

price  
**know-how**

January 2012

Will increasing oil prices create more upward pressure?

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[www.plastribution.co.uk](http://www.plastribution.co.uk)

# 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.

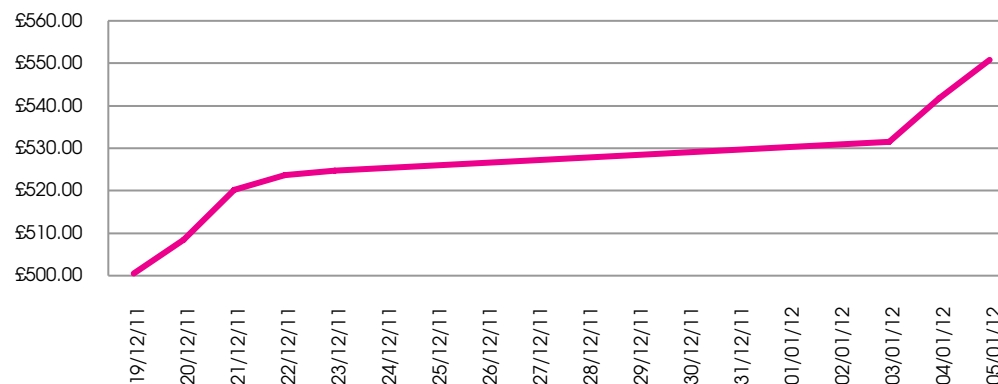
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

As price increases are announced for January, have prices bottomed, & will increasing oil prices create more upward pressure?

## Brent Crude £ per Tonne



Since the end of December Oil prices have rallied and a combination of market optimism and geo-political tensions affecting some oil producing nations are likely to drive prices higher.

As can be seen on page 4 the margins that polyolefin producers have been achieving have eroded significantly since the middle of 2011 and actually ending the year at a lower level than in December 2010.

So given that input prices (crude oil & other feedstocks that are related to crude oil pricing) are increasing we are now reaching the inevitable position that prices are going to increase. Furthermore Euro based producers

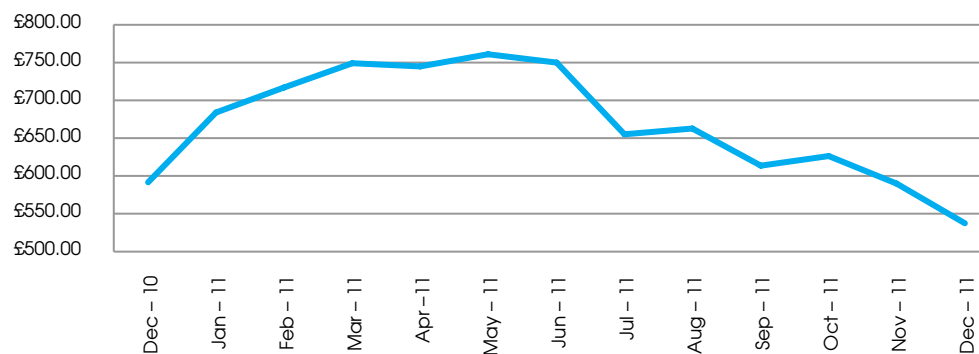
due to currency weakness face the additional pressure of exchange rate derived raw material inflation given that most petrochemicals are priced in USD.

The other key fundamental relates to inventory and polymer producers worked hard in the final few months of 2011 to both curb output and dispose of excess inventories, and the current situation places producers in control.

So far the scale of increases has been moderate, and for the UK the increased strength of the £ vs. has softened the impact of exchange rate derived inflation.

As price increases are announced for January, have prices bottomed, & will increasing oil prices create more upward pressure?

## Polyolefin Basket Margin Over Naptha £ per Tonne



The key determinates of future price increases will be a combination of crude oil price, exchange rates and crucially demand from China, where we must wait for the Chinese New Year to pass at the end of January.

From the perspective of plastic processors there is a note of caution that the recent trends towards price softening is probably over.

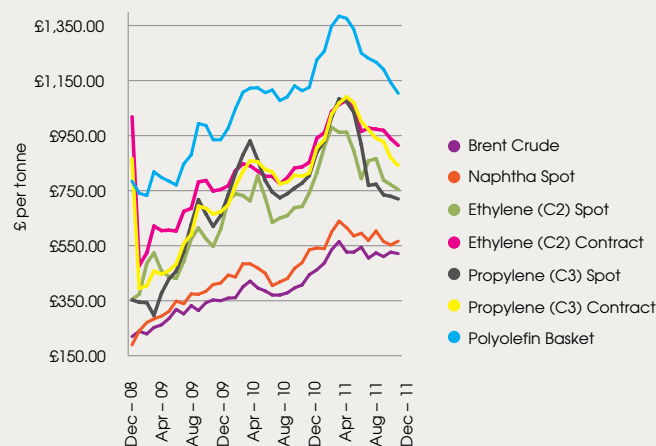
### Monomer Prices (£ GBP per tonne)

Data provided by PIE [www.pieweb.com](http://www.pieweb.com)

Feedstock	Change (Contract)
C2 (Ethylene)	£33.86
C3 (Propylene)	£16.93
Styrene	£5.08
Benzene	£0.00
Brent Crude	-\$5.27

# price know-how Polyolefins

Data provided by PIE  
www.pieweb.com



## Supply Demand

### LDPE

The market is well balanced in terms of inventory and the announcement of price increases in late December and early January have stimulated demand with many processors reacting to the probability of further price hikes and placing more forward order commitments.

## Supply Demand

### LLDPE

Again it is well recognized that producers have worked hard to reduce inventories. In addition cut backs in European domestic production (intentional and un-planned) coupled with the weak Euro curbing imports will only serve to further tighten the market.

## Supply Demand

### HDPE

With the supply demand balance shifting firmly back in the favour of producers and with similar circumstances to those affecting LLDPE, producers are determined to recoup margins as a priority.

## Supply Demand

### PP

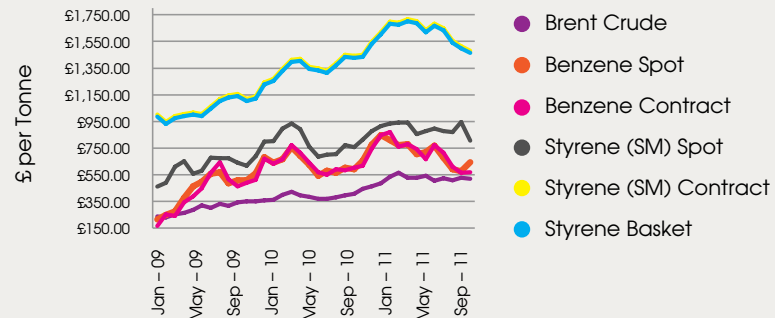
PP remained the softest of the key polyolefins, which in part is due to the complexity of the grade slate. A number of producers are operating at reduced output and the market fundamentals are becoming more balanced, and so there is strong pressure to increase prices.

### Other Polyolefins

EVA prices stabilised in December, and following the increase in ethylene pricing are set to go forward in Q1. 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. Whilst producer inventory were at low levels in December few processors anticipated the scale of increases that would be called for in January.

Given rapidly rising Benzene costs further increases are likely to follow, and the only relief may come for HIPS buyers from the falling premiums over GPPS.

↗ Supply  
↘ Demand

## ABS

Price increases appear ever more likely.

In particular Asian producers face rapidly increasing monomer costs and this combined with a weak USD are causing strong pressure.

↗ Supply  
→ Demand

## PC/ABS

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

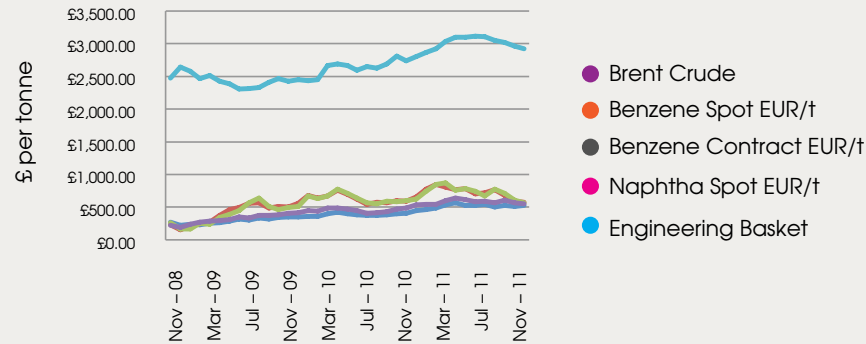
Although the effect of softening raw materials have yet to be reflected in pricing.

## 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**

Producers and compounders have reduced output in order to match lower demand. The rapid increase in Benzene costs will create upward price pressure, and there remains a strong possibility that price increases may soon follow.

Supply  
Demand

**PA66**

The situation on feedstock is influenced by the falling cost of butadiene, but other key components remain stable.

Prices are likely to remain stable as producers wait to see how the situation on feedstock develops.

Supply  
Demand

**POM**

European producers are working to reduce output to match demand, and Asian producers are relatively less competitive due to the weakness of the Euro against the USD.

The situation looks quite stable going forward, although any increase in demand will result in the market becoming tight.

Supply  
Demand

**PC**

It looks as if December may represent a turning point in terms of PC pricing with the significant increase in benzene impacting heavily on feedstock costs.

In particular Asian producers have adopted a firm stance, in many cases closing their books for new orders until after the Chinese New Year.

Supply  
Demand

**PMMA**

Despite being one of the more stable materials, with producers adopting a more philosophical approach to market conditions, there have been some small price reductions on the commodity grades.

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

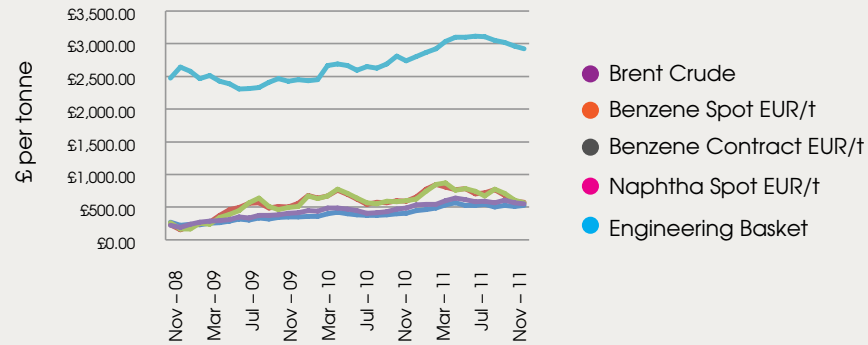
**PBT/PET**

Demand was rather weak in the last month of 2011.

Given the increase in benzene prices it looks as if prices will roll over into the first part of 2012.

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- Supply
- Demand

### PPS

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

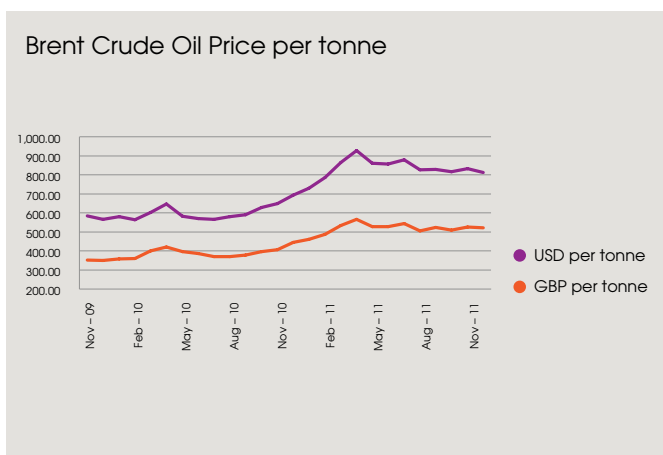
### Other Engineering Polymers

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	0.0	➡
GDP	Real GDP (Y on Y)	Q3 2011	0.5	⬇️
UK Output	Manufacturing (M on M)	Oct	-0.6	⬇️
UK Output	Manufacturing (Y on Y)	Oct	0.9	⬇️
Sales	New Car Registrations (Y on Y)	Oct	-0.9	⬇️
Sales	Retail Sales (M on M)	Nov	-0.4	⬇️
Labour	Unemployment Rate	Oct	8.3	➡
Prices	CPI (Y on Y)	Nov	4.8	⬇️
Prices	RPI (YoY)	Nov	5.2	⬇️
Interest Rate	Bank of England Base Rate	Dec	0.5	➡

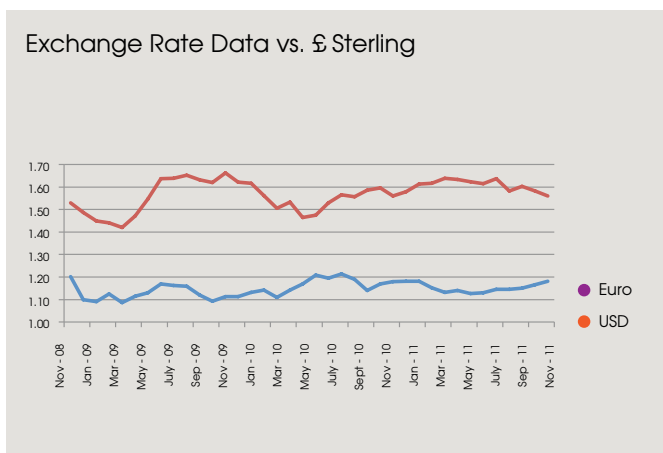


The Sterling / Euro exchange rate is a key factor in determining polymer prices, since most materials are Euro denominated. At current price level each Euro Cent change in prices represents a £10 per tonne impact on our polyolefins materials basket.

The Sterling / USD exchange rate tends to be more influential on the price of ABS, PC and POM with significant imports from Asia 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 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](http://www.pieweb.com)

HM Treasury [www.hm-treasury.gov.uk](http://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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