

price know-how

May 2012

Polymer prices soften on the back of falling oil prices and weak demand, what will happen next?

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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.

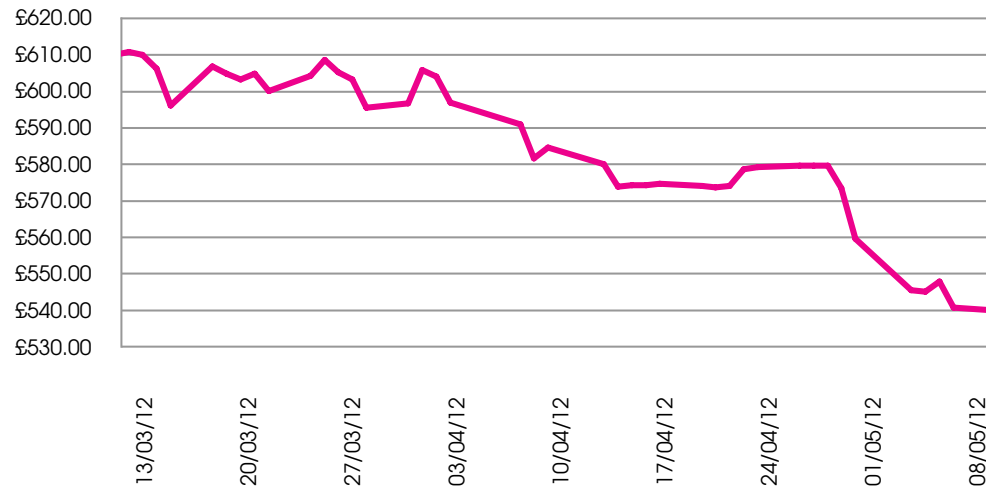
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Polymer prices soften on the back of falling oil prices and weak demand, what will happen next?

Brent Crude £ per Tonne



As the graph above clearly depicts by the end of April crude oil prices had fallen some £40 per tonne from their mid-March peak, and the poor economic situation affecting the UK and in particular Europe has caused oil prices to drop yet further in the first half of May.

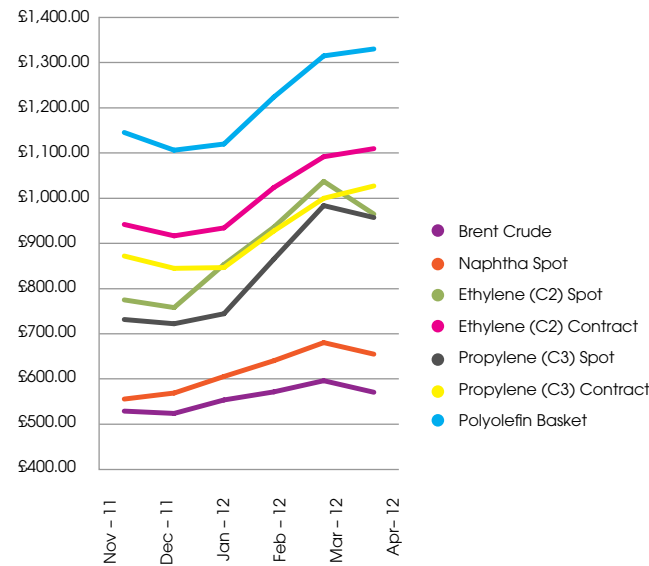
However if we consider the polymer market the monomer price for April was set at the very beginning of the month, when the oil price had only fallen some £15 from its mid-March high point of £610 per tonne, and the monthly average fell by some £25 per tonne from March to April.

On the basis of lower crude oil costs modest adjustments were made to feedstocks and polymer producers started the month of April by making similar price concessions. However as might have been expected the change from a sellers' to buyers' markets significantly altered buyers tactics and a combination of destocking and then strict purchasing just in time to meet production requirements severely impacted demand. The net impact of this situation was that further price concessions were granted as sellers competed over available business.

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The graphs to the right now start to look more relevant as we are clearly now at the apex of the current price cycle.

Polyolefins November 11 - April 12

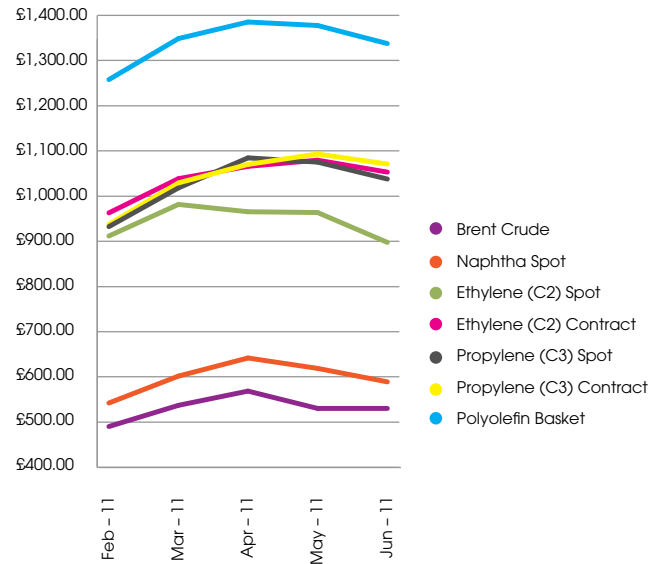


However in terms of future price evolution there is a note of caution, since the de-stocking was severe and the price concessions greater than producers would like to have accepted it is likely that producers will seek to 'restore margin' and although price increases are unlikely it is possible that the further cost reductions resulting from a lower crude oil price may not be passed on in full.

Of course much will depend upon the supply demand balance and given that downstream from producers the supply chain looks quite empty coupled with the likelihood of reducing output rates, it is possible that with customers likely to return to the market in May and June the market could stabilize quite quickly.

Polymer prices soften on the back of falling oil prices and weak demand, what will happen next?

Polyolefins February 11 - June 11



This 'rapid cycling' is becoming a more prevalent feature of the market, although as a result of this the size of the price swings appears to be diminishing which possibly is in everyone's better interest since a price crash would place intense pressure on plastic processors as retailers and OEMs seek to benefit from the lower input prices.

Much now depends upon the global economy and its reaction to the various pressures that apply and especially the deepening issues in the Eurozone.

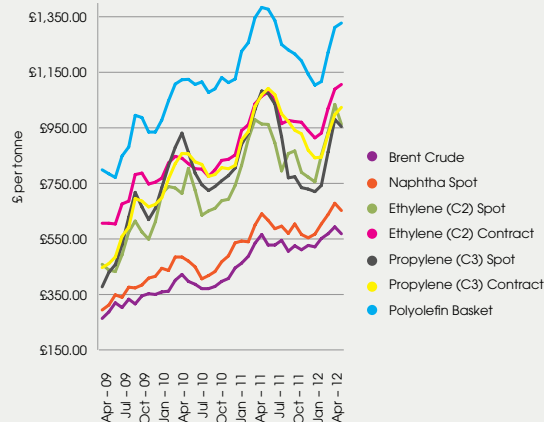
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	-£16.69
C3 (Propylene)	-£12.52
Styrene	-£28.38
Benzene	£48.41
Brent Crude	-£25.25

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



↗ Supply
↘ Demand

LDPE

Availability is very good and demand is rather weak due to both a combination of the current market conditions and also there are a number of national holidays in Europe, which will increase the amount of downtime at processors.

↗ Supply
↘ Demand

LLDPE

A similar situation as for LDPE, and competition for C4 (Butene) grade sales was more intense than for the C6 and C8 grades.

↗ Supply
↘ Demand

HDPE

Although not as difficult as the LLDPE and LDPE markets HDPE buyers remain cautious and are delaying purchasing decisions on the basis of good availability and likely price erosion.

↗ Supply
↘ Demand

PP

From the demand side PP consumption appears to be recovering in early May following a slack period in April. However the general expectation is for further price reductions.

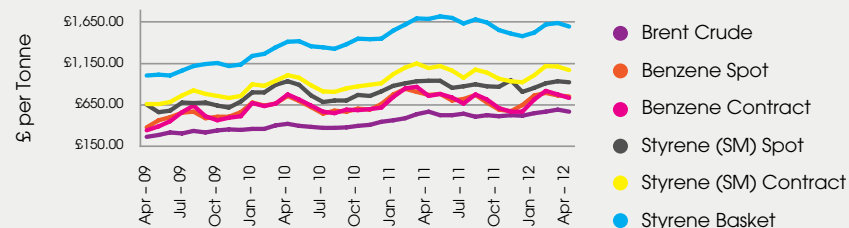
Other Polyolefins

EVA so far have remained firm as producers seek to improve margins by virtue of lower feedstock costs. None the less buyers are sighting price reductions for feedstock as the basis for price reductions. May is likely to be critical in terms of defining the future price trend.

mPP and Plastomers follow the ethylene monomer price trend.

price know-how Styrenics

Data provided by PIE
www.pieweb.com



↗ Supply
↘ Demand

PS

The strategy of buyers only buying according to their requirements put producers under pressure in April and most large customers were able to achieve price reductions in line with the drop in monomer price.

↗ Supply
↘ Demand

ABS

In general terms the price pressures were upwards with increases in both butadiene and acrylonitrile prices offsetting the fall in styrene costs.

However a combination of a weak dollar and low demand in Asia may increase the level of imports and place European price levels under further pressure.

↘ Supply
↗ Demand

PC/ABS

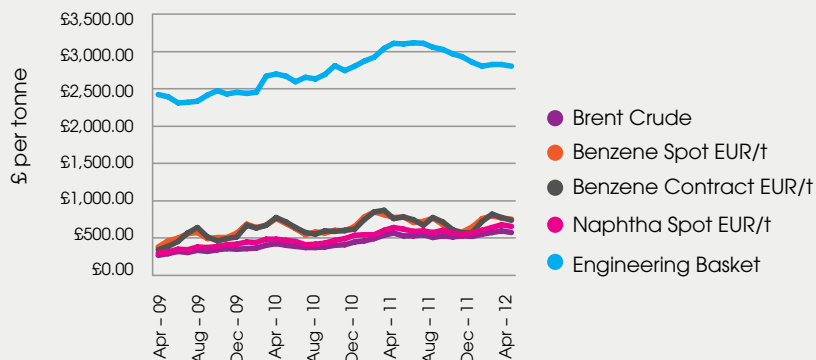
Long lead times persist and demand from the automotive sector remains strong. The current stability of ABS and PC pricing is likely to endorse the producers' policy of not granting any price concessions in the preceding months. Imports are rather limited and the market remains tight.

Other Styrenics

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

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**Engineering
Polymers**

Data provided by PIE
www.pieweb.com



➔ Supply
➓ Demand

PA6

The market is well balanced, and a recent maintenance program affecting output from a major producer helped to maintain that position.

In the case of compounds some increases were applied as previous resin cost increases worked through the compounding supply chain.

➔ Supply
➓ Demand

PA66

The market was rather quiet and although there was some increase in feedstock costs it rather looks like, with the exception of some more specialized grades, prices were untouched.

➔ Supply
➓ Demand

POM

Despite limited supply from Asia due to scheduled plant maintenance material was readily available.

So far the calls for price increases have gone unheeded but moves to increase prices on specified materials are likely and furthermore freight costs from Asia have increased dramatically and placing producers under severe margin pressure.

➔ Supply
➓ Demand

PC

Producers have implemented further small increases. Planned maintenance scheduled in the next few months, along with feedstock supply restrictions is keeping the market well balanced.

Imports are also quite limited and this is helping to support the European producers calls for further price increases.

➔ Supply
➓ Demand

PMMA

European prices remain stable, despite the significant increases have been applied in the Asian and North American markets resulting from significant monomer price hikes in those regions.

So far the price action in Europe has been limited, but this is likely to change in the coming weeks.

➔ Supply
➓ Demand

PBT/PET

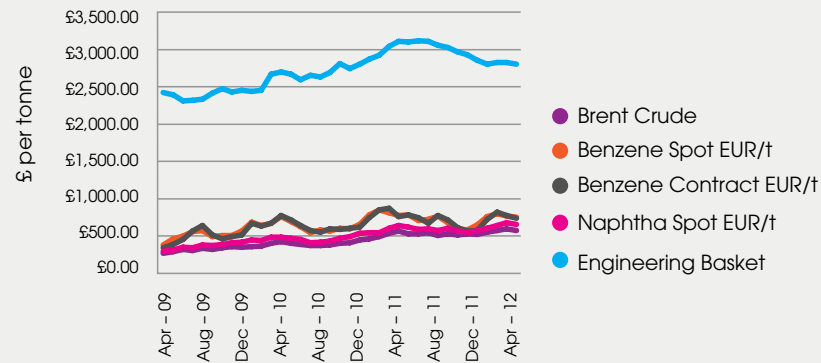
Demand has increased in the E&E, hand tool & garden equipment markets and the automotive sector remains buoyant.

Significant increases for BDO feedstock coupled with lively off-take has resulted in some moderate price increases.

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Data provided by PIE
www.pieweb.com



- ➔ Supply
- ➔ Demand

PPS

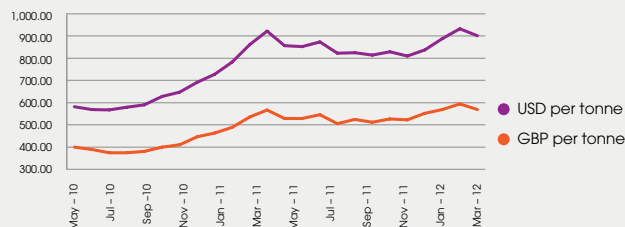
The situation on PPS appears to be stable, following supply disruption last year.

Other Engineering Polymers

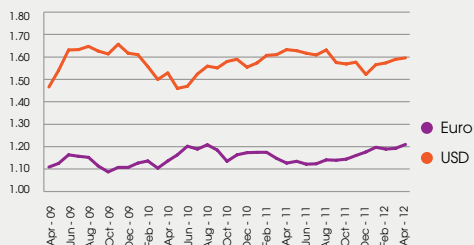
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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 2011	0.5	↗
GDP	Real GDP (Y on Y)	Q4 2011	0.3	↗
UK Output	Manufacturing (M on M)	Feb	-0.1	↘
UK Output	Manufacturing (Y on Y)	Feb	-0.2	↘
Sales	New Car Registrations (Y on Y)	Mar	0.9	↗
Sales	Retail Sales (M on M)	Mar	1.8	↘
Labour	Unemployment Rate	Jan	8.3	↔
Prices	CPI (Y on Y)	Mar	3.5	↗
Prices	RPI (YoY)	Mar	3.6	↘
Interest Rate	Bank of England Base Rate	Apr	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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