

price

know-how

June 2012

As polymer feedstocks costs move in different directions, can benzene derived polymers defy global economic pressure?

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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.

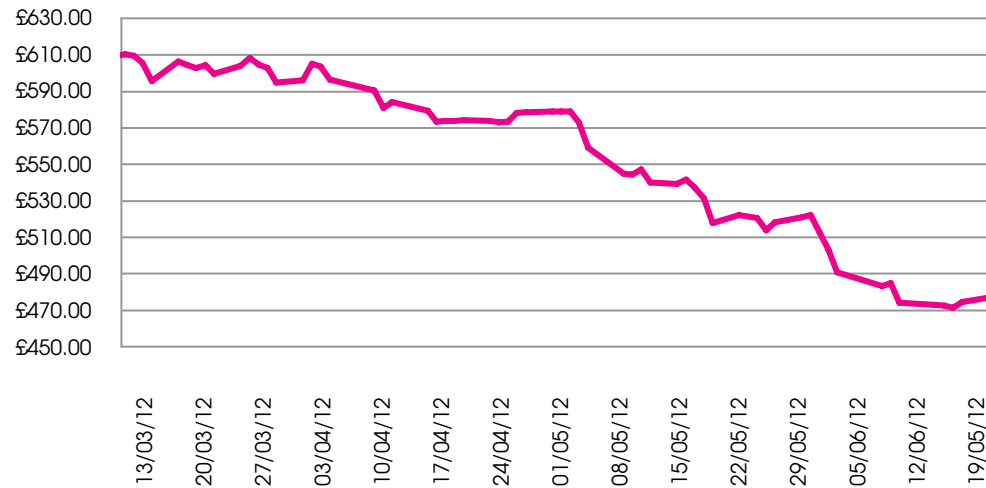
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

As polymer feedstocks costs move in different directions, can benzene derived polymers defy global economic pressure?

Brent Crude £ per Tonne



In line with expectations crude oil prices have continued to decline in reaction to the significant economic pressures that have spread beyond the Eurozone, to affect the global economy.

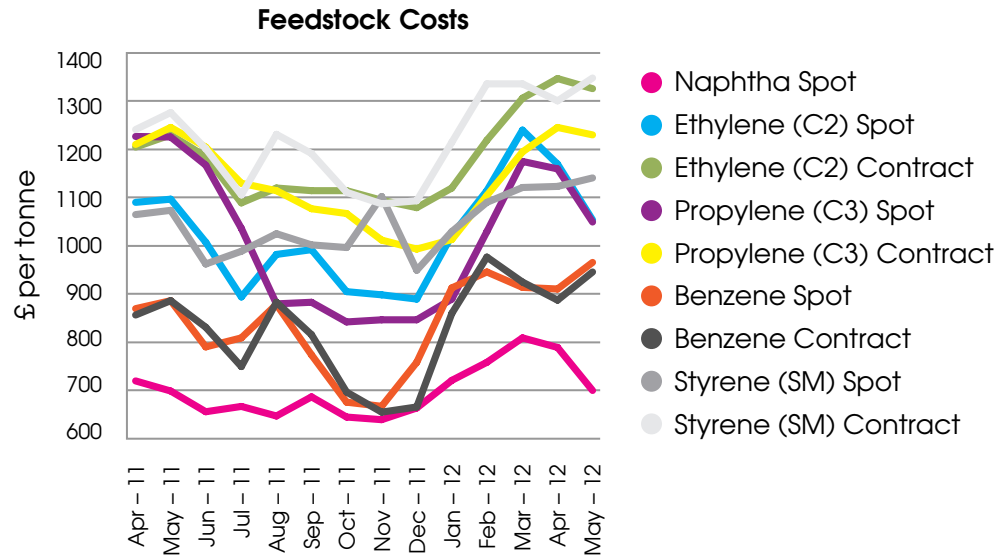
Following an overall decline of 20% from its peak, oil prices may in the last few days have reached a plateau. Where oil prices go in the coming weeks will have significant implications for longer term polymer pricing.

Having significantly cut back on production polymer producers will look to restore operating margins, and if this is not supported by further reductions in crude oil prices then as soon as the supply demand balance is restored then price increases are likely to ensue.

As polymer feedstocks costs move in different directions, can benzene derived polymers defy global economic pressure?

Whilst some would doubt that in view of such strong economic pressures the market would be resilient to any attempts for price increases the current situation affecting benzene (and styrene a derivative) would suggest otherwise.

The graph (right) clearly indicates an upward price trend for benzene in the last month, which contrasts strongly with the other indicators: -



Benzene feedstocks are closely associated with the both the styrenics group of materials, including, PS & ABS, and also with a wide range of engineering polymers.

Whilst it is proving difficult to implement price increases for the more commodity benzene derived polymers it is clear that upward pressure exists.

Whilst Naphtha derived polymers remain under strong downward price pressure it is notable that many polyolefin buyers are starting to adopt defensive buying strategies, anticipating that the market will bottom in just a few weeks. Of course such actions will of course appear to stimulate demand and boost the confidence of sellers.

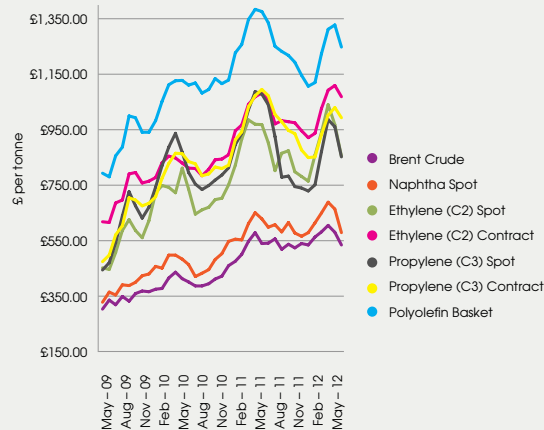
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	-£98.75
C3 (Propylene)	-£102.86
Styrene	£38.68
Benzene	£60.07
Brent Crude	-£47.04

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



↗ Supply
↘ Demand

LDPE

The market fundamentals are difficult to identify. It is clear that the large surplus of material has been consumed, and whilst demand from processors is apparently low it is clear that many buyers will soon be adopting defensive buying strategies.

↗ Supply
↘ Demand

LLDPE

The demand from processors has been impacted by the import of C4 based films, and this coupled with pressure from LDPE pricing is placing C4 LLDPE in a difficult position. The situation on C6/C8 and mPE is much more balanced.

↗ Supply
↘ Demand

HDPE

So far HDPE prices have come under less pressure, partly due to some production issues that have now been resolved. As with LDPE it looks as if volume buyers may need to return to the market and also subject to sentiment may adopt more defensive buying strategies.

↗ Supply
↘ Demand

PP

Still demand remains rather sluggish, and both sellers and processors hope that a combination of hotter weather and a comprehensive range of sporting fixtures will help to stimulate demand particularly in the food packaging sector.

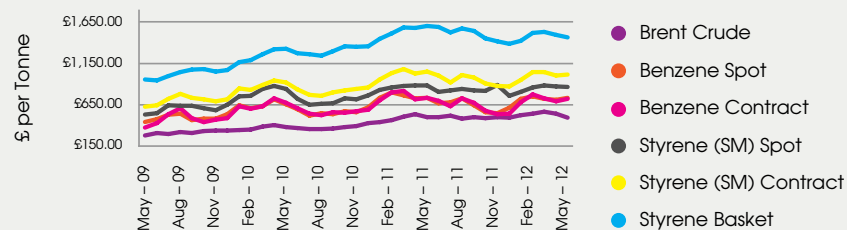
Other Polyolefins

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

mPP and Plastomers follow the ethylene monomer price trend.

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Styrenics

Data provided by PIE
www.pieweb.com



↻ Supply
↘ Demand

PS

The strategy of buyers only buying according to their requirements put producers under further pressure in May and as a result of poor demand and adequate supply the calls to pass through monomer cost increases were comprehensively rebuffed.

↻ Supply
↘ Demand

ABS

The combination of a weak dollar and low demand in Asia may result in sufficient imports to place European producer requests for increased prices under pressure.

↘ Supply
↘ Demand

PC/ABS

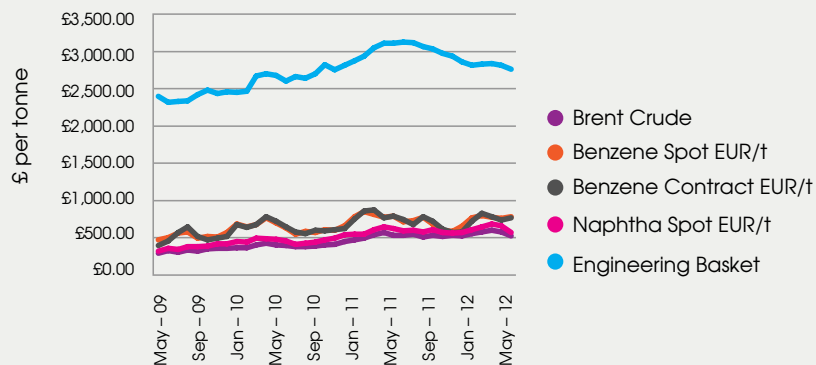
Long lead times persist and demand from the automotive sector remains strong. The current stability of ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the coming months. Imports are rather limited and the market remains tight.

Other Styrenics

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

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➔ Supply
➩ Demand

PA6

The market remains well balanced, with lead times still sufficiently long to favour the producers. The increase in benzene cost is helping to justify further moderate price increases.

➔ Supply
➩ Demand

PA66

The feedstock cost pressure on adipic acid disappeared, and butadiene prices fell significantly. If demand is weak then producers are likely to grant price concessions in an attempt to win market share.

➔ Supply
➩ Demand

POM

Whilst moderate increases have been applied in Europe, a combination of strong competition in the UK coupled with favourable exchange rates have, so far, left prices unchanged.

➔ Supply
➩ Demand

PC

PC producers are also feeling the impact of increased benzene costs on their input prices. Despite the market fundamentals it looks as if further price hikes are on their way.

➔ Supply
➩ Demand

PMMA

It now looks like European prices will follow the lead taken by Asian and North American markets resulting from significant monomer price hikes in those regions. Significant price increases have been announced and the market fundamentals look favourable for the producers.

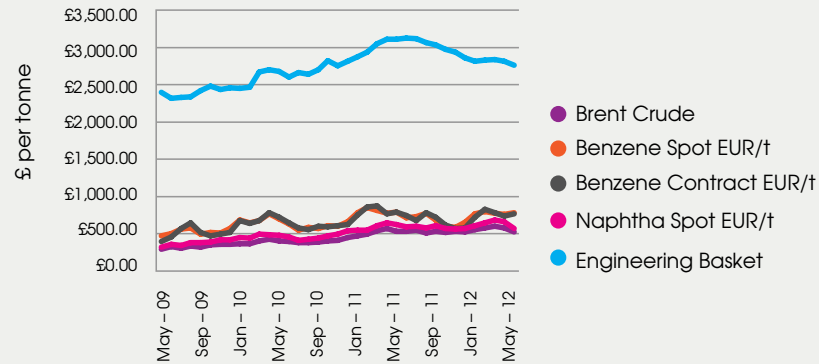
➔ Supply
➩ Demand

PBT/PET

Here again it looks like polymer producers will seek to recover margins that have previously been eroded by feedstock price increases, and many especially low margin areas of business have already been addressed.

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- ➔ Supply
- ➔ Demand

PPS

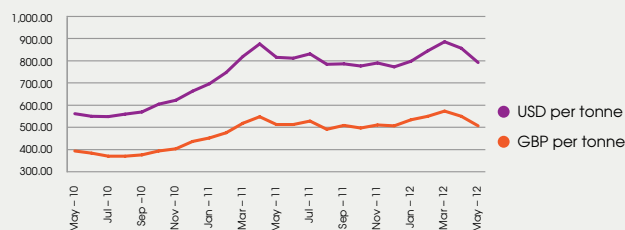
The situation on PPS appears to be stable, following supply disruption last year.

Other Engineering Polymers

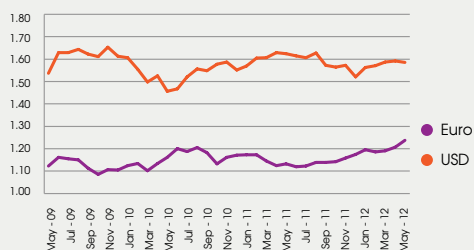
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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 2012	1.6	↗
GDP	Real GDP (Y on Y)	Q4 2012	1.8	↗
UK Output	Manufacturing (M on M)	Feb	-1.0	↘
UK Output	Manufacturing (Y on Y)	Feb	-0.2	↘
Sales	New Car Registrations (Y on Y)	April	-2.3	↘
Sales	Retail Sales (M on M)	April	-2.3	↘
Labour	Unemployment Rate	Jan	8.2	↘
Prices	CPI (Y on Y)	April	3.0	↘
Prices	RPI (YoY)	April	3.5	↘
Interest Rate	Bank of England Base Rate	June	0.5	↔

In GBP terms oil prices have fallen quite significantly in just the past few weeks. As discussed in the introduction oil prices create the fundamentals for polymer pricing so for the time being it looks like more pressure will be applied.

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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