

price know-how

September 2012

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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.

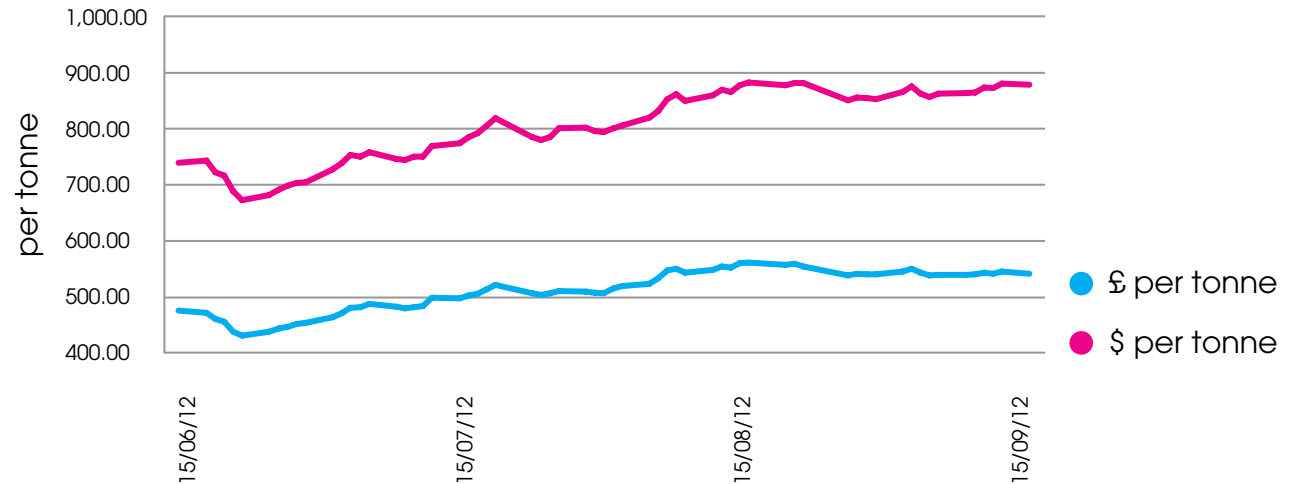
The Plastribution Team

In addition to feedstock price pressure, limited availability across a range of polymers is continuing to support upward price pressure.




As the graph depicts recently the impact of increasing oil prices has been diluted by the relative weakness of the US Dollar versus both the £ and the Euro. None the less upward price trend of crude oil looks set to continue in apparent contradiction to the troublesome global economic situation.

With the exception of Benzene the price trajectory of polymer feedstocks maintained a strong upward trend. Polyolefin producers immediately reflected these costs in a fresh round of significant price increases at the beginning of September.

Brent Crude £ per Tonne

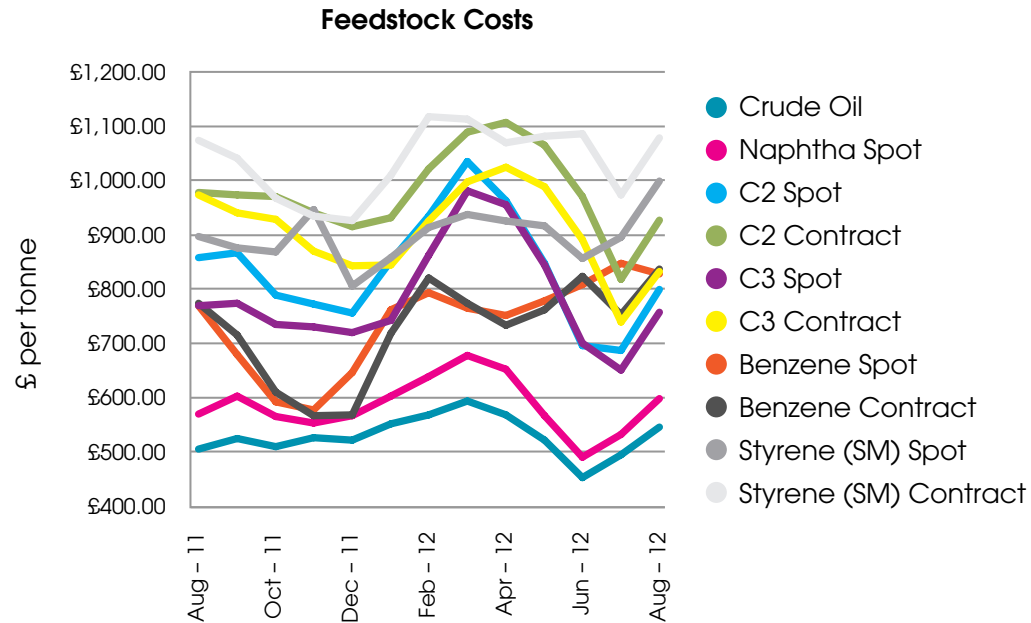


The market conditions were further reinforced by:

-  a number of planned naphtha (feedstock) cracker maintenance shutdowns
-  a number of planned and unplanned polymerisation plant outages (mainly affecting HDPE)
-  limited shipments from the Middle East during Ramadan.

The thoughts of many polymer buyers and sellers are now turning to what may happen in the next few weeks, with buyers hoping to gain some solace from the fact that Naphtha prices have peaked in Asia and also citing the weak global economic reasons as reasons to expect a change in market conditions. Sellers look to high oil and feedstock cost as justification for maintaining upward price momentum.

In addition to feedstock price pressure, limited availability across a range of polymers is continuing to support upward price pressure.



For now it looks as if the only certainty is uncertainty, and as we have already witnessed in both April and July the market dynamics can be very fast paced.

As you will read in the following commentary, in many cases polymer prices have continued to increase dramatically, in others pressure is mounting to increase prices in order to increase or restore margins.

Since the 2008 crash it is evident that producers are extremely capable of reducing output to balance with demand and hence ensure that margins can be maintained even in a global recession.

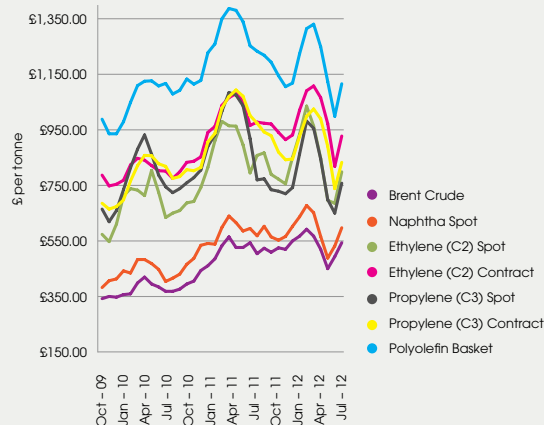
Monomer Prices (£ GBP per tonne)

Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	£98.63
C3 (Propylene)	£74.96
Styrene	£140.45
Benzene	-£27.62
Brent Crude	£49.77

price know-how Polyolefins

Data provided by PIE
www.pieweb.com



Supply Demand

LDPE

The supply situation on LDPE has tightened considerably. Certain grades such as MFI 2 for film extrusion look likely to remain scarce in the coming weeks, although supply of other grades appears to be easing following the period of strong demand that started at the beginning of July.

Supply Demand

LLDPE

Shipments of LLDPE from the Middle East have slowed considerably during the Ramadan religious period, and as the UK market is highly dependent upon imports from this region the market has been tight.

This situation is expected to ease now that Ramadan is over and the backlog diminished.

Supply Demand

HDPE

A number of unplanned outages combined with the impact of slow shipments from the Middle East during the holy season of Ramadan have left the market extremely tight, and even readily available blow moulding grades are in short supply.

Fresh shipments from the Middle East should help to mitigate the impact of the unscheduled plant shutdowns in Europe.

Supply Demand

PP

The situation on PP is much more reserved, with a combination of factors such as a broader portfolio of grades, high proportion of material produced locally in Europe and a more diverse end use portfolio with a lower dependence on packaging, price increases pretty much reflected the change in monomer price. The market going forward looks quite settled.

Other Polyolefins

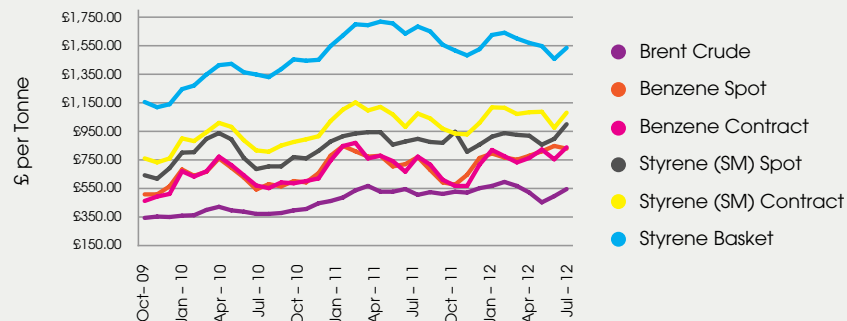
EVA prices have increased on the back of significant VA (Vinyl Acetate) and Ethylene (E) price increase.

mPE producers will look to take advantage of the LLDPE shortage of supply, and processors will, where possible, take advantage of the higher performance of these grades to offset increases through down-gauging and increased operating rates.

Plastomers continue to follow the monomer price trend.

price know-how Styrenics

Data provided by PIE
www.pieweb.com



Supply Demand

PS

In the PS market producers are achieving a good supply / demand balance. In part a situation of necessity given the relatively wild market conditions for benzene, which of course is a significant feedstock for the production of styrene monomer.

This coupled with the effects of further polystyrene capacity rationalization in Europe is likely to put the producers in the driving seat over the coming weeks.

Supply Demand

ABS

In line with expectations European producers took advantage of the limited imports from Asia and implemented price increases.

Lead times for compounded materials are now running at about six weeks. ABS feedstock costs remain volatile.

Supply Demand

PC/ABS

Demand from the automotive sector is expected to pick up as car production is resumed following the summer shut down of assembly lines.

This is likely to extend delivery times. ABS price increases are likely to be reflected in compound costs.

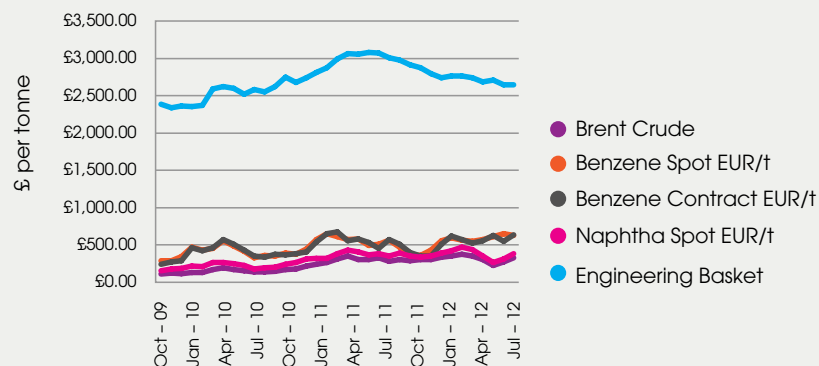
Other Styrenics

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
Demand

PA6

The market for PA6 appears to be finely balanced. Whilst producers would like to recover feedstock cost increases demand is rather lacklustre.

Even the seasonal maintenance program for caprolactam may not affect the supply demand balance enough to enable a price increase to be implemented.

Supply
Demand

PA66

Availability has improved following the summer shutdown period.

PA6.6 resin prices look set to increase on the back of higher feedstock costs, and in turn this is likely to result in calls for price increases for PA 66 compounds as the increase works its way through the supply chain.

It is hoped that a number of new model launches in the auto sector will push demand.

Supply
Demand

POM

The market remains in balance. Plans for price increases have been shelved for the time being, although this issue is likely to reappear towards the end of Q3.

Imports from Asia into Europe remain at quite a low level despite significant strengthening of the Euro against the USD.

Supply
Demand

PC

The market appears to be well balanced, and it looks as if producers are willing to reduce output in order to maintain this situation.

The fall in benzene prices gives some relief to the tight margins affecting PC producers. Supply from Asia is quite limited.

Supply
Demand

PMMA

Following the recent PMMA price increases the polymer producers now have to live with increased feedstock costs.

However weak demand in certain sectors of the automotive sector is likely to keep prices in check for the time being.

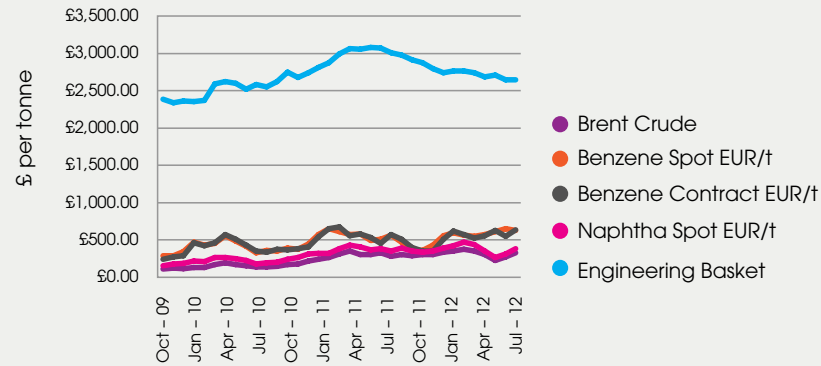
Supply
Demand

PBT/PET

Despite some feedstock cost pressure, the price situation for PBT and PET compounds looks stable until the end of this quarter.

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**Engineering
Polymers**

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- ➔ Supply
- ➔ Demand

PPS

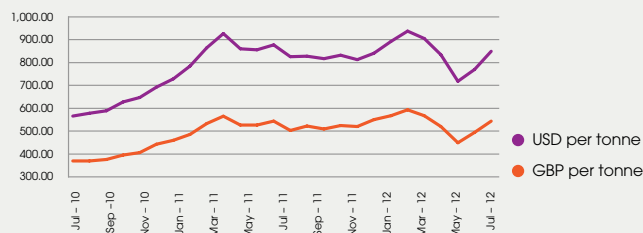
The situation on remains stable.

Other Engineering Polymers

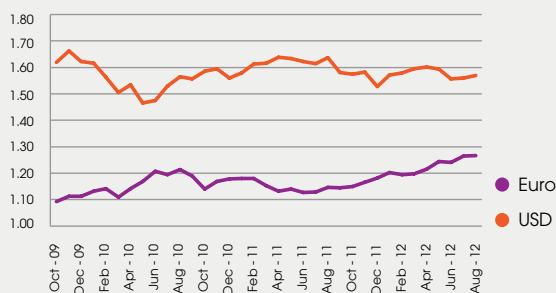
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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)	Q2 2012	0.0	↘
GDP	Real GDP (Y on Y)	Q2 2012	2.6	↔
UK Output	Manufacturing (M on M)	June	-2.9	↘
UK Output	Manufacturing (Y on Y)	June	-2.2	↘
Sales	New Car Registrations (Y on Y)	July	5.0	↘
Sales	Retail Sales (M on M)	July	0.3	↘
Labour	Unemployment Rate	June	8.0	↘
Prices	CPI (Y on Y)	June	2.6	↔
Prices	RPI (YoY)	June	3.2	↔
Interest Rate	Bank of England Base Rate	Sep	0.5	↔

In GBP terms oil prices have fallen quite significantly, until the end of June, but in the 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 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 Stirling increases competitiveness 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 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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