

price

know-how

November 2012

Producers versus the market – can we expect a soft landing, or could polymer prices crash?

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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.

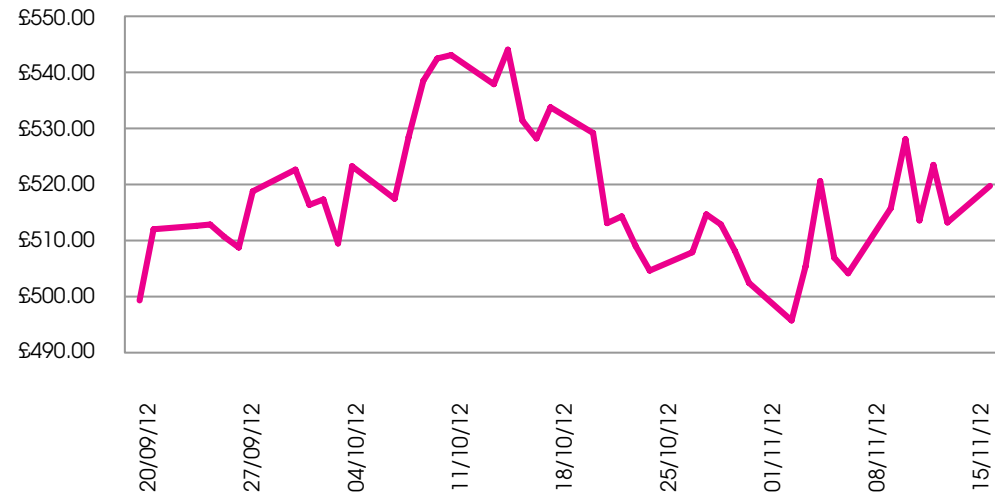
It is also believed that the report will support customers in explaining polymer price trends to their own customers, employees and shareholders.

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

The Plastribution Team

Producers versus the market –  
can we expect a soft landing, or  
could polymer prices crash?

## Brent Crude £ per Tonne



Historically the final quarter of the year is a period in which polymer prices often weaken, and given the poor state of the global economy many processors have been predicting hefty price reductions. However for this scenario to take place the right ingredients need to be in place, and these typically include:

- High inventory
- Weak demand
- Falling costs (Crude oil, naphtha/benzene, monomers)

The key stimulus for this seasonal price reduction relates to the Christmas period whereby in most of Europe converters shut down their manufacturing operations and thereby stop consuming raw materials, whilst due to the cost and complexity of shutting down petrochemical plants polymer producers continue to produce.

In order to accommodate up to 2 weeks production storage space has to be available, and hence the seasonal 'special offers' that become prevalent in the market place at this time of year intended to move physical inventory through the supply chain. A further factor is the tendency of converters to de-stock at the year-end.

## Producers versus the market – can we expect a soft landing, or could polymer prices crash?

On the basis of poor demand from converters, due to low end-market requirements, many are expecting a significant reduction in prices particularly for the high volume commodity materials.

However this may not happen for the following reasons:

- Since the banking crisis in 2008 and the subsequent crash in polymer prices, polymer producers have more carefully matched production with demand to reduce inventories.
- The continued volatility in polymer (and other commodities) pricing is a disincentive for converters and end customers to hold inventory in the supply chain, and this helps to prevent price driven lulls in demand amplifying reduced consumption.
- Polymer producers following a build in inventory leading up to the end of September had already taken action to restrict outputs and in many cases production is now probably lower than demand. In effect this means that the required storage capacity has already been created.
- As depicted in the graph on the previous page, the original feedstock price of crude oil appears to be high and relatively stable, and given current events taking place in the Middle East there is little expectation that prices will fall.

On balance, it appears that the market fundamentals will favour a soft landing, and petrochemical producers will look to recover any prices concessions as soon as possible in Q1 2013.

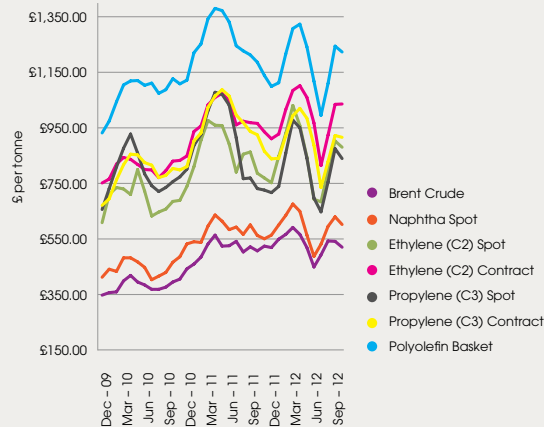
### Monomer Prices (£ GBP per tonne)

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

Feedstock	Change (Contract)
C2 (Ethylene)	-£12.10
C3 (Propylene)	-£16.13
Styrene	-£4.03
Benzene	£27.42
Brent Crude	-£1.63

# price know-how Polyolefins

Data provided by PIE  
www.pieweb.com



## Supply Demand

### LDPE

The situation on LDPE is well balanced, although many producers have been persuaded to offer reductions greater than the decrease in C2 monomer. As outlined above it looks like a quiet end to the year is in prospect.

## Supply Demand

### LLDPE

With the silage wrap season over and low demand from the industrial packaging sector the market.

## Supply Demand

### HDPE

A European plant outage continues to restrict supply to the market and other producers are facing C2 restrictions due to cracker shutdowns.

Shipments from the Middle East have returned to normal following the season of religious holidays.

## Supply Demand

### PP

The economics for non-integrated polypropylene producers were very poor and as such many limited output to the bare minimum in order stem losses. This helped to keep the market reasonably well balanced, off the back of which price concession only slightly above the fall in monomer costs were granted. It is interesting to note that PP prices in Asia have started to rise, and this situation could have implications for the market here in Europe.

### Other Polyolefins

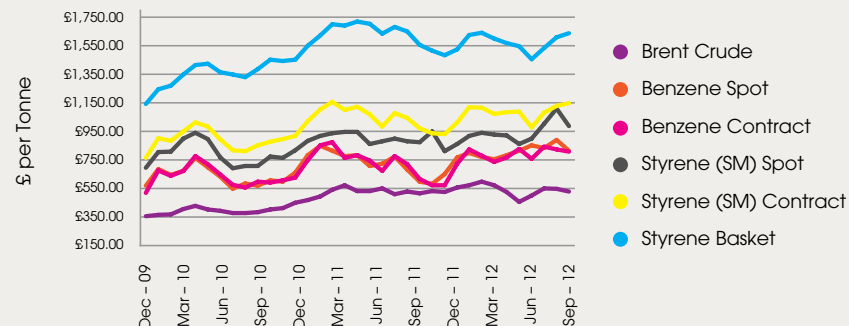
EVA prices softened slightly, and particularly low EVA materials came under price pressure as two producers returned to the market in October.

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.

Plastomers continue to follow the monomer price trend.

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**Styrenics**

Data provided by PIE  
www.pieweb.com



➔ Supply  
➔ Demand

**PS**

In the PS market producers are continue to achieve a good supply / demand balance and hence the relatively stable situation on pricing, although calls continue to be made for further increases.

➔ Supply  
➔ Demand

**ABS**

The ABS market is delicately balanced at this point in time, and increased availability of material imported from Asia is putting the domestic producers under increasing pressure.

The slowdown in automotive demand will also impact on other markets as producers look for alternative markets

➔ Supply  
➔ Demand

**PC/ABS**

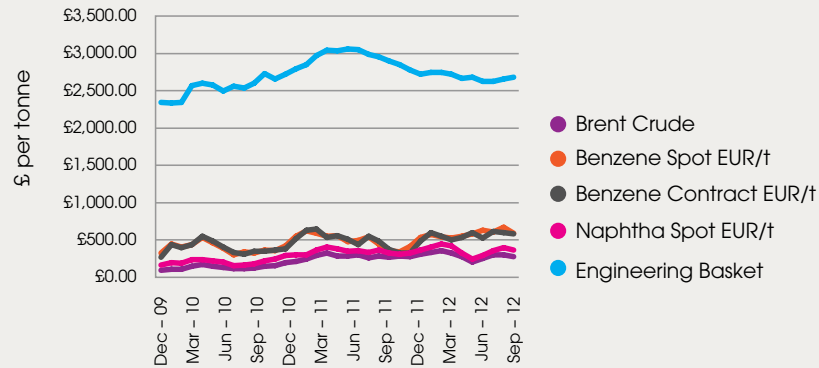
Following recent forecasts from the large European automotive OEMs it now looks as if demand in the coming months is likely to dip significantly, and as other markets remain quiet it looks as if lead times will reduce and with that downward price pressure will apply.

**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 continues to look challenging. The reduction in demand from the automotive sector is likely adding further pressure to reduce prices.

Producers remain hopeful of an upturn in demand in Q1 and as such are happy to build inventory over the coming weeks.

↗ Supply  
↘ Demand

### PA66

A very similar situation as for PA6, and again it appears that producers are already focussing on Q1 2013 with the expectation of a better supply demand balance, and the possibility that increasing benzene costs will further justify price increases.

↗ Supply  
↘ Demand

### POM

The market remains in balance. Plans for price increases have been shelved for the time being, and look unlikely to reappear in the foreseeable future.

Imports from Asia into Europe look less attractive due to weakening of the Euro against the USD.

↗ Supply  
↘ Demand

### PC

The market is still well balanced.

Producers are hoping that a fall in benzene prices will filter through to Phenol & Bisphenol A and so help the tight situation on margins.

↗ Supply  
↘ Demand

### PMMA

News from the automotive sector has served to stabilise the PMMA market, and it is yet to be seen if the upward price trend in Asia for MMA will have implications here in Europe.

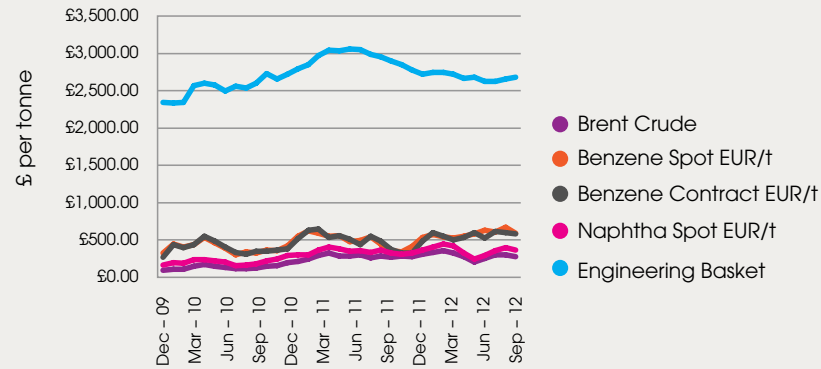
↗ Supply  
↘ Demand

### PBT/PET

The price situation for PBT and PET compounds continues to look quiet as producers are forced to remain competitive in order to secure sufficient volume. The situation on feedstock is pretty stable.

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Data provided by PIE  
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- ➔ Supply
- ➔ Demand

**PPS**

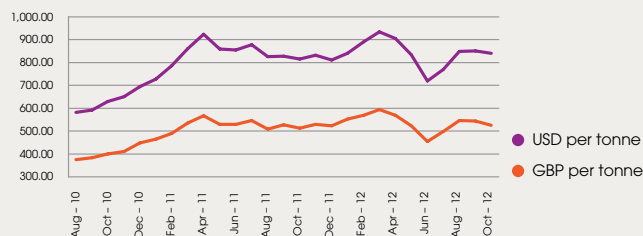
The situation on remains stable.

**Other Engineering Polymers**

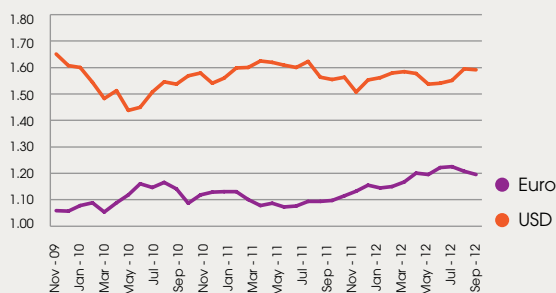
The increase in feedstock costs will create upward pressure on prices, and increases are either in progress or will be implemented in the coming months.

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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)	Q3 2012	1.0	⬆️
GDP	Real GDP (Y on Y)	Q2 2012	1.9	⬇️
UK Output	Manufacturing (M on M)	Aug	-1.1	⬇️
UK Output	Manufacturing (Y on Y)	Aug	-1.8	↻️
Sales	New Car Registrations (Y on Y)	Oct	8.3	↻️
Sales	Retail Sales (M on M)	Sep	0.6	↻️
Labour	Unemployment Rate	July	7.9	⬇️
Prices	CPI (Y on Y)	Oct	2.7	↻️
Prices	RPI (YoY)	Oct	3.2	↻️
Interest Rate	Bank of England Base Rate	Nov	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](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 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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