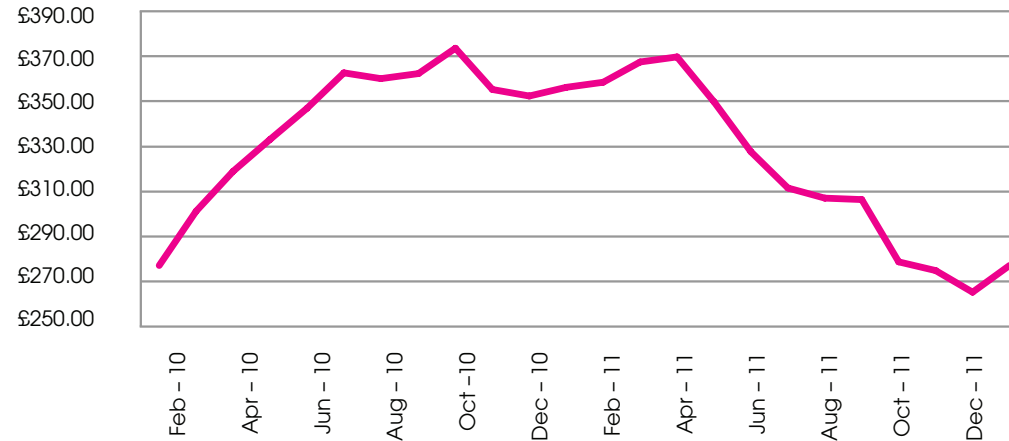
Polyolefin Basket Margin Over Naptha £ per Tonne



The scale of the problem is clearly illustrated in the graph above where feedstock costs increases were similar to or greater than price increases for polymers with the effect that already poor margins remained.

Rocketing feedstock prices set to impact heavily on polymer prices

PP Basket over C3 Contract



Even in the case of non-integrated polypropylene producers the improvement of margin over contract propylene was negligible.

For the immediate future it looks as if polymer prices will continue to increase, and indeed this is also likely to affect engineering polymer prices with the recent trend towards softening prices likely to reverse.

In the mid-term pricing will remain dependent upon crude oil price, exchange rates and crucially demand from China.

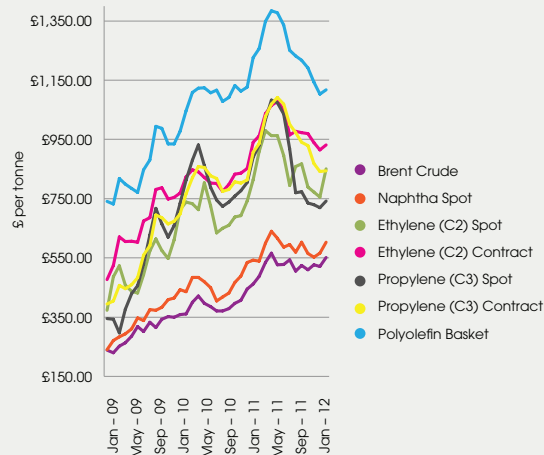
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£82.31
C3 (Propylene)	£74.83
Styrene	£99.77
Benzene	£256.09
Brent Crude	£29.92

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



Supply Demand

LDPE

Whilst many processors report poor demand both as a result of the poor general economic conditions and also the need to pass polymer price increases on through the supply chain, producers have very limited inventories and therefore are readily able to apply the increases in full.

Supply Demand

LLDPE

A very similar situation to LDPE with material in limited supply and producers determined to implement increases in full.

Supply Demand

HDPE

Supply appears to be slightly less tight, and whilst producers remain firm on pricing some small parcels of traded material have appeared on the market.

Producers remain determined to recover margin in an area that has struggled to give realistic returns in comparison to other polyolefins.

Supply Demand

PP

There is clear evidence that the PP market is starting to tighten. Prices increases were smaller than those for polyethylene reflecting the smaller level of increases applied to propylene feedstocks.

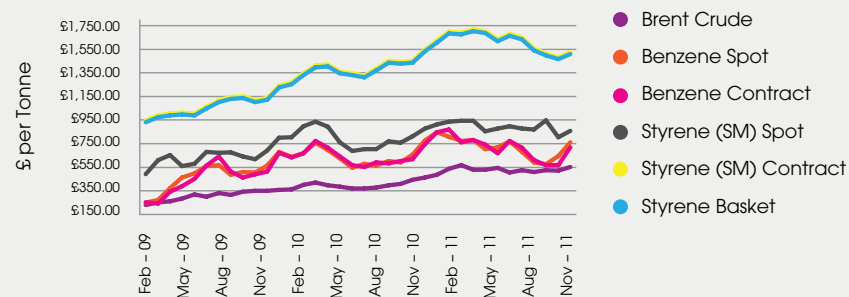
Other Polyolefins

EVA following the increase in ethylene prices have gone forward forward in Q1.

mPP and Plastomers follow the ethylene monomer price trend.

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Styrenics

Data provided by PIE
www.pieweb.com



↘ Supply
↗ Demand

PS

Prices continue to increase rapidly on the back of spiralling benzene costs.

Furthermore butadiene prices are back on the increase placing additional pressure on HIPS prices.

↗ Supply
↘ Demand

ABS

Whilst price increases in January were limited it is clear that the pressure of dramatically increasing feedstock costs will force producers to implement significant increases.

Many Asian producers have already closed order books and fresh supplies are only being offered at a significant premium.

↘ Supply
↘ Demand

PC/ABS

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

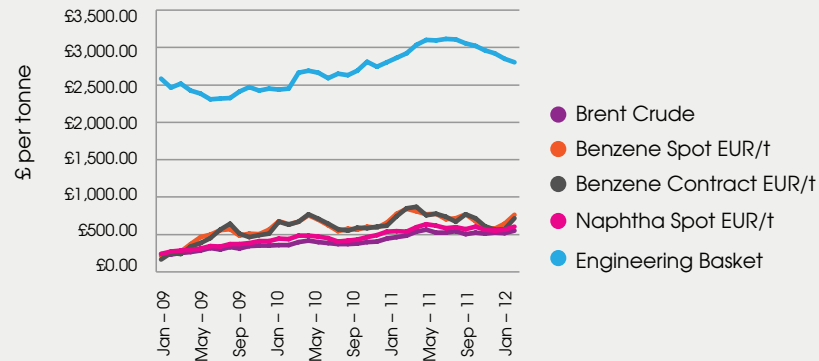
The current upward pressure on ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the preceding months.

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**

Data provided by PIE
www.pieweb.com



↘ Supply
↔ Demand

PA6

The increased cost of benzene is impacting significantly on feedstock costs. Higher input costs coupled with better supply demand balance has resulted in producers calling for increases.

These will first affect natural resins, but increases are expected to filter through to compounds as inventory in the supply chain is consumed and increased costs need to be recovered.

↗ Supply
↔ Demand

PA66

The situation on feedstock has again changed and the rapidly increasing cost of butadiene is now impacting on feedstock costs.

Calls for price increases will gain momentum as existing inventories are consumed.

↗ Supply
↔ Demand

POM

The situation on POM looks rather stable. Supplies of exotic material from China have diminished, and availability from established Asian sources looks more stable.

It likely that producers will look to increase prices in Q2.

↘ Supply
↔ Demand

PC

Despite significant increases in feedstock costs no increases were applied in January.

However given the rapid fall in the price of transparent material through H2 2011, significant increases have already been announced in February with further increases likely to follow on the back of rapidly escalating benzene costs.

↗ Supply
↘ Demand

PMMA

Any prospect of a further slight softening in PMMA prices has been eliminated as a result of increasing feedstock costs. It is possible that price increases will be announced for March if input costs continue to increase.

Demand looks set to surge with both strong automotive demand and potential of higher TV sales as both the Olympics and European Soccer Championships progress.

↗ Supply
↔ Demand

PBT/PET

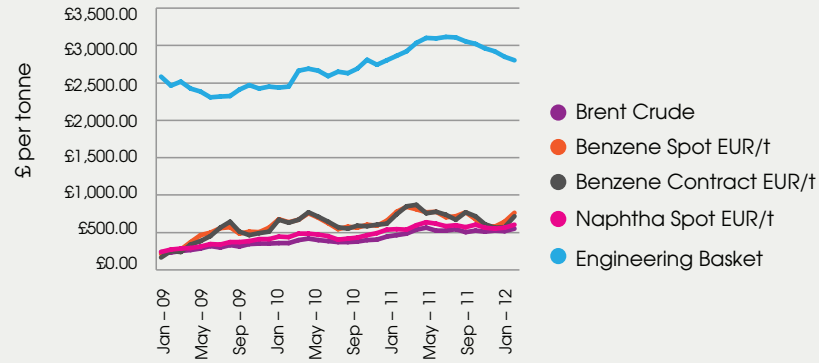
Demand was somewhat better than in Q4 2011 and in particular the automotive sector remains buoyant.

The prospect of a poor cotton harvest is likely to increase demand for synthetic fibres and consequently increase demand for polyesters, and price increases in Q2 look likely for this reason alone.

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- Supply
- Demand

PPS

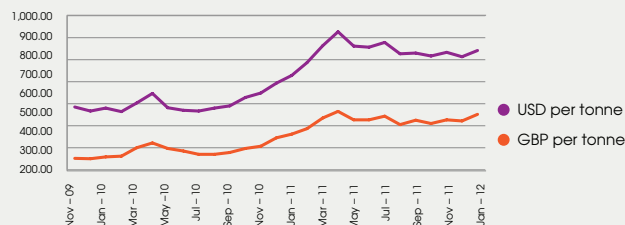
The situation on PPS appears to be stable, following supply disruption last the year.

Other Engineering Polymers

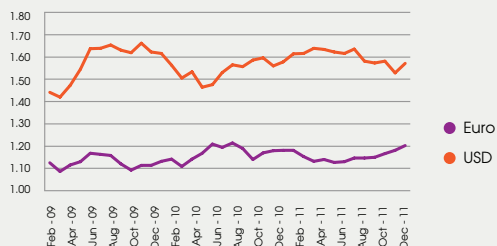
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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	-0.2	↘
GDP	Real GDP (Y on Y)	Q4 2011	0.8	↗
UK Output	Manufacturing (M on M)	Dec	1.1	↗
UK Output	Manufacturing (Y on Y)	Dec	-0.2	↘
Sales	New Car Registrations (Y on Y)	Dec	-1.8	↘
Sales	Retail Sales (M on M)	Dec	0.7	↗
Labour	Unemployment Rate	Dec	8.4	↗
Prices	CPI (Y on Y)	Dec	4.8	↘
Prices	RPI (YoY)	Dec	5.2	↘
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 be 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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