price know-how

March 2013

Are the factors applying upward price pressure to UK polymer prices starting to ease?

0845 34 54 560
www.plastribution.co.uk

plastribution
let's make it work.

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

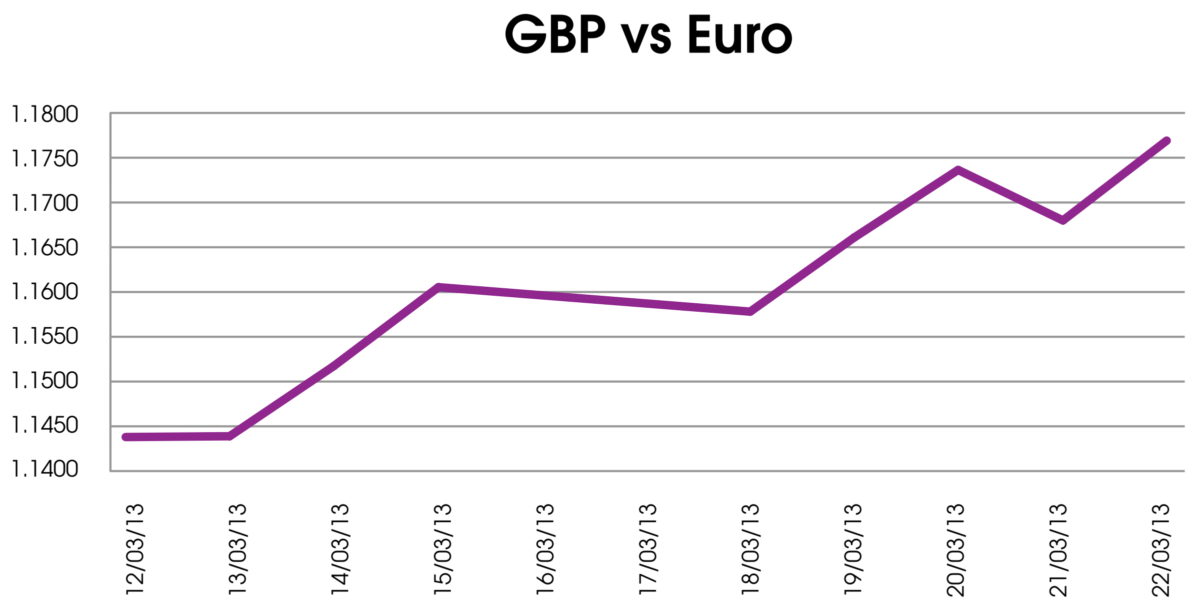
Are the factors applying upward price pressure to UK polymer prices starting to ease?

Since the middle of December, UK plastic processors have faced a tough challenge. Polymer producers have sought to restore margins, pass on feedstock cost increases, and also make adjustments for the weakness of the GBP versus other key currencies including the USD and in particular the Euro.

For many of us, the weakness of the GBP against the Euro, which started in mid-December, came as somewhat of a surprise. Although, it subsequently became apparent that the financial markets had already started to price-in the effect of the Moody's downgrading the UK's credit rating from AAA to AA+.

It then appears that markets continued to act upon further negative financial data, resulting in further weakness. However, the issues that are now developing in the Cypriot economy have served to revive the fortunes of the GBP and the inflation pressure of exchange rates is now starting to ease.

The fall in oil prices since the middle of February is another factor that is reducing the inflationary pressure on polymer prices. So far, on a currency adjusted basis prices have fallen by almost 7% from their February peak.



Are the factors applying upward price pressure to UK polymer prices starting to ease?

Along with falling oil prices, weak downstream demand resulted in the monomer price increases listed below not being fully implemented. Such was the state of the market that even where the full increase was passed through at the beginning of March; later in the month price concessions were being made.

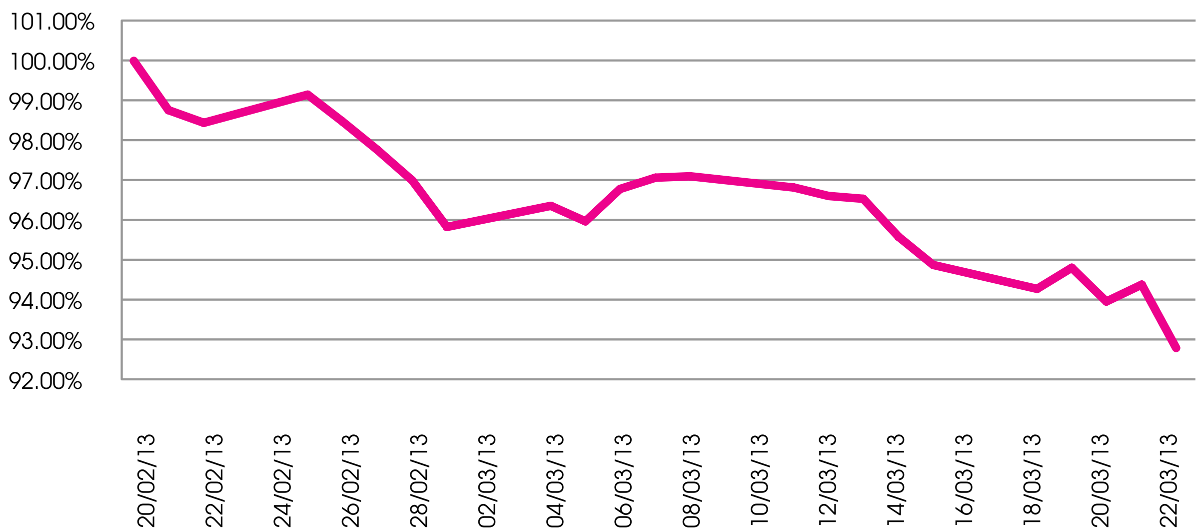
There is, however, a note of caution with regard to pricing going forward. Whilst it looks likely that the current price trend will continue, it appears that producer inventories are extremely low, and any increase in demand could see the supply-demand balance pushed back in the sellers' favour.

Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£43.11
C3 (Propylene)	£47.42
Styrene	£23.28
Benzene	£12.07
Brent Crude	£12.64

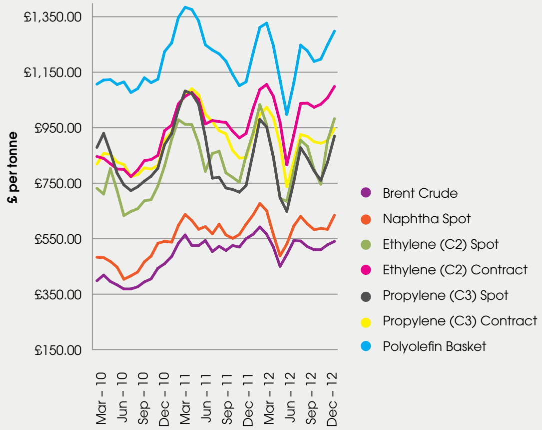
Brent Crude Price Index (Currency Adjusted)



price

know-how Polyolefins

Data provided by PIE
www.pieweb.com



LDPE

Supply ↗
Demand →

Producers' aims to recover both exchange rate and feedstock costs were hampered by plentiful supplies and fairly weak demand.

LLDPE

Supply →
Demand →

The situation for LLDPE was similar to that for LDPE in March. However, it is anticipated that supply could tighten quickly in the next few weeks.

This will of course provide the solid fundamentals that producers desire to implement price increases.

HDPE

Supply ↗
Demand →

The HDPE market is quite polarised between large and small processors, and this dynamic ensures that the producers often feel the greatest impact from downstream demand in this sector.

Again, producers needed to battle hard in order to recover feedstock costs and also to make exchange rate adjustments.

PP

Supply ↗
Demand →

UK prices were adjusted upward to reflect both currency and increasing feedstock costs.

However, adequate supply, weak demand, along with feedstock and currency are all factors that are putting prices under pressure.

Other Polyolefins

As with all other polyolefins, suppliers looked to recover the currency deficit through price increases.

EVA prices look set to increase as producers take a hard line in order to restore margins.

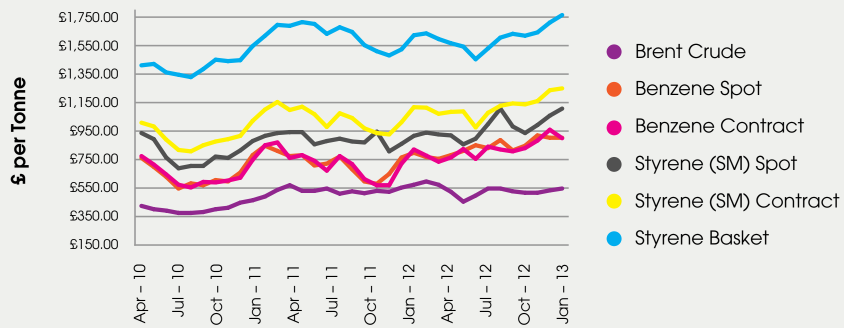
mPE producers will continue to promote the advantage of the higher performance of these grades to offset increases through down-gauging and increased operating rates. New entrants to the market are likely to increase market penetration of these high performance materials.

Plastomers continue to follow the monomer price trend, with adjustments for exchange rate.

price

know-how Styrenics

Data provided by PIE
www.pieweb.com



Supply
Demand

PS

Producers were readily able to implement both monomer and exchange rate adjustments on the basis of market fundamentals.

The combination of an unscheduled polymerisation outage and scheduled maintenance breaks planned for a number of styrene monomer plants have all helped to keep the market balanced in the producers' favour.

Supply
Demand

ABS

From a price perspective March has been rather quiet. However, increases in both styrene monomer and butadiene are likely to put upward pressure on prices in April.

Supply
Demand

PC/ABS

Many of the European automotive producers are reporting strong demand. This, coupled with likely increases for PC prices, is likely to result in increasing costs for processors.

Other Styrenics

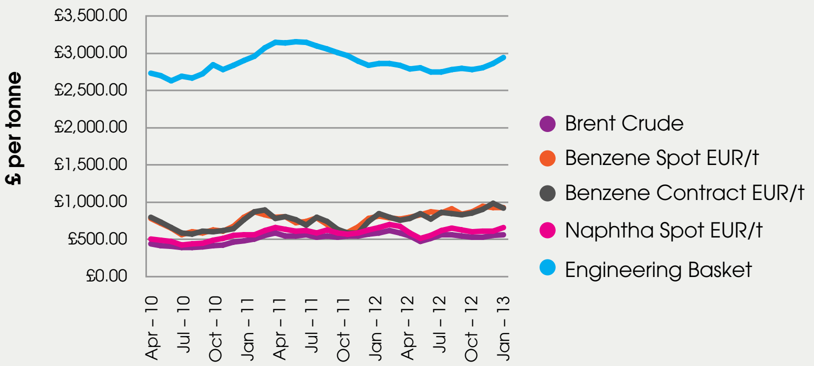
SAN and specialities such as ASA and SMMA continue to follow the price trend of styrene monomer.

price

know–how

Engineering Polymers

Data provided by PIE
www.pieweb.com



Supply
Demand

PA6

The situation for Nylon 6 producers is tough.

So far, the weak market demand has overridden any desire for price increases to restore beleaguered margins.

In the UK, customers were largely able to avoid any currency adjustments. The outlook is for further requests for price increases.

Supply
Demand

PA66

Demand from the automotive sector is increasing; particularly on the back of new product launches from VW & GM. Producers continue to face a big challenge in terms of feedstock volatility impacting on margins.

Supply
Demand

POM

The POM market is so far quite stable. However, there is increasing evidence of competition for the more standard copolymer grades.

Supply
Demand

PC

The continuing poor margins for PC producers have already resulted in some moderate increases, with more in the pipeline.

This need to operate profitably has resulted in such significant cutbacks in output that even a moderate uplift in demand could result in short supply across the whole grade range.

Supply
Demand

PMMA

On the back of strong market fundamentals, PMMA prices look set to increase in Q2, as producers look to recover increasing feedstock costs.

Supply
Demand

PBT/PET

This is another market that looks quite stable. Again, high feedstock prices are causing concern for producers.

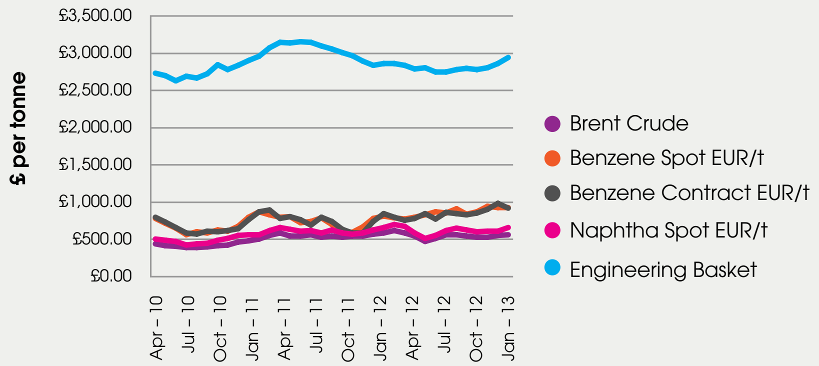
Although the general view is that the market is too fragile to withstand any non-currency based price increases. There is some evidence of aggressive pricing on materials from Asia, which so far have not destabilised the market.

price

know-how

Engineering Polymers

Data provided by PIE
www.pieweb.com



Supply

Demand

PPS

The situation remains stable.

Other Engineering Polymers

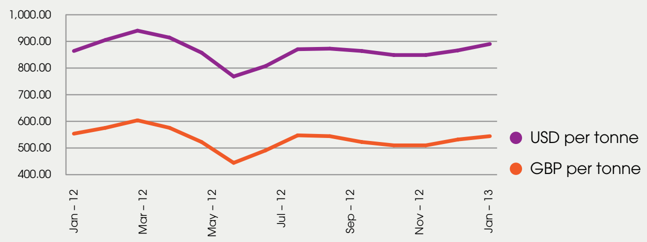
Any increase in feedstock costs will create upward pressure on prices. A number of producers are seeking to implement price increases to restore margins.

price

know-how

Fundamentals

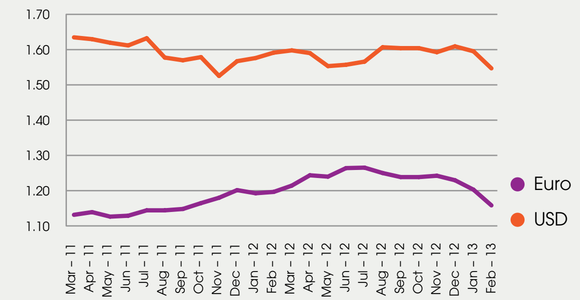
Brent Crude Oil Price per tonne



UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q4 2012	0.3	↘
GDP	Real GDP (Y on Y)	Q3 2012	-0.1	↗
UK Output	Manufacturing (M on M)	Dec	1.6	↗
UK Output	Manufacturing (Y on Y)	Dec	-1.8	↘
Sales	New Car Registrations (Y on Y)	Nov	9.0	↘
Sales	Retail Sales (M on M)	Nov	-0.6	↘
Labour	Unemployment Rate	Nov	7.8	↗
Prices	CPI (Y on Y)	Jan	2.7	→
Prices	RPI (YoY)	Jan	3.3	↗
Interest Rate	Bank of England Base Rate	Mar	0.5	→

Exchange Rates



In GBP terms, oil prices have fallen quite significantly until the end of June, but since the beginning of July prices have rallied (see introduction). Subject to this trend on oil prices continuing, there will be pressure for price increases across the whole spectrum of petrochemical products, including polymers.

The Sterling/Euro exchange rate is a key factor in determining polymer prices, since most materials are Euro denominated. At current price levels, each Euro Cent change in price 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.

Significant imports from Asia and weakness of the Euro 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 a weak Stirling increases competiveness of exports from the UK, it also causes inflation on imported goods, including plastic raw materials. Sterling has recently strengthened against the Dollar and weakened against the Euro. At the same time, the Euro has strengthened significantly against the Dollar. Given that both crude oil and feedstocks are priced in Dollars, this is deflationary pressure helping to mitigate the effects of rising oil prices.

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 an 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.

Plastribution Limited
PO Box 7743
5 Ashby Park
CEVA House
Ashby-de-la-Zouch
Leicestershire
LE65 1XY

Tel: +44 (0) 1530 560560
Fax: +44 (0) 1530 560303

Email: sales@plastribution.co.uk
www.plastribution.co.uk