

price know-how

July 2017

Will standard polymer prices continue to soften, or is there a risk of price increases later in the summer?

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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

Price Know-how Glossary

Monomers

C2 – Ethylene

C3 – Propylene

SM – Styrene Monomer

Naphtha

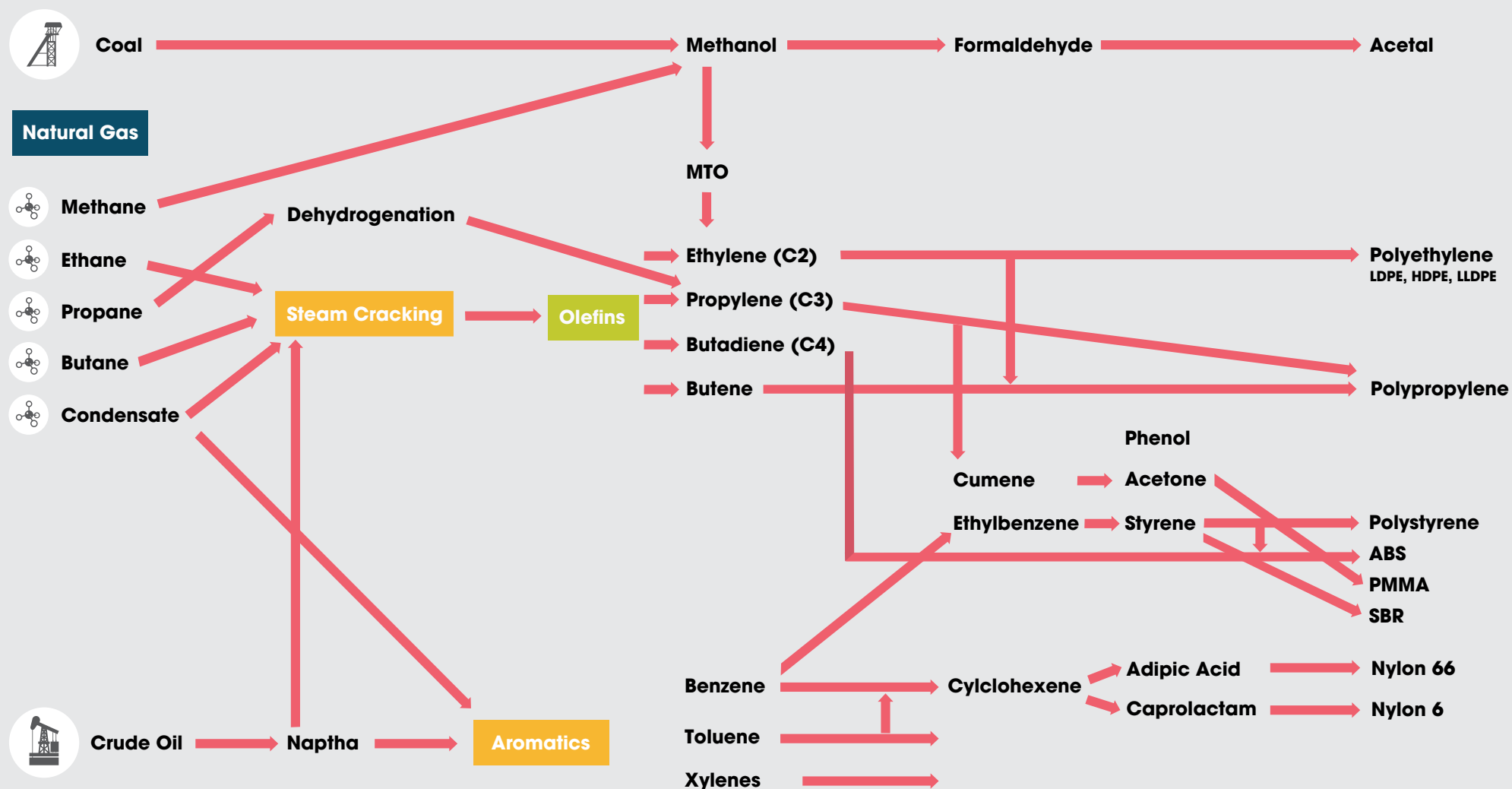
Derivative from the crude oil refining process, which is then typically passed through a (Steam) Cracker to produce various feedstocks including C2 and C3.

Force Majeure (non-legal definition)

Since accepting an order circumstances outside of the supplier's control, and which could not have been foreseen, now prevent the supplier from fulfilling the contract either in part or in full. By declaring Force Majeure the contract is to supply is cancelled.

From Hydrocarbons to Polymer

A simple diagram explaining the production routes from the major hydrocarbon sources through feedstock to the most common polymer groups.



Main drivers of polymer prices

Feedstock

- Oil
- Gas
- Shale
- Naptha

Polymer Producers

- Monomer Pricing
 - Styrene
 - Propylene
 - Ethylene
 - Benzene
 - C4
- Polymerisation Margins
 - Inventory
 - Planned & un-planned outages

Market

- Currency
- Short term demand
- Short term reductions in capacity
- Arbitrage of Polymer
- China & SE Asia supply/demand
- Trader Activity

External Factors

- Political
- War
- Natural Disaster
- Changes in consumer markets
- Geographical shifts in supply/demand

Plastribution has recently released a new online content library known as the 'know-how hub'.

The resource, which is free to access via our website (www.plastribution.co.uk/know-how-hub), is a registration-based source of premium content containing insights, opinion, market intelligence and innovation.

“The know-how hub allows us to offer tailored content that will be constantly evolving, thereby providing subscribers with a high value opportunity to access a wealth of useful information.”

Mike Boswell, Managing Director, Plastribution



Will standard polymer prices continue to soften, or is there a risk of price increases later in the summer?

Although there has been some softening in polymer prices over recent months, the easing in oil prices and monomer prices have ensured polymer producer margins remain healthy. It is notable that the significant differential between polymer and crude oil price is being maintained.

On the basis of these relatively healthy spreads, and given the lower demand associated with the summer holiday season, it would appear that any margin-enhancing-based price increase would be unlikely to succeed. Furthermore, the relatively high European price level is already providing the potential for arbitrage for supplies from Asia and the US.

The possibility of feedstock price inflation looks rather unlikely, as although oil prices repeatedly break through the \$50 per barrel threshold to only fall back below this significant benchmark. On this basis, a further gradual reduction in standard polymer prices towards the end of the year looks likely.

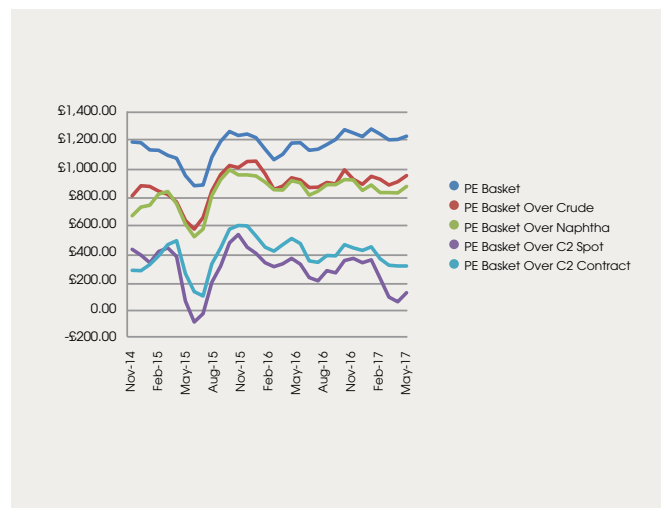
This soft landing is normally regarded as beneficial to plastics converters, as there is typically some lag between prices softening and this being reflected in their own selling prices, which has the effect of bolstering margin.

In contrast, the supply situation for engineering and high performance polymers remains rather tight, and price inflation is evident for many materials including PMMA, POM and PC. Lead times are extended on both natural and compounded grades.

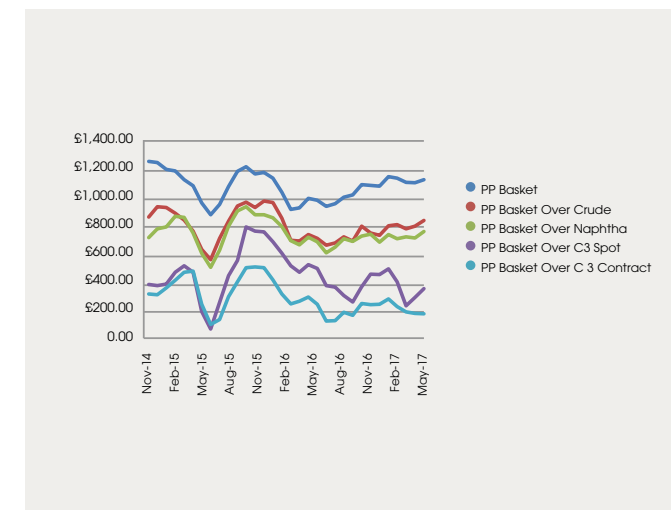
Oil Price vs Polymer Basket from 2008



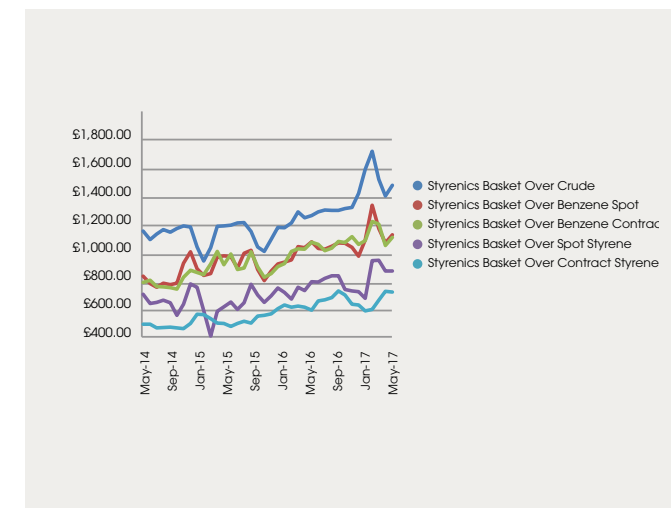
PE Basket Spreads



PP Basket Spreads



Styrenics Spread



Whilst the results of the UK General Election have impacted on exchange rates, relaxation in some polymer prices will bring relief to many plastics processors.

The issue of exchange rates merits mention. Although the GBP has remained stable against a weakening USD, in the case of the Euro, the weakening GBP equates to UK customers being handicapped by something in the region of £30-£45 per tonne on standard polymers.

In the absence of factors other than BREXIT, it looks as if the GBP is likely to remain weak given the economic uncertainty the UK economy faces as the process to leave the EU gets underway. In fact, these currency movements are depicted in the following graphs, where in the case of Polyolefins, which tend to be Euro denominated, there is apparent upward price pressure.

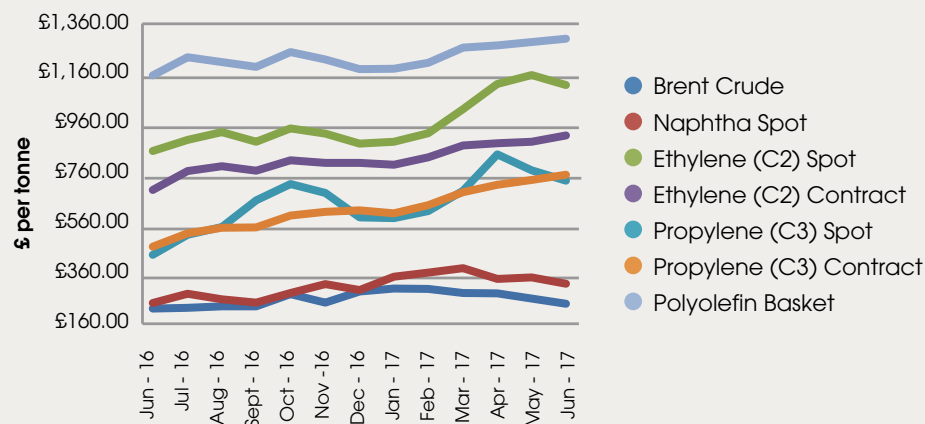
Whereas in the case of Engineering Polymers, the situation is more stable, as these prices tend to be more heavily influenced by the weakening USD.

Monomer Prices (£ GBP per tonne)

Feedstock	Change (Contract)
C2 (Ethylene)	-£30.72
C3 (Propylene)	-£26.33
Styrene	£24.14
Benzene	-£36.86
Brent Crude	-£0.60

price know-how Polyolefins

Data provided by PIE
www.pleweb.com



Supply Demand

LDPE

The reduction in Ethylene feedstock prices in June were passed on, with further incentives offered by producers in an attempt to stimulate demand. However, many processors decided to buy only what was necessary, expecting further reductions over the summer months.

Feedstock costs fell again into July and this was passed on by most producers. The market seems amply supplied, although some producers remain tight. Most commentators perceive the market to be at, or close to, the bottom.

Supply Demand

LLDPE

Prices fell in June as a result of the reduction in Ethylene feedstock prices, with further reductions reflecting the excess supply in the market place.

Reductions in line with the feedstock settlement have been announced for July, although there are rumours that the market may be tightening and that prices could be close to the bottom. Availability of formulated LLDPE for film applications is extremely short.

Availability of injection moulding grades remains balanced/tight.

Supply Demand

HDPE

Prices fell in June at least in line with the reduction in feedstock prices, with deals available on some products in an attempt to stimulate demand.

In July, the reduction in Ethylene costs has been passed on. The market remains well supplied and further reductions are possible.

Supply Demand

PP

Propylene feedstock costs fell in June and reductions of at least this amount were announced by producers. Availability was good and some producers were prepared to offer additional price support to stimulate demand. Many users decided to wait, expecting further reductions to come.

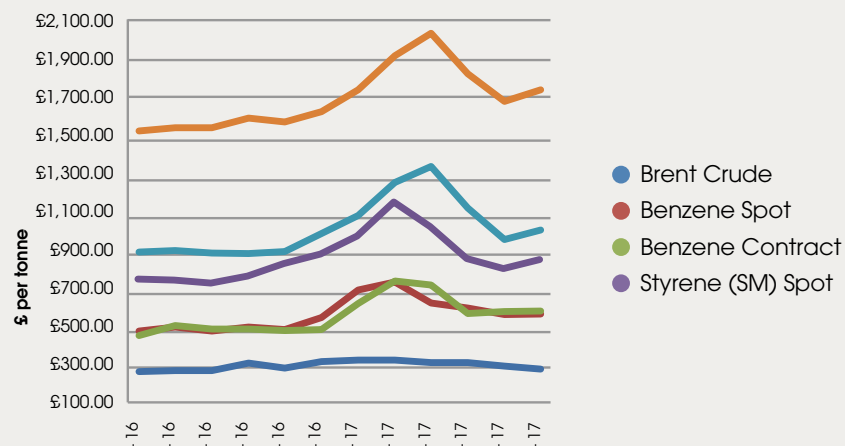
Feedstock fell again in to July and this was fully passed on. Again, producers seem willing to do deals, but there are questions as to how long this situation will persist. There are numerous cracker shutdowns planned for autumn, which may tighten the market and cause prices to firm up.

Other Polyolefins

EVA pricing in Euro terms continues to broadly follow the trend set by Ethylene feedstock. Supply and demand remain balanced and whilst availability of specific grades is reported to be tight, there seems sufficient material to meet demand.

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Styrenics

Data provided by PIE
www.pieweb.com



➔ Supply

➔ Demand

PS

June saw SM rise by £35/T, and in general PS followed this trend. Supply and demand remained normal.

July has delivered a further increase of £35/T and, as with June, this was passed on. Any deals tracking spot SM could rise as the month progresses, due to an outage at a major styrene plant in the Netherlands, and there is a possibility of tightening supply.

→ Supply

→ Demand

ABS

June brought about the end of large price reductions, with small increases being applied to some grades mid-month. Imported volumes are increasing.

ABS has rolled-over or dropped slightly in July, although the lag from Asian imports will allow further decreases on new stocks. Demand and supply should remain balanced.

➔ Supply

➔ Demand

PC/ABS

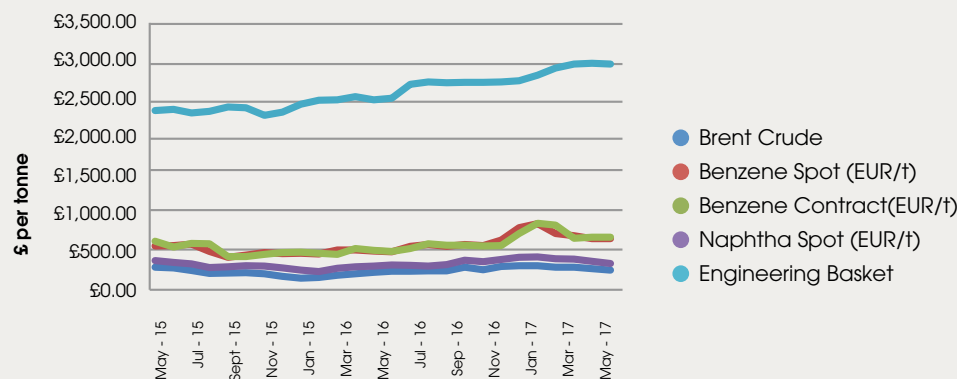
As usual, PC/ABS is following the trend of ABS.

Other Styrenics

SAN and specialities such as ASA and SMMA continue to follow the price trend of Styrene monomers.

price know-how Engineering Polymers

Data provided by PIE
www.pieweb.com



Supply Demand

PA6

Rollover pricing in June, and July is expected to remain unchanged. A large quantity of cheaper feedstocks has now arrived from Asia, so this may call for price cuts from converters, especially as we head into the summer period when it traditionally it goes a bit quieter.

Supply Demand

PA66

Butadiene and adipic acid feedstocks have started to reduce. However, due to the back-log of orders and contracts already in place, pricing is set to remain unchanged. Demand is expected to return to normal over the summer period, when activity in the automotive sector slows down.

Supply Demand

POM

Supply is expected to return to normal, rollover pricing for July and little change through the summer. Demand is still strong from the automotive sector and the electrical segments. However, this is expected to slow down as we head into the holiday season.

Supply Demand

PC

We have seen reductions in benzene prices for June and July. However, this has had little effect on pricing, and July prices have rolled over. Lead-times continue to be longer than normal, with tight supply, possibly related to the current shortage of material in the North American Free Trade Agreement region (NAFTA). Demand is expected to return to a more normal level during the summer period.

Supply Demand

PMMA

The situation still remains critical with ongoing shortages of MMA. This is unlikely to improve in the short to medium term. Producers have pushed through record level increases for quarter three. Customers are unlikely to put up some resistance and are hopeful that supply may ease a little into the summer when demand slows down in most sectors.

Supply Demand

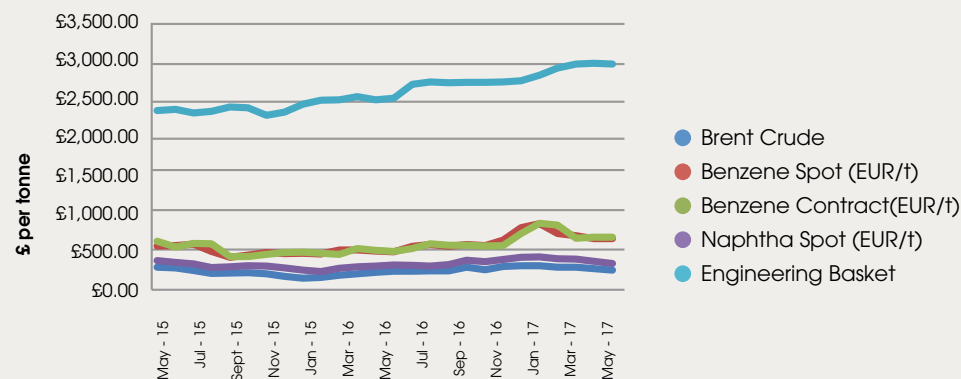
PBT/PET

Supply and demand appear to be fairly balanced and pricing is largely stable.

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Engineering Polymers

Data provided by PIE
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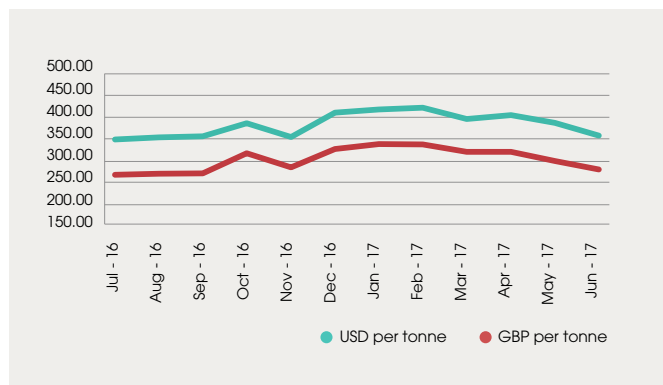


Other Engineering Polymers

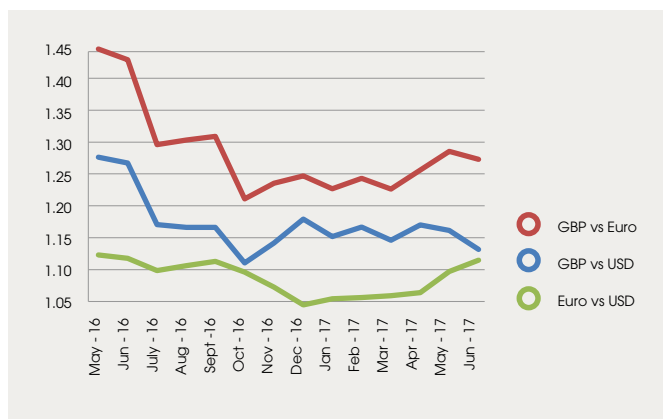
The situation for most other engineering polymers is that pricing will remain high but stable.

price know-how Fundamentals

Brent Crude Oil Price per tonne



Exchange Rates



UK Economic Data

Topic	Item	Date	%	Trend
GDP	Real GDP (Q on Q)	Q1 2017	0.7	↗
GDP	Real GDP (Y on Y)	Q1 2017	0.8	↗
UK Output	Manufacturing (M on M)	Apr	0.3	↗
UK Output	Manufacturing (Y on Y)	Apr	0	↘
Sales	New Car Registrations (Y on Y)	May	-8.5	↘
Sales	Retail Sales (M on M)	May	-1.1	↗
Labour	Unemployment Rate	Apr	4.6	↘
Prices	CPI (Y on Y)	May	2.9	↗
Prices	RPI (Y on Y)	May	3.7	↗
Interest Rate	Bank of England Base Rate	July	0.25	→

1. Oil Price

Oil prices remain relatively stable.

2. Exchange Rates

The Sterling/Euro exchange rate is a key factor in determining polymer prices, since most materials are Euro denominated. At current price levels, each Euro Cent change in price 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.

The UK election result has created significant economic uncertainty. Since the end of May, the Pound has weakened against the Euro. The apparent stability against the USD is related to concern over US economic stability under the Trump regime.

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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