

price know-how

March 2012

Producers implement large price increases to both incorporate feedstock inflation and restore margins.

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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.

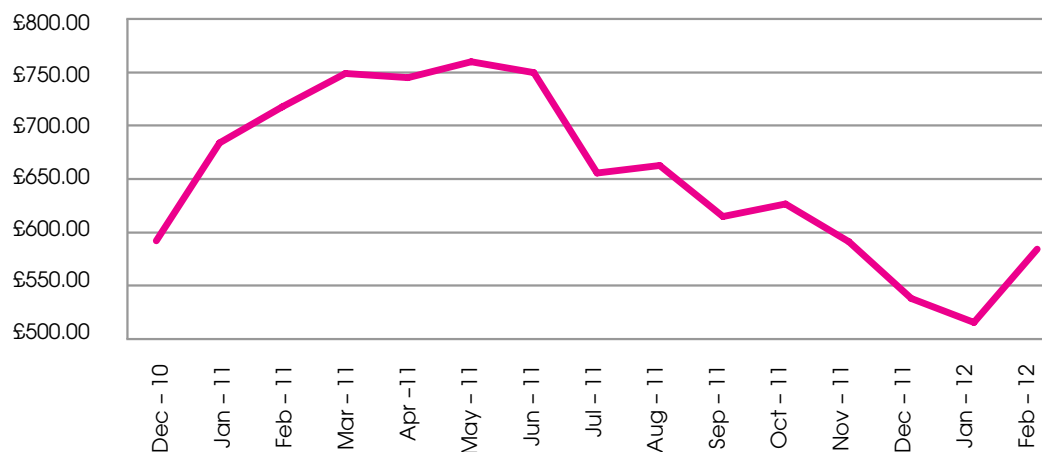
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Producers implement large price increases to both incorporate feedstock inflation and restore margins.

Polyolefin Basket Margin Over Naptha £ per Tonne



Polymer	Monomer	Margin Increase
PE (HDPE, LLDPE, LDPE)	+\$70	£60 - £70
PP (PPHP, PPCP, PPRCP)	+\$75	£15 - £50

Following the moderate increases applied to some polymer prices in January large increases have been applied both February and March. As is illustrated by the table above the ability of the producers to recover margin has been very mixed.

At the minimum, increases have just about covered costs (feedstock + energy), but where market fundamentals have allowed then producers have seized the opportunity to recover the margins that became much depleted in Q4 2011.

Whilst the global economic situation is quite mixed, as explained below, crude oil (and hence feedstock & energy costs) are likely to remain high.

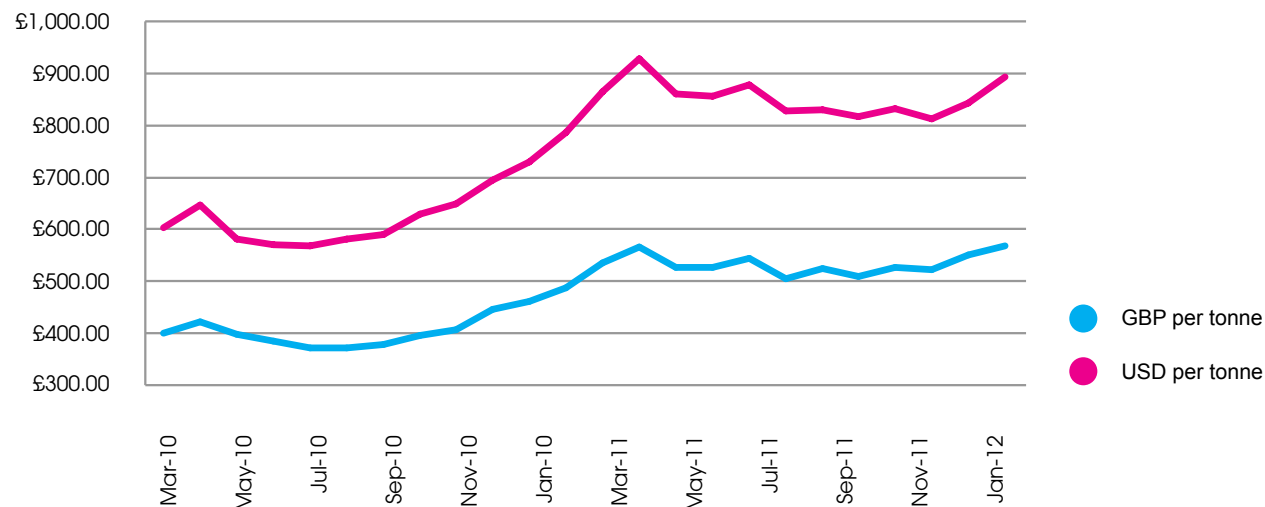
On this basis it is inevitable that producers will continue to balance output against demand in order to create market conditions within which acceptable margins can be restored.

In the case of PP further pressure is resulting? as the 46-month high price of Naphtha is causing output rates at crackers to be dropped and with that propylene availability will be significantly impacted.

The graph above illustrates the plight of the polymer producer in terms of trying to improve margins, with only a modest recovery staged since the beginning of this year.

Producers implement large price increases to both incorporate feedstock inflation and restore margins.

Brent Crude Oil Price per Tonne



Vitol who are the world's largest independent oil trader have recently forecast that the most likely scenario is that crude oil prices will remain at \$120 per barrel for the remainder of 2012 (Brent Crude averaged \$109 per barrel in 2011) but if geopolitical tensions increase a price above \$150 per barrel could materialize.

On this basis continuing upward pressure will continue to be placed on energy and petrochemical markets.

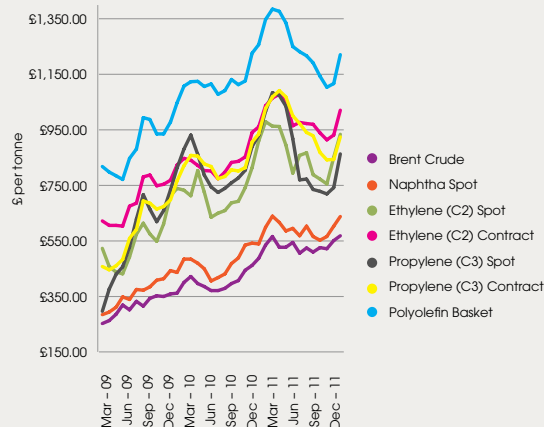
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£72.01
C3 (Propylene)	£75.36
Styrene	£0.00
Benzene	-£43.54
Brent Crude	£17.46

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



↘ Supply
↗ Demand

LDPE

With producers inventories at virtually nil, and demand increasing both as a result of increased production and to a lesser extent defensive buying strategies to soften the impact of further increases, the market is very tight.

↘ Supply
↗ Demand

LLDPE

Much supply from the Middle East was diverted towards Asia in late February and early March. This coupled with strong demand in industrial and agricultural sectors ensured that the market was very tight.

↘ Supply
↗ Demand

HDPE

Whilst the market was less lively from a demand point of view than other parts of the PE market, producers were insistent on recovering margin and this was especially evident in the film and injection sectors.

↘ Supply
↗ Demand

PP

From the supply side PP has tightened considerably, and there have been a number of unplanned outages due to weather related issues.

As converters start to become aware that availability of specialist grades is tightening rapidly, and that further price hikes are inevitable so demand is starting to accelerate.

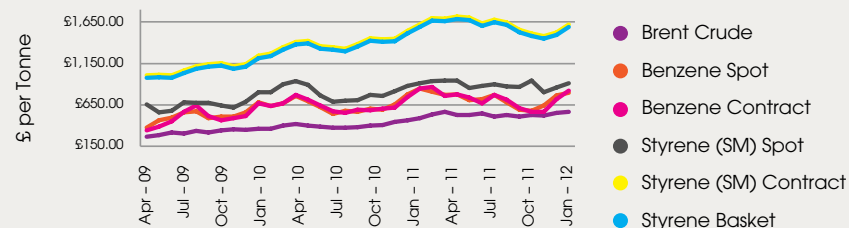
Other Polyolefins

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

The market has not responded well to the recent round of increases, and converters are tending rather than to adopt a defensive buying strategy to simply buy on an as needed basis.

Following resurgence in butadiene costs strong moves are underway to increase the premium for HIPS.

➔ Supply
➔ Demand

ABS

Imports from Asia were limited as higher prices and stronger demand in this area resulted in limited quantities of material arriving in Europe.

Pressure continues to both recover margin from last months styrene monomer increase and more recently butadiene prices have moved up.

➔ Supply
➔ Demand

PC/ABS

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

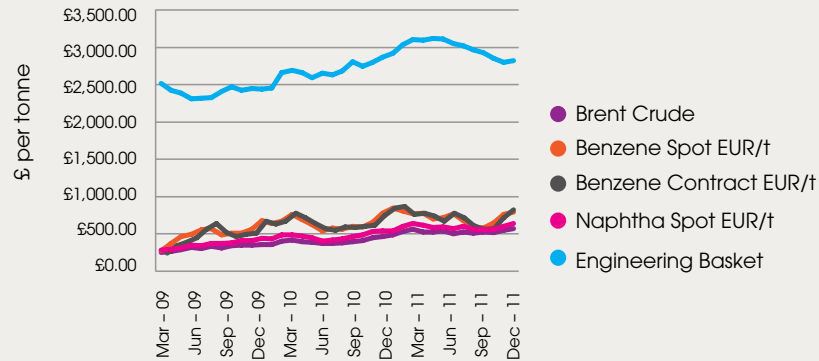
The current upward pressure on ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the preceding months.

Other Styrenics

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

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Data provided by PIE
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➔ Supply
➔ Demand

PA6

Whilst the market is well balanced producers are still looking to recover lost margin, and some further selective increases are likely to be applied.

Caprolactam prices have returned to the highs of mid-2011. Producers enthusiasm for more significant increases have been curbed by lower than exports to Asia.

➔ Supply
➔ Demand

PA66

Although butadiene costs have increased significantly, most producers have decided to absorb these costs after recent price increases provided healthy margins. Demand from the automotive sector remains buoyant.

➔ Supply
➔ Demand

POM

The situation on POM continues to be quite stable. Supplies of exotic material from China have diminished, and availability from established Asian sources appears to have been slightly restricted and hence it is likely that producers will look to increase prices in Q2.

➔ Supply
➔ Demand

PC

It appears that the time has now come for producers to insist upon price increases so that the £160 per tonne increase that has applied to bisphenol A in Q1 can be recovered.

In some cases producers have nominated a £250 per tonne increase in order to restore acceptable margins. Given the scale of decreases in H2 2011 such calls do not look entirely unrealistic.

➔ Supply
➔ Demand

PMMA

Domestic demand is strong, particularly in the automotive and sheet sectors. In addition production of flat screen TVs in Asia is once again booming resulting in very strong demand.

Whilst producers remain concerned about increasing feedstock costs so far prices are stable, but any future move is likely to be upwards.

➔ Supply
➔ Demand

PBT/PET

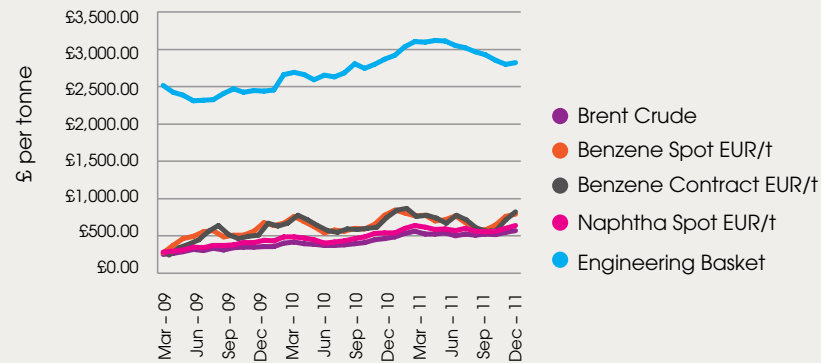
Demand has increased in the E&E market and the automotive sector remains buoyant.

The prospect of a poor cotton harvest is likely to increase demand for synthetic fibres and consequently increase demand for polyesters, and this coupled with upward pressure on feedstocks will probably lead to further price increases in Q2.

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Engineering Polymers

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- ➔ Supply
- ➔ Demand

PPS

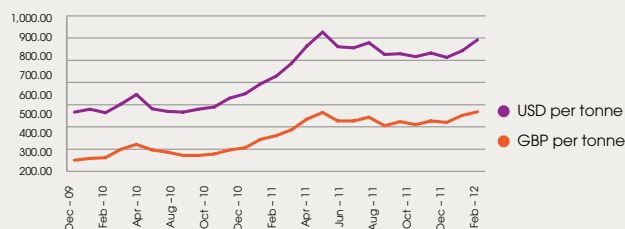
The situation on PPS appears to be stable, following supply disruption last the year.

Other Engineering Polymers

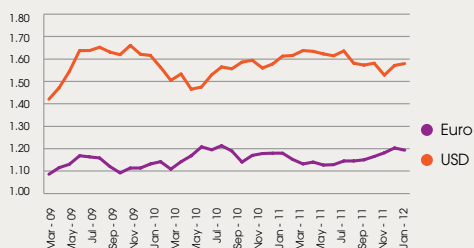
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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)	Jan	0.1	↘
UK Output	Manufacturing (Y on Y)	Jan	0	↗
Sales	New Car Registrations (Y on Y)	Jan	-2.7	↘
Sales	Retail Sales (M on M)	Jan	0.9	↗
Labour	Unemployment Rate	Dec	8.4	↗
Prices	CPI (Y on Y)	Jan	3.6	↘
Prices	RPI (YoY)	Dec	3.9	↘
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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