price

know-how

July 2012

What factors have influenced the current rebound in polyolefin pricing, is this trend sustainable, and how might other polymers be affected?

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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.

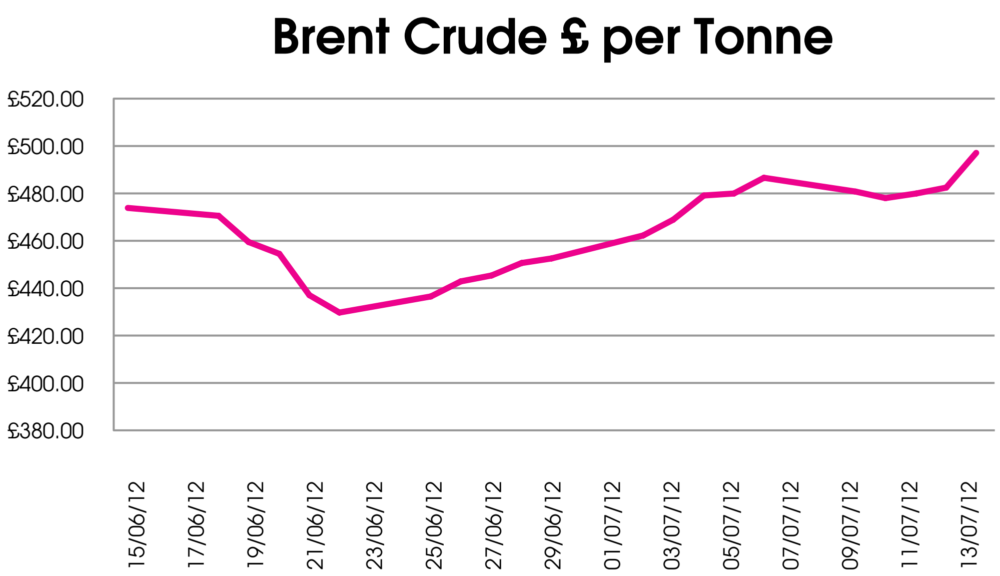
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

What factors have influenced the current rebound in polyolefin pricing, is this trend sustainable, and how might other polymers be affected?

Since the second week in July there has been a change in the direction of polymer pricing, and although the effect of these changes will not be reflected in the polymer price graphs until the August edition of Price Know-how the change is significant and hence the following discussion.



It appears that two factors are influencing the current price bounce affecting PE and PP pricing, and there may be some degree of interaction between this factors. This first factor and currently most influential factor is the simple market economics of supply and demand, and the second factor is the underlying cost of oil as the predominant feedstock.

Taking the first point it appears that we are witnessing a classic self-fulfilling prophecy (which is defined in Wikipedia as `A **self-fulfilling prophecy** is a prediction that directly or indirectly causes itself to become true, by the very terms of the prophecy itself, due to positive feedback between belief and behavior').

The belief being that prices may have reached the bottom and the resulting behavior is defensive buying activity in order to mitigate the impact of any price increases. Of course such behavior results in increased demand, which in turn provides sellers with the confidence to increase prices.

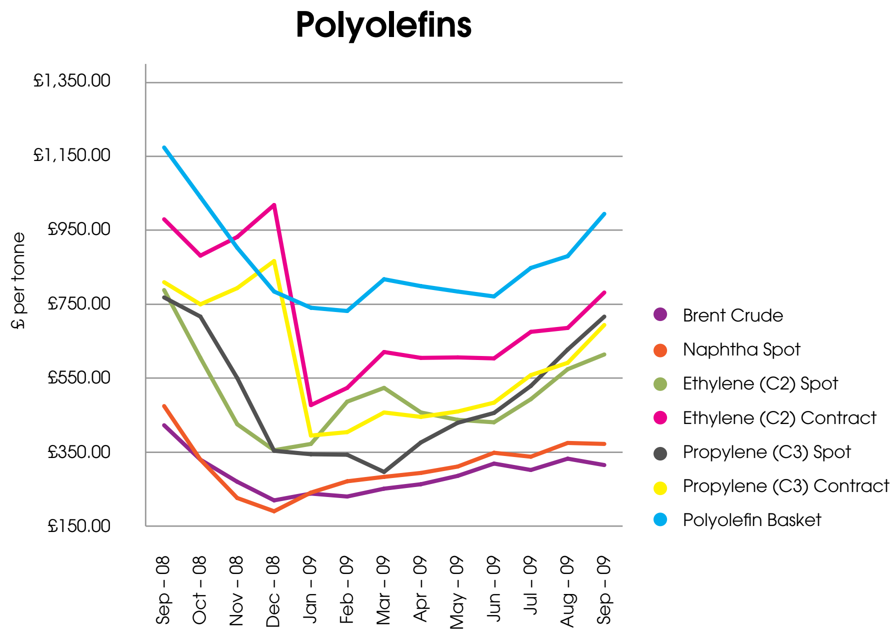
When we take account of the polymer producers actions, that commenced in March, to reduce both inventory and output the market reaction becomes even more severe, and hence the scrabble from buyers at the beginning of July to secure volumes.

An additional factor, which will further reinforce the self-fulfilling prophecy, will be the tendency of polymer producers to `sell to plan' resulting in order books being closed early in the month and demand unfulfilled.

What factors have influenced the current rebound in polyolefin pricing, is this trend sustainable, and how might other polymers be affected?

The second important factor is oil price, which is closely related to the longer-term polymer price. Since the middle of June Brent Crude Oil prices have significantly recovered from a £430 per tonne ($89 per barrel) low to almost £500 per tonne ($104 per barrel).

If we then look at the price evolution following the 2008 economic crisis we see that oil price was a leading indicator for the polymer price recovery, albeit from a much lower level:



Polystyrene prices are already following a similar trend to PE and PP, and other polymers such as ABS are likely to be influenced next. What happens in the medium term is likely to depend on oil prices.

Also the influence of the global economic situation cannot be discounted, and against this backdrop of uncertainty it is more likely that the market will move into a period of high volatility.

Monomer Prices (£ GBP per tonne)

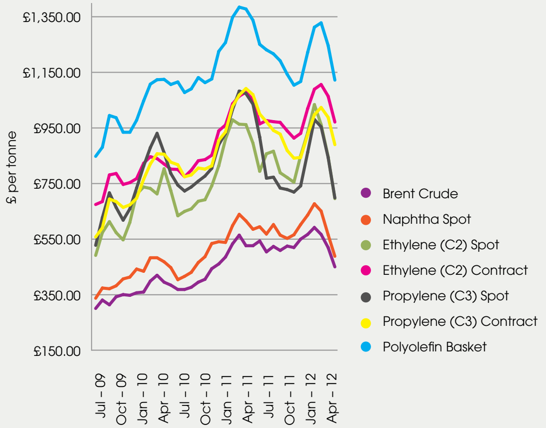
Data provided by PIE www.pieweb.com

Feedstock	Change (Contract)
C2 (Ethylene)	-£136.57
C3 (Propylene)	-£136.57
Styrene	£0.00
Benzene	-£54.63
Brent Crude	-£69.49

price

know-how Polyolefins

Data provided by PIE
www.pieweb.com



Supply
Demand

LDPE

The market has changed quickly, with the excess producer inventories apparently deleted.

Given that producers have reduced output levels to achieve a more balanced market, it is apparent that the current increased demand cannot be met and hence the return to a sellers market. Already producers have exceeded their July sales plan and closed order books.

Supply
Demand

LLDPE

A similar story to LDPE, and in particular the more commodity C4 grades have gone extremely tight as customers struggle to both meet existing requirements and if possible buy defensively to mitigate the impact of further increases.

Supply
Demand

HDPE

The HDPE market has also tightened quickly and again many producers are either out of stock, or have closed order books in order to conserve inventories for August.

Supply
Demand

PP

The diversity of the PP grade slate results in a slower reaction to changes in market conditions, and so far the changes in the market have been more subdued.

Probably the higher volume grades will firm more quickly than specialities.

Other Polyolefins

EVA succumbed to a combination of feedstock price reductions and pressure from buyers, and price concessions have resulted.

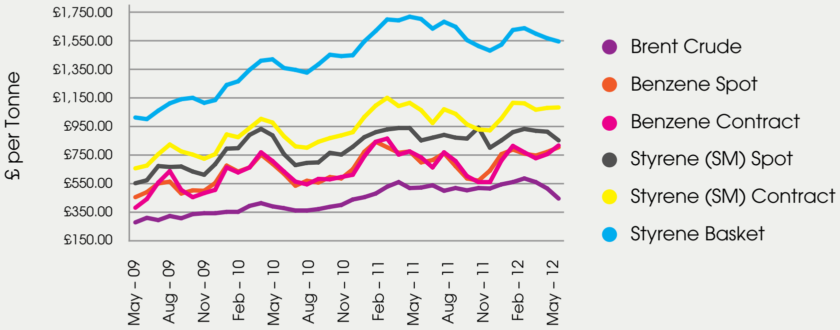
mPE producers will look to take advantage of the LLDPE shortage of supply, and processors will, where possible, take advantage of the higher performance of these grades to offset increases through down-gauging and increased operating rates.

Plastomers continue to follow the monomer price trend.

price

know–how Styrenics

Data provided by PIE
www.pieweb.com



Supply
Demand

PS

The market has changed quickly, much to the relief of polystyrene producers who have been struggling with margins.

There is some evidence of order books being closed with some producers needing to build inventories to cover summer plant shutdowns.

Supply
Demand

ABS

The situation in Asia appears to be changing quickly, and here the volatile nature of feedstocks and their influence on price is resulting in producers calling for price increases. In some cases grades are on allocation. The effect of Asian pricing on the European market is yet to be felt.

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 coming 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

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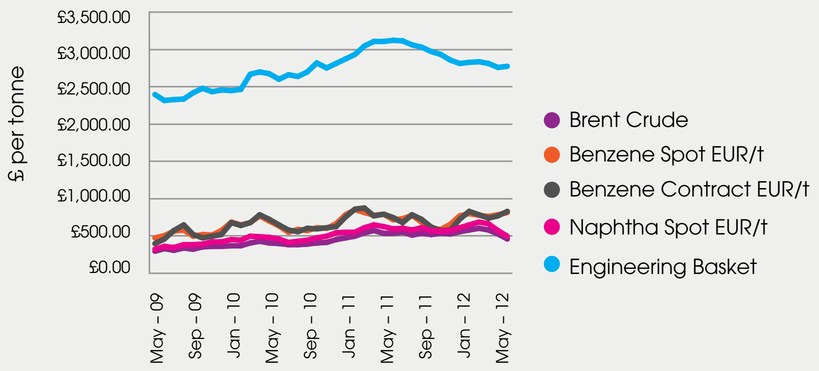

Supply
Demand

PA6

The market remains well balanced, with lead times still sufficiently long to favour the producers. Plant shutdowns over the summer period are likely to maintain the status quo.

Supply
Demand

PA66

The situation on PA66 pricing is a tough call, and although key feedstocks including butadiene have fallen producers are eager to maintain margins.

Demand from the automotive sector is mixed, with continued weak demand from the volume manufacturers.

Supply
Demand

POM

The market appears to be well balanced on standard grades, and leading suppliers appear to be rather more focused on volumes rather than margins as additional capacity comes on stream. Speciality grades appear to becoming much tighter and price increases are being applied.

Supply
Demand

PC

PC producers continue to feel the impact of increased benzene costs on their input prices.

Although demand is only steady, producers would like to increase prices in order to restore margins.

Supply
Demand

PMMA

European prices are now following the lead taken by Asian and North American. The increases have been announced look to be based upon solid market fundamentals. Pre-buying activity has been restricted.

Supply
Demand

PBT/PET

Producers appear to have control of the polyester engineering thermoplastic market, and are quite prepared to live with variations in demand rather than attempting to stimulate demand through price concessions.

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Engineering Polymers

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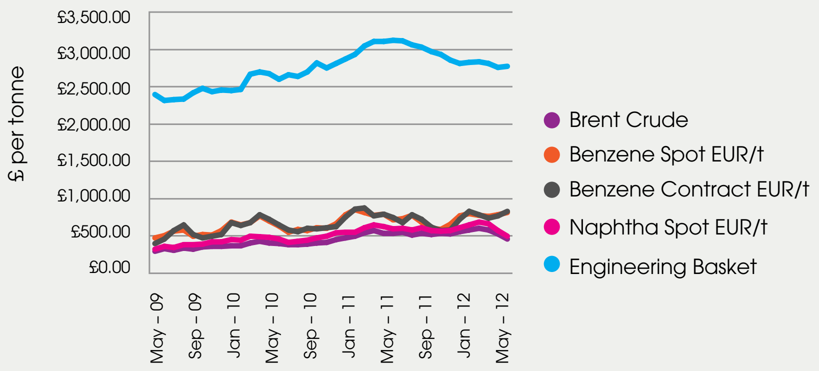

Supply

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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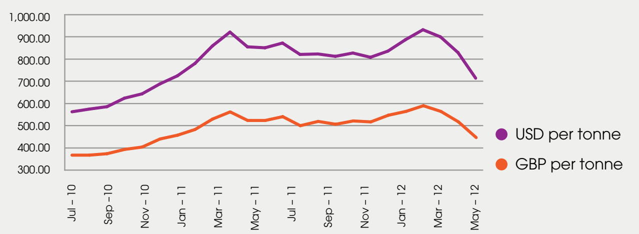
Fundamentals

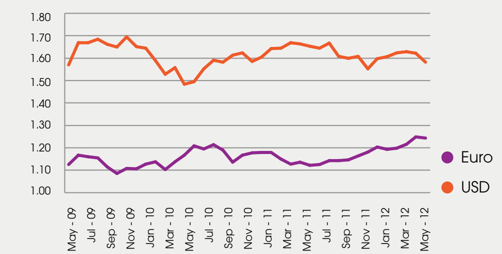
Brent Crude Oil Price per tonne



UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q1 2012	-0.3	↗
GDP	Real GDP (Y on Y)	Q1 2012	-0.2	↘
UK Output	Manufacturing (M on M)	Feb	-0.8	↘
UK Output	Manufacturing (Y on Y)	Apr	-1.7	↘
Sales	New Car Registrations (Y on Y)	June	4.8	↗
Sales	Retail Sales (M on M)	May	1.4	↗
Labour	Unemployment Rate	Jan	8.2	↘
Prices	CPI (Y on Y)	May	2.8	↘
Prices	RPI (YoY)	May	3.1	↘
Interest Rate	Bank of England Base Rate	July	0.5	→

Exchange Rates



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). As discussed in the introduction oil prices create the fundamentals for polymer pricing so it now looks as if there will be a strong tendency towards price increases.

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 competiveness 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 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

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