

price  
**know-how**

October 2011

How the global economic situation is impacting on  
polymer prices

0845 34 54 560  
[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.

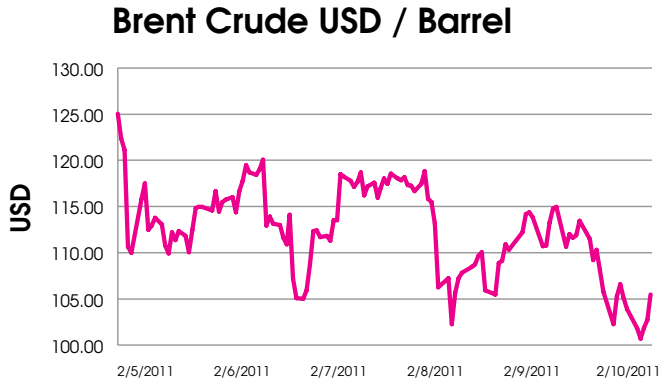
The objective of the report is to form the basis of discussion about issues such as pricing and availability and so be a basis on which to consider purchasing strategies.

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 global economic situation is impacting on polymer prices

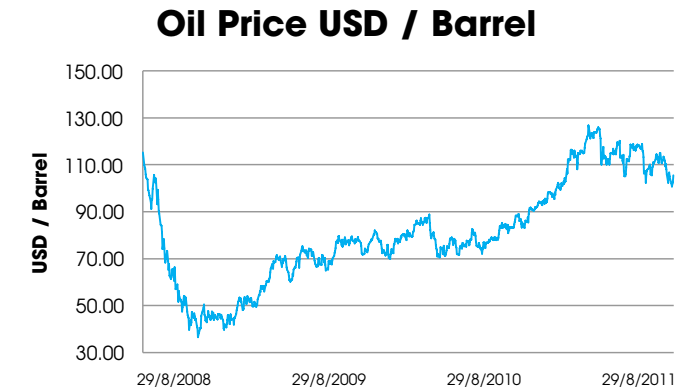


In terms of the World's August Economy it appears that the 'blip' in the recovery process seen at the beginning of September has become something much more serious, with many economic forecast predicting a 'double dip' recession with the economy on the apex of the 'W', or alternatively 'stagflation' where the developed economies of the Western World 'flat line'.

Polymer producers now face the converging pressure of high oil prices, low demand and in turn softening prices. The result of this is that margins have been eroded. Furthermore producers in the Euro Zone who are back integrated into oil have faced an additional pressure from devaluation of the Euro versus the dollar which is illustrated in this table: -

	Euro:USD	Oil Price USD	Oil Price Euro
07/07/2011	1.4684	\$118.59	€80.76
10/09/2011	1.3484	\$105.82	€78.48
Change	-0.12	-\$12.77	€-2.28
%	-8.17%	-10.77%	-2.83%

As depicted, Brent Crude prices have remained relatively firm and above the critical \$100 per barrel, and this is a marked contrast to the oil price during the economic crash in 2008 as depicted in the following graph: -



## Brent Crude vs. FTSE 100 Index

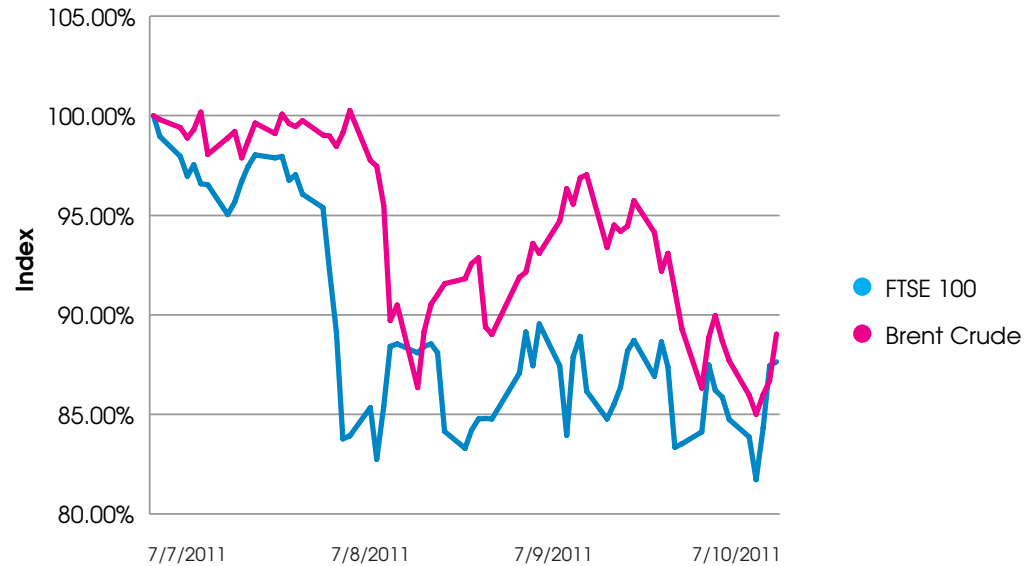
Given high input prices in terms of crude oil it now looks as if polymer producers are preparing to slow down or even stop monomer production due to poor economics. Subject to firm oil prices and the strategy of lower monomer/polymer production rates polymer prices look likely to have a 'soft landing'.

Following on from the September edition of Price Know-how the following index has been updated, and it looks like Brent Crude and the FTSE 100 are becoming more closely coupled after following significantly different trends in September.

### Monomer Prices (£ GBP per tonne)

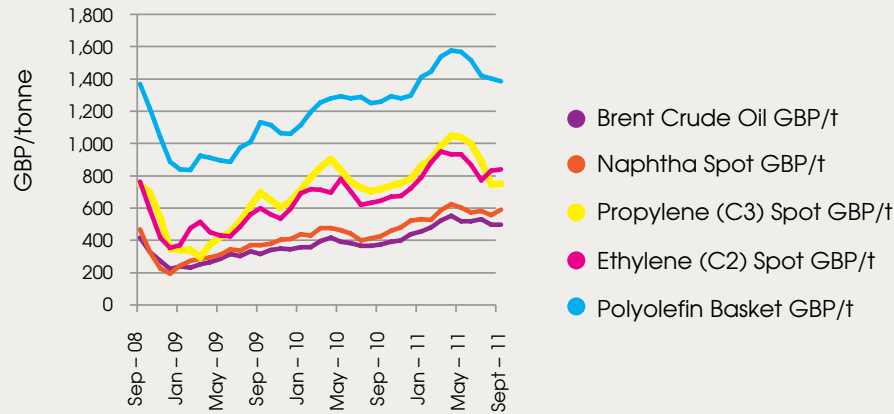
Data provided by PIE [www.pieweb.com](http://www.pieweb.com)

Feedstock	Change (Contract)
C2 (Ethylene)	£0.00
C3 (Propylene)	-£8.73
Styrene	-£69.82
Benzene	-£102.98
Brent Crude	-£38.67



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- ➔ Supply
- ➔ Demand

### LDPE

The anticipated uplift in demand following the holiday period did not materialize, and demand remains suppressed due to concerns about the global economic situation.

Whilst the LDPE market remains structurally tight with global under capacity, the UK appears to be well supplied due to the large domestic capacity installed at Wilton last year.

- ➔ Supply
- ➔ Demand

### LLDPE

As with LDPE the anticipated uplift in demand following the holiday period did not materialize, and demand remains suppressed due to concerns about the global economic situation.

That said availability at short-notice appears quite limited giving an impression of a more balanced market.

- ➔ Supply
- ➔ Demand

### HDPE

Although demand is rather average there are some supply restrictions and similar to LLDPE availability at short-notice appears quite limited giving an impression of a more balanced market.

Whilst it appears that producers would like to push for price increases this may be difficult to achieve given the wider pressures in the economy.

- ➔ Supply
- ➔ Demand

### PP

PP remains softest of the key polyolefins which in part is due to the complexity of the grade slate. PPCP and PPRCP availability has tightened considerably, whilst PPHP commodity grades are readily available. The pressure on producer's margins is

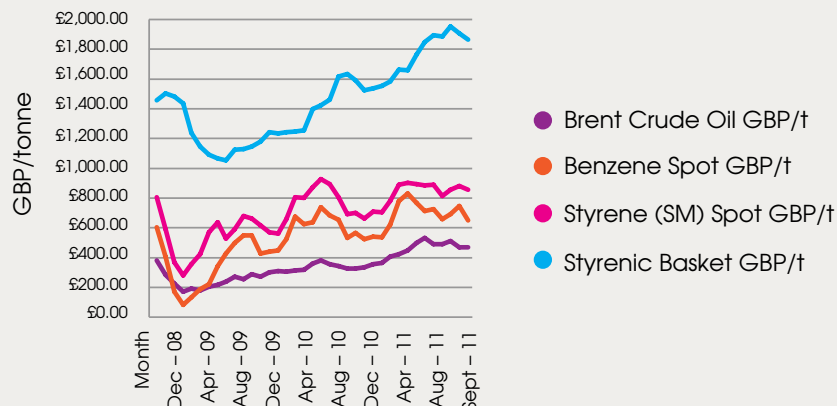
### Other Polyolefins

EVA availability has increased significantly as a result of reduced demand in the summer period and reduced feedstock costs have halted the upward spiral of cost increases.

mPP and Plastomers follow the ethylene monomer price trend.

# price know-how Styrenics

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www.pieweb.com



## Supply Demand

### PS

A significant amount of European PS capacity will be shut down for planned maintenance over the coming weeks and with balanced inventories supply could get quite tight. Although this situation is expected to ease towards the end of the month and into November as capacity comes back on stream.

Butadiene costs have eased taking pressure off the need to enhance the premium of HIPS over GPPS.

## Supply Demand

### ABS

Lead times are now similar for both Western European and Far Eastern sourced material.

Falling feedstock costs coupled with lower demand is placing downward pressure on price, but supply of FR and High Heat grades remain more balanced.

## Supply Demand

### PC/ABS

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

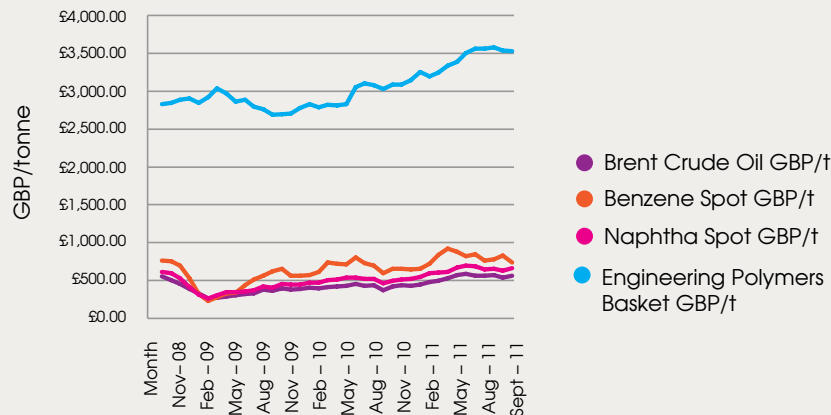
Price pressure may result from falling raw material costs (see PC and ABS sections).

### 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 well balanced, and there has been some easing of lead-times following lower demand in the summer shutdown period.

➔ Supply  
➔ Demand

### PA66

Whilst lead times remain rather long the supply situation appears to be very stable. In these circumstances producers are not making any adjustment for reductions in feedstock costs, but rather restoring margins which have been eroded by previous cost inflation.

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. Demand from the automotive sector remains strong.

↻ Supply  
⬇ Demand

### PC

The 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 have largely been resolved.

Supply of standard grades is much improved and competition has increased at larger accounts.

➔ Supply  
➔ Demand

### PMMA

The market for is very well balanced, and producers have been able to rebuild inventories over the summer months.

Asian imports remain scarce.

↻ Supply  
↻ Demand

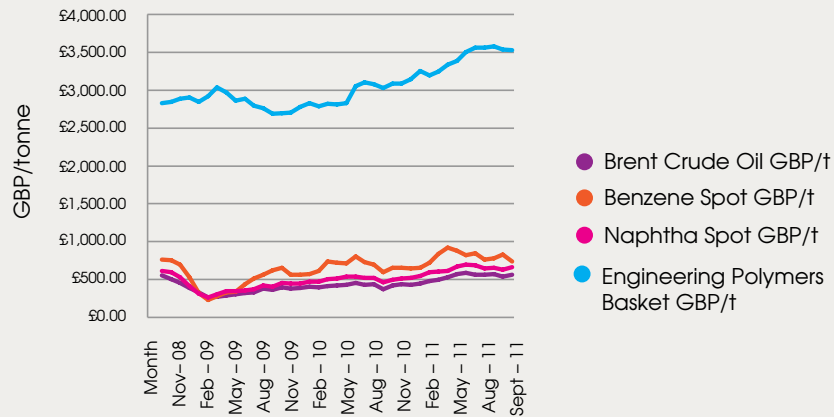
### PBT/PET

The feedstock situation for PBT has improved significantly and general availability has increased.

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 have returned to full production.

### Other Engineering Polymers

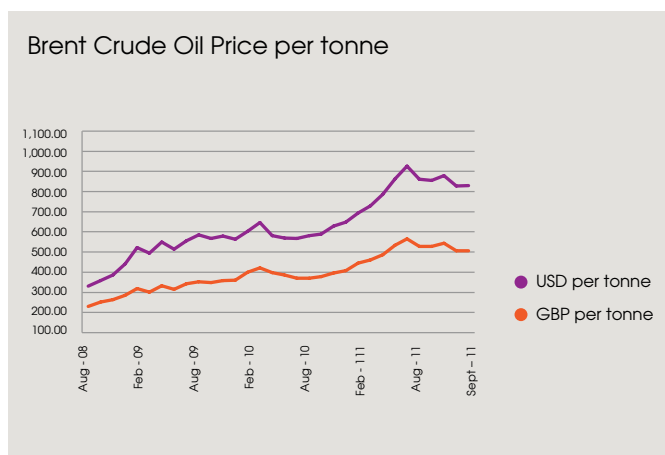
As the graph above suggest the price of engineering plastics appear to have reached a soft peak, and the overbearing effects of the global economic situation will influence prices going forward.

Producers are likely to retain any feedstock advantage, in a market where competition for volume is more influential than variable costs.

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**Fundamentals**

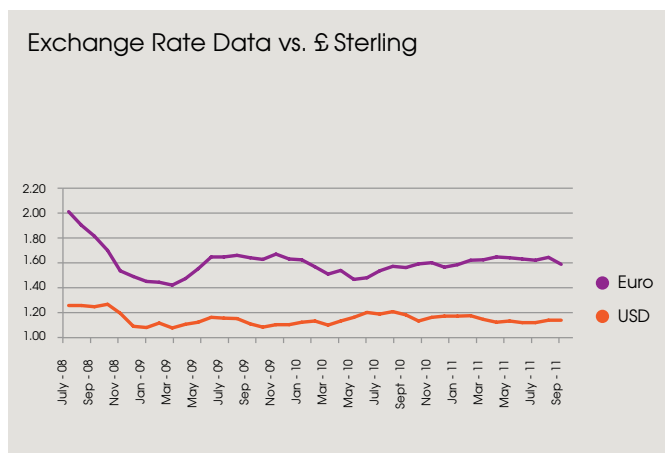
UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q2 2011	0.1	↘
GDP	Real GDP (Y on Y)	Q2 2011	0.6	↘
UK Output	Manufacturing (M on M)	July	0.1	↻
UK Output	Manufacturing (Y on Y)	July	2.3	↻
Sales	New Car Registrations (Y on Y)	August	-3.3	↻
Sales	Retail Sales (M on M)	July	-0.2	↘
Labour	Unemployment Rate	July	8.1	↻
Prices	CPI (Y on Y)	August	4.5	↻
Prices	RPI (YoY)	August	5.2	↻
Interest Rate	Bank of England Base Rate	October	0.5	↔



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 £14 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 many producers lowered USD prices to offset the strength of the \$.

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 Euro and the dollar has strengthened against both currencies in recent weeks.



# 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](http://www.pieweb.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 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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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](mailto:sales@plastribution.co.uk)  
[www.plastribution.co.uk](http://www.plastribution.co.uk)

