

price

know-how

September 2011

How the financial crisis affected polymer prices

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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

## How the financial crisis affected polymer prices

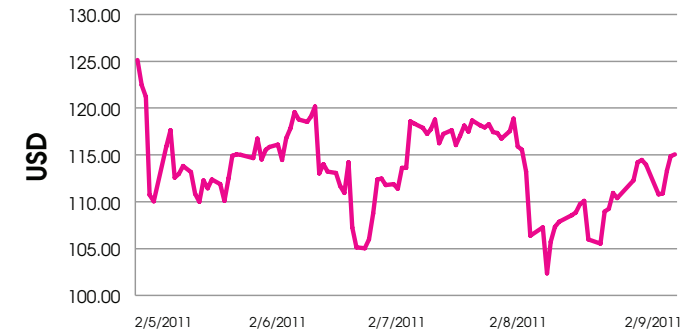
In August the World's financial markets were again in turmoil, and whilst we may have retreated from the brink market confidence remains very jittery, with talk of 'double dip' recession with the economy on the apex of the 'W', or alternatively 'stagflation' and having made a partial recovery the developed economies of the Western World 'flat line'.

Despite the pressures of the financial markets the general consensus from business is that trade in August was nowhere near as bad as expected. This situation is supported by logistics companies reporting high levels of activity.

Whilst the World's stock markets may provide one view of market confidence the hitherto robust oil price may give an alternative view of economic activity and the graph below provides a comparative index of Brent Crude and the FTSE 100 since its peak on 7.7.11. Which component is a better measure of the economy is open to debate since both markets are the subject of speculation.

However what is crucial is the fact that oil prices are the key driver of polymer prices, and whilst we have temporarily seen feedstock and polymer prices more influenced by our perceptions of the economy based upon financial markets, the current price trend on crude oil is soon likely to lead to a fresh round of price increases as polymer producers look to restore margins.

### Brent Crude USD / Barrel



## Brent Crude vs. FTSE 100 Index

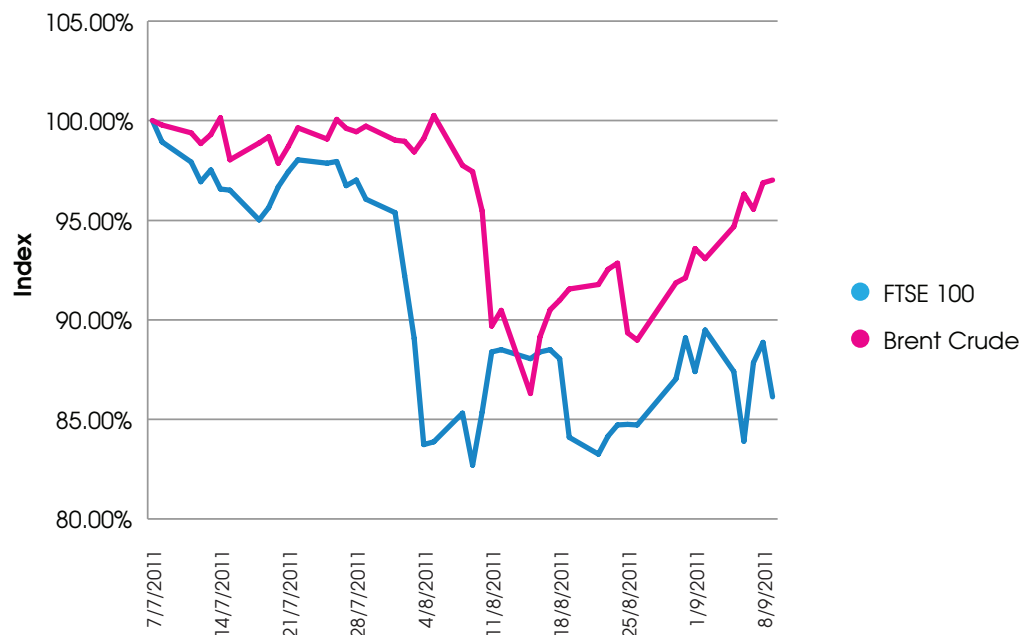
The relatively small changes in feedstock and monomer prices from August to September reflect the market sentiment in August. As depicted above the oil price has since recovered significantly.

So it looks like September is going to be a critical month and subject to both oil price and reasonable demand we are likely to see price increases announced and applied in October, and as you will read below the stocks of most materials that were high have now been reduced and some materials such as HDPE & LLDPE are already in very short supply and will be the prime movers with the likely question not 'if' but 'by how much' prices increase!

### Monomer Prices (£ GBP per tonne)

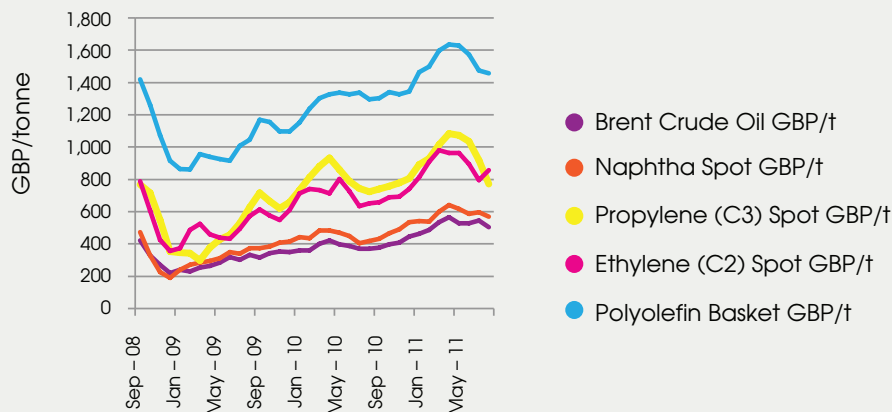
Data provided by PIE [www.pieweb.com](http://www.pieweb.com)

Feedstock	Change (Contract)
C2 (Ethylene)	-£4.37
C3 (Propylene)	-£32.36
Styrene	-£34.11
Benzene	-£58.60
Brent Crude	-£38.67



# price know-how Polyolefins

Data provided by PIE  
www.pieweb.com



## Supply Demand

### LDPE

Demand softened in August largely as a result of the holiday season. The anticipated call for price increases at the beginning of September failed to materialise, due to concerns about the global economic situation.

The LDPE market remains structurally tight with global under capacity.

## Supply Demand

### LLDPE

Supply remains quite tight, creating the impression of strong demand. Special offers are now unheard of and producers are eager and producers are eager to obtain increases.

Middle Eastern material flows are heading in the direction of Asia, so any increase in demand will strengthen the position of the producers here in Europe.

## Supply Demand

### HDPE

Availability has improved over the summer months, but producers are eager to implement price increases in order to restore acceptable margins.

Injection moulding grades remain in very short supply. Price increases are likely.

## Supply Demand

### PP

PP is the softest of the key polyolefins which in part is due to the complexity of the grade slate. After a period of selling off excess inventories there is clear evidence that the high volume grades are starting to come into balance and speciality grades are likely to follow.

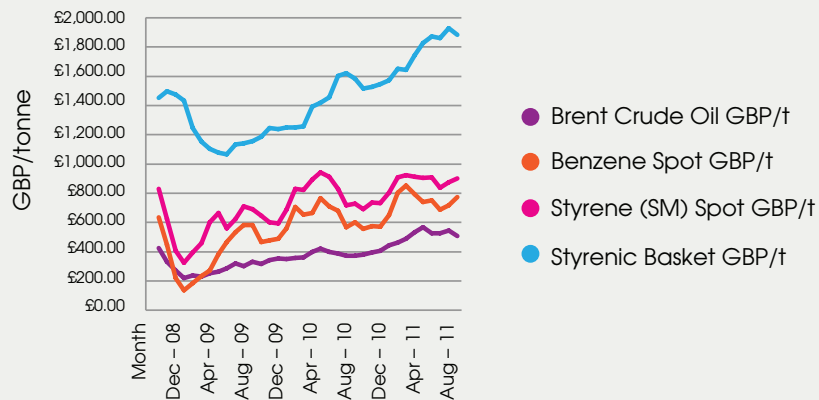
### Other Polyolefins

EVA remains tight on the back of restricted VAM (Vinyl Acetate Monomer) availability and further increases are expected in Q3 when the quarterly monomer contract is settled. Availability has become slightly better as producers were able to rebuild some inventory over the summer months.

mPP and Plastomers follow the ethylene monomer price trend.

# price know-how Styrenics

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## Supply Demand

### PS

It looks as if the polystyrene market will tighten with increased demand expected after the holiday period. Due to a number of planned maintenance shutdowns in the coming months supply is going to be reduced.

At last butadiene costs have started to stabilize taking pressure off the need to enhance the premium of HIPS of GPPS.

## Supply Demand

### ABS

Lead times are now similar for both Western European and Far Eastern sourced material. Although prices from Asia are now generally more competitive.

Stabilisation of Butadiene costs and lower styrene monomer costs are reducing upward price pressures.

## Supply Demand

### PC/ABS

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

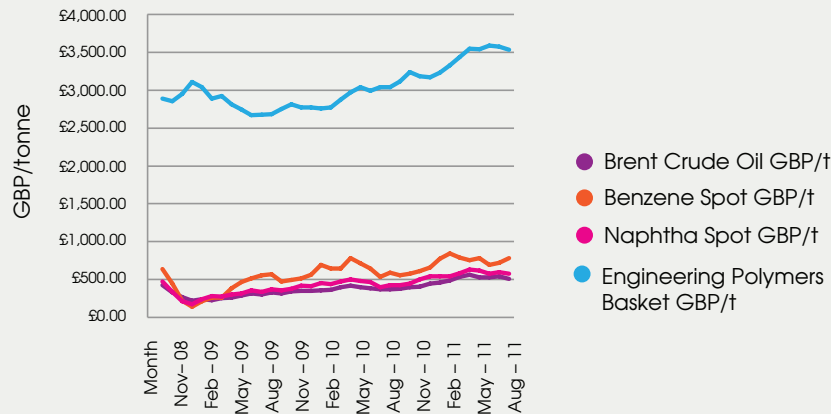
Raw materials are quite settled (see PC and ABS sections) and therefore prices are stable.

### 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 is still suffering from 8 week lead times, which often creates challenges in terms of meeting demand for specific grades.

↘ Supply  
↔ Demand

### PA66

Whilst lead times are also rather long the supply situation appears to be more stable.

Demand from the automotive sector remains strong.

↗ Supply  
↔ Demand

### POM

In overall terms the market particularly for copolymer looks more stable because supply has improved.

Forward prices look stable.

↔ Supply  
↔ Demand

### PC

Whilst availability has recently improved upstream issues relating to the supply of Cumene used in the production of Phenol and the precursor to the Bisphenol A (BPA) monomer for PC production could result in the market again becoming tight particularly as demand from the automotive sector will increase after the summer production shutdowns.

↘ Supply  
↔ Demand

### PMMA

Imports from Asia remain scant, and demand from the automotive sector remains quite strong. Prices look more stable going forward.

↗ Supply  
↔ Demand

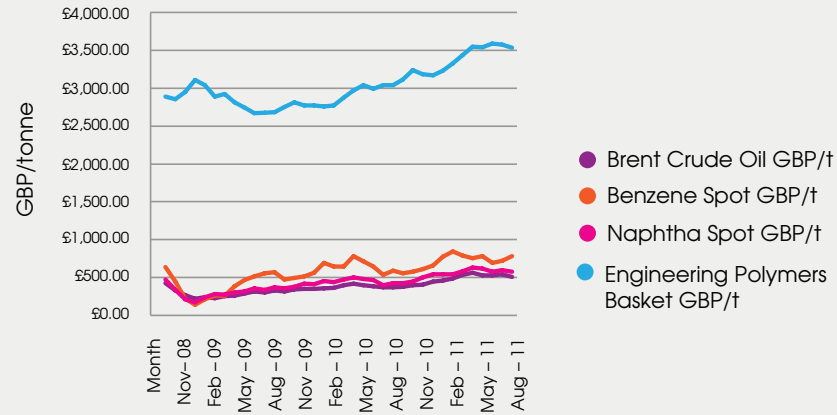
### PBT/PET

The feedstock situation for PBT has improved significantly and general availability is likely to increase.

Demand from the automotive sector is good but the E&E market is fairly subdued.

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- Supply
- Demand

### PPS

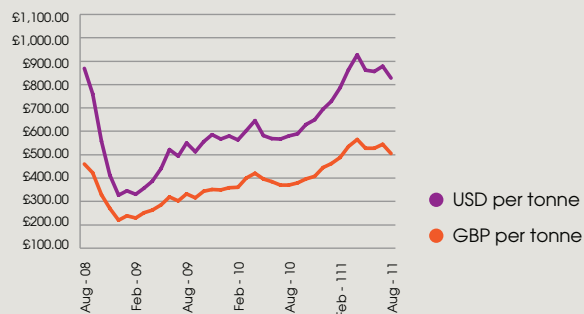
Supply from Japanese producers has improved and those affected by the Tsunami & Earthquake have lifted Force Majeure restrictions. Demand has also increased as the Japanese car and car component industries also start to return to full production.

### Other Engineering Polymers

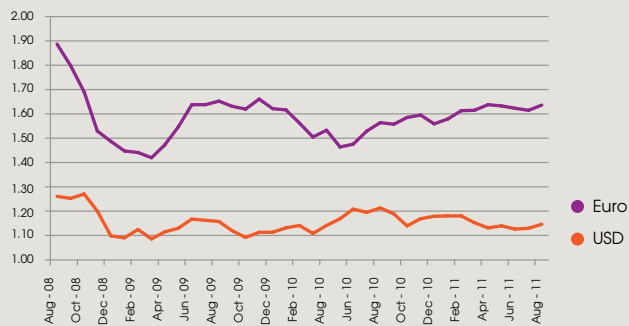
In overall terms it looks as if the rate of price increase is now starting to reduce, and given the relatively high margin over feedstocks going forward very much will depend upon the global economic situation.

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**Fundamentals**

Brent Crude Oil Price per tonne



Exchange Rate Data vs. £ Sterling



UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q1 2011	-0.4	↘
GDP	Real GDP (Y on Y)	Q1 2011	0.9	↗
Production	Production (M on M)	June	0	↘
Production	Production (Y on Y)	June	-0.3	↗
Sales	New Car Registrations (Y on Y)	August	-3.3	↗
Sales	Retail Sales (M on M)	July	0.2	↗
Labour	Unemployment Rate	May	7.9	↗
Prices	CPI (Y on Y)	June	4.4	↗
Prices	RPI (YoY)	July	5	→
Interest Rate	Bank of England Base Rate	July	0.5	↘

The step change that caused downward pressure on polymer prices in May 2011 is clearly depicted on the graph, and after downward pressure in August, prices are once again on the increase.

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 £16 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.

Whilst weak Sterling increases competitiveness of exports from the UK it also causes inflation on imported goods including plastic raw materials. Overall Sterling remains closely coupled with the and the dollar, and there is no reason to expect any significant change in the coming months with all three currencies facing not dissimilar challenges.

# Methodology

This report is produced based upon the following fundamentals: -

- EURO based pricing for feedstock and polymer pricing
- USD Based pricing for crude oil
- 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)

RBS (The Royal Bank of Scotland) [www.rbsm.com](http://www.rbsm.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 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.

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