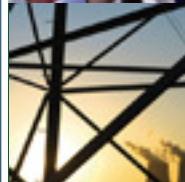
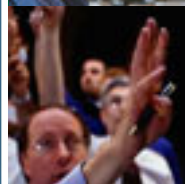
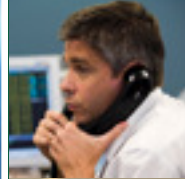


**platts**  
100 YEARS

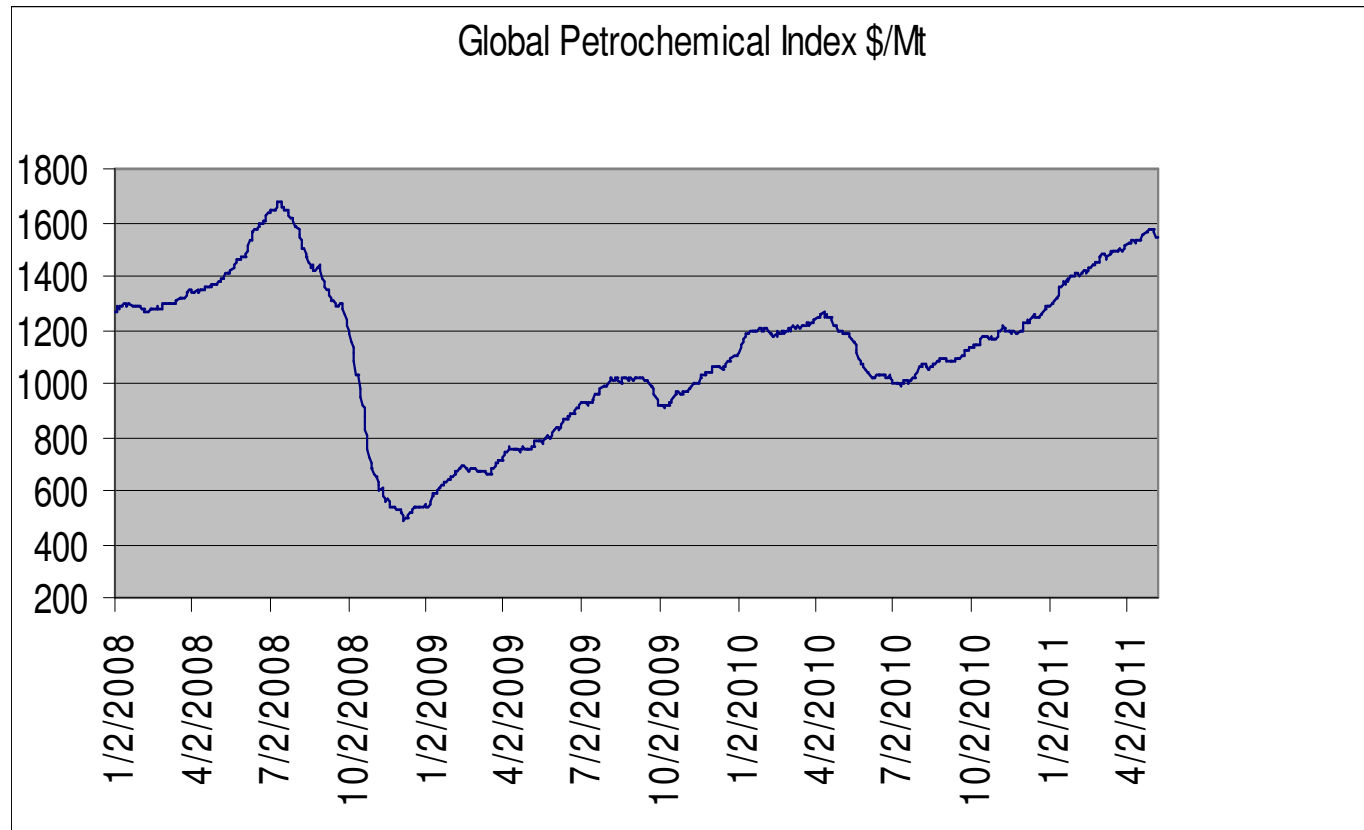


# The New Normal: Producing to Demand

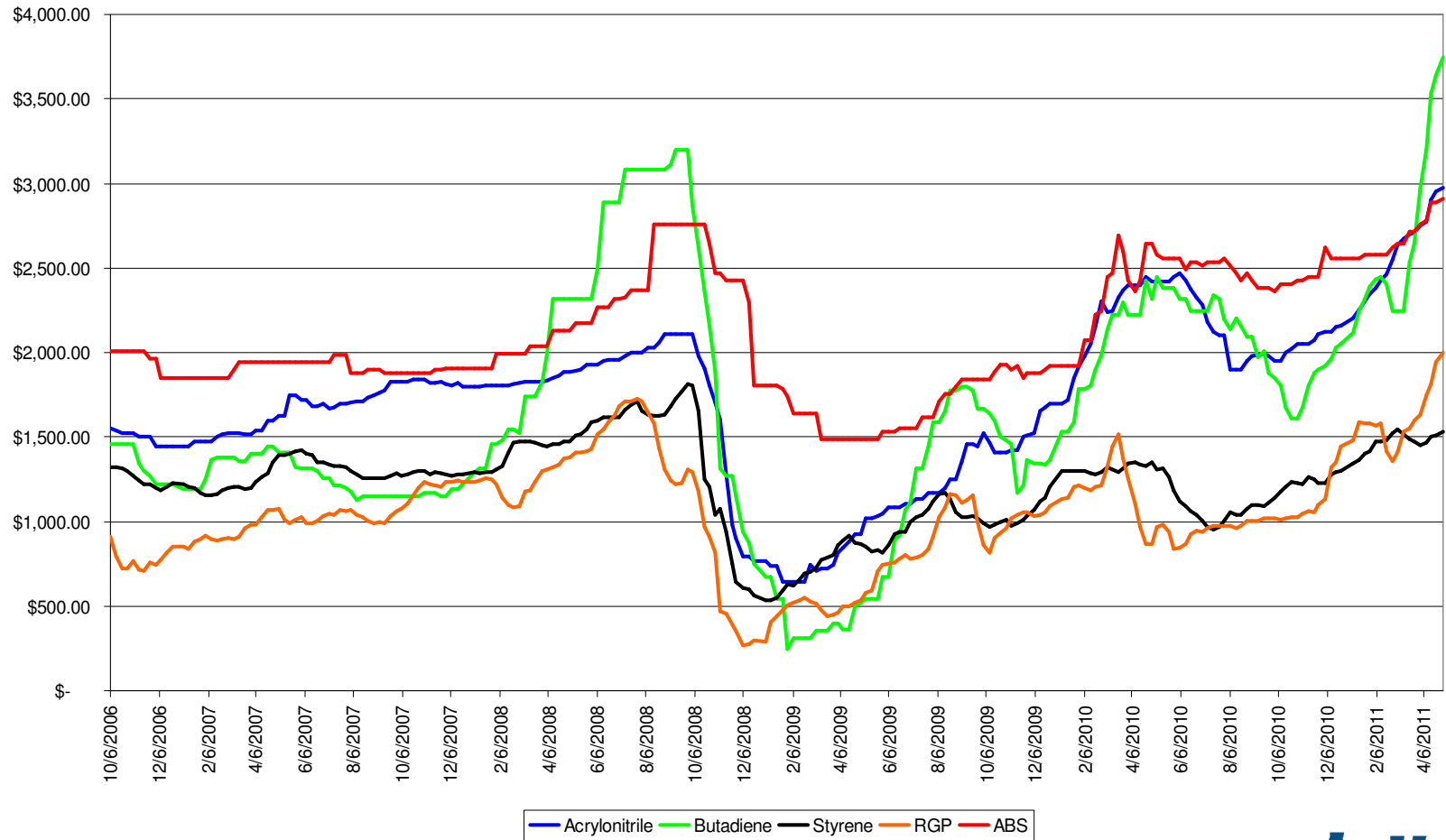
The art of taking your customers'  
margins

Benjamin Morse  
Senior Editor

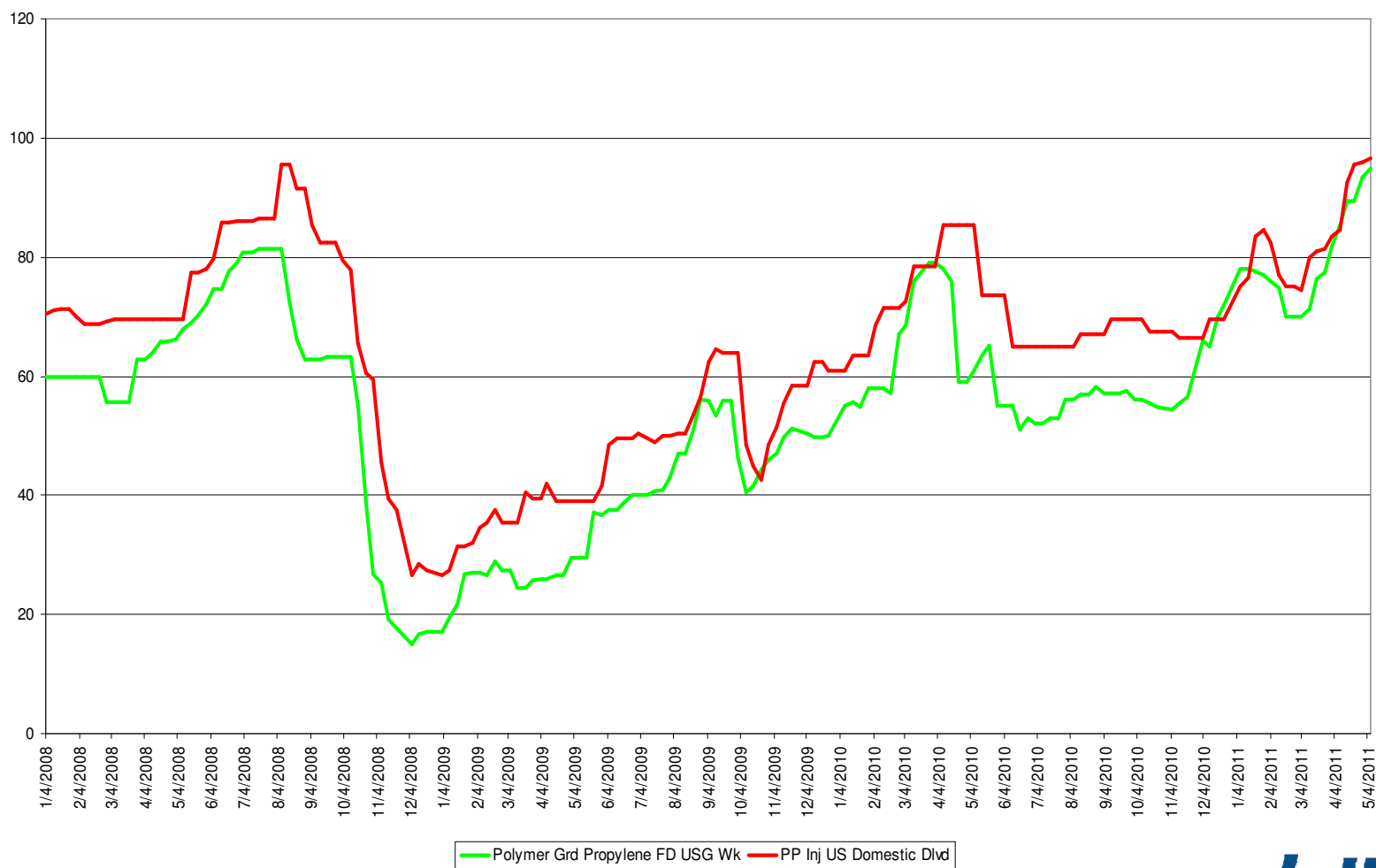
# Platts Global Petrochem Index



# Steady increases from 2008



# 2008 losses shocked producers



# What the New Normal means

- Inventory losses were huge
- Produce to demand
- One month ahead for orders
- If you don't order it, you won't get it
- Created a tighter supply chain

# Produce to Demand effects

- Produce to Demand Destruction
- Every outage, small or large, leads to price spikes
- Producers issue allocation based on past orders
- Past orders at flat demand leaves no inventory
- Must continually buy
- Pushes prices up

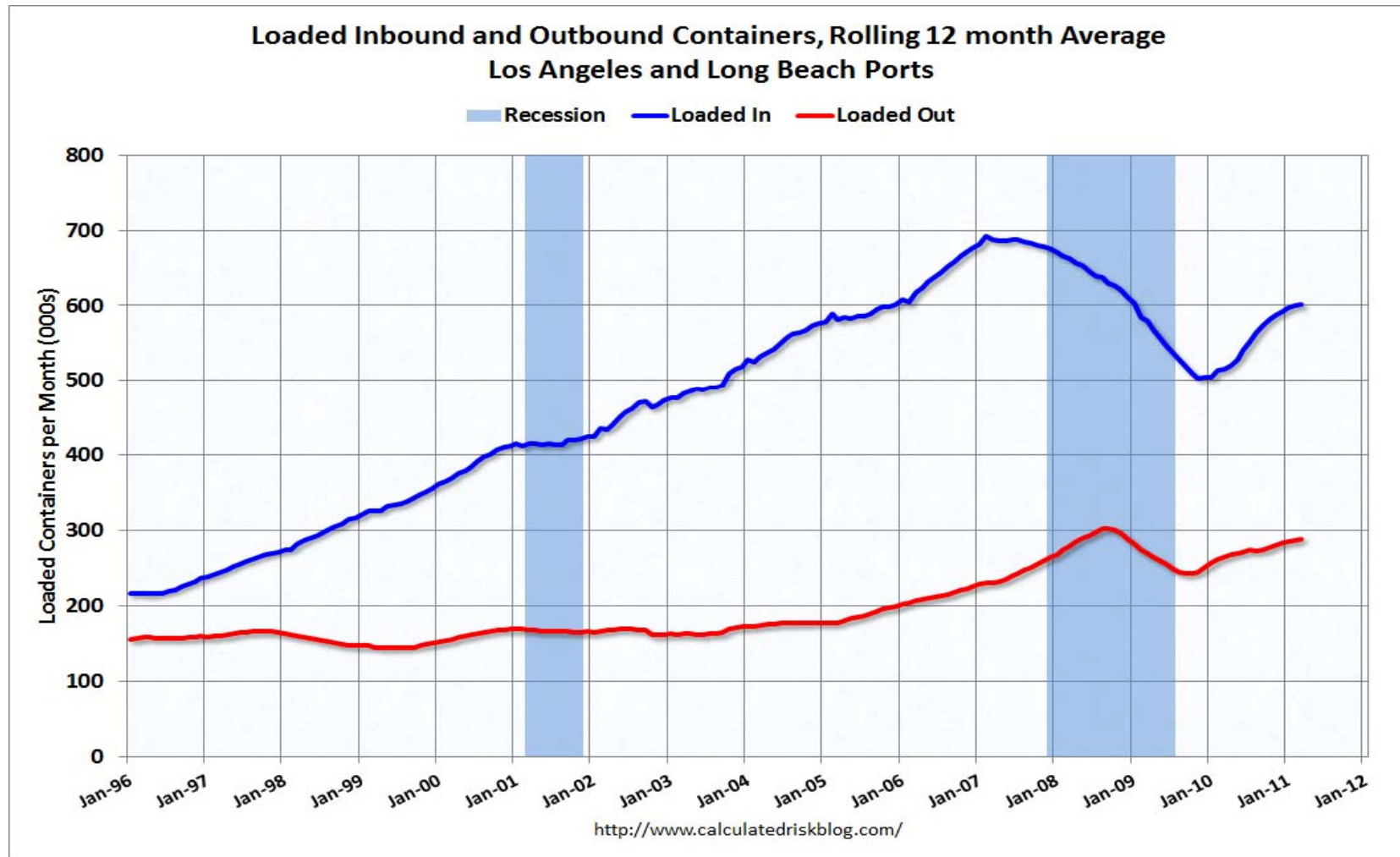
# Case study Jan/Feb PP market

- January propylene contracts shoot up 17 cts/lb to 77.50 cents/lb
- Pushes PP to mid-80's (monomer + 7-8 cts/lb)
- Polypropylene buyers said NO!!!
- “Produce to demand” meant producers cut rates
- Buyers & Producers left with low stocks
- February prices came down

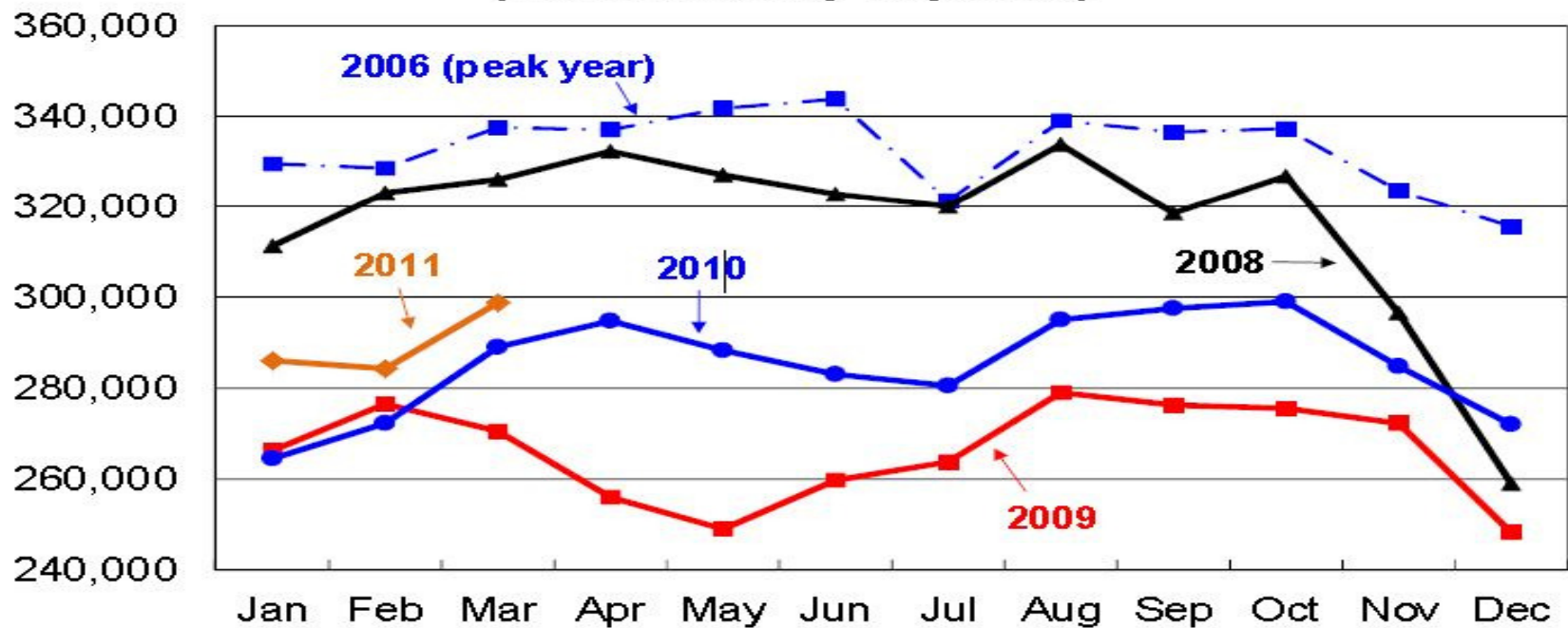
# Case study continued...

- Minimum contract volumes, some paid 85
- Producers sold excess PP at & under monomer on spot market
- PP buyers came back in March
- Stronger demand lifts monomer, polymer prices
- Prices kept climbing, PP now over \$1

# Demand indicators: Container & railroad traffic



## Average Weekly U.S. Rail Carloads: All Commodities (not seasonally adjusted)



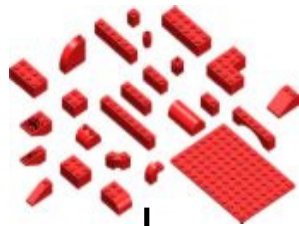
Data are weekly average originations for each month, exclude the U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

# Comments from buyers

- Cannot pass price increases on fast enough (prices paid vs prices received)
- Credit becoming tighter with higher prices
- Demand destruction—Credit, substitution,
- Producers don't care about their customers
- End-user price rises mean more raw material increases

# The Basic Petchem Chain

**UPSTREAM**



**DOWNSTREAM**

**LPG(light) vs  
Naphtha (heavy)**



- 1. Olefins**
- 2. Aromatics**



**polymerization**

**Polymers**

e.g. Polyethylene and Polypropylene

# US, Canada ethylene advantage: Ethane

- US cash cost of ethylene from Jan-May averaged \$647/mt, ethylene contract \$1,138 HDPE blow molding averaged \$1,490/mt,
- Producers making a windfall
- NWE Jan-May ethylene contract \$1,623
- HDPE BM contract averaged \$1,952/mt
- US producers sent ethylene derivatives to Europe
- Whose advantage? The many vs the few

# Ethylene advantage consequences

- Companies with plants in the US & Europe (most of them) cut naphtha cracker rates in Europe in favor of US operations
- Lower European rates impacts propylene, butadiene supply
- US switch to light feeds underpins the tight propylene, butadiene markets

# The Financial Side

- Economy screeches to a halt in 2008
- Federal reserve begins bailouts & QE1, 2
- Over \$1 trillion pumped into the market
- --Does not include global pumping (\$5 trillion?)
- Correlation between money supply, commodity prices
- CME volume up YTD: Commodities-44%,  
Energy-14%, Metals-24%
- Commodities as investment class

# The money supply impact

- CME, Zhengzhou exchanges report record volumes
- China raises interest rates, requires more banking reserves (tightens money supply)
- Asia prices stall--China exporting!!
- CME raised margins on silver, price drops from \$49 to under \$40
- What caused crude to fall?  
Fundamentals?

# Beyond Fundamentals

- Producers adjust supply to demand
- Keep an eye on crude in regards to Europe imports, US exports
- Requires watching different aspects of money supply globally—End QE2, possible QE3?
- Find what US crackers use as feeds
- Going heavy—more propylene
- China

# China as export platform

- \* HDPE film 7000F(MI:0.04) ex PTT : USD1,430/mt fob
- \* LLDPE film 118W(MI:1) ex Sabcic : USD1,470/mt fob
- \* LLDPE film 218W(MI:2) ex Sabcic : USD1,490/mt fob
- \* LLDPE film FD21HS(MI:1) ex Qamar : USD1,490/mt fob
- \* LLDPE film 0218D(MI:2) ex Nova : USD1,470/mt fob
- \* LLDPE film Q2018H(MI:2) ex Qatar : USD1,470/mt fob
- \* LLDPE film 3305(MI:1.9) ex Hanwha : USD1,485/mt fob
- \* LDPE film 2426H(MI:1.9) ex PTT : USD1,760/mt fob
- \* LDPE film 2426H(MI:1.9) ex Basell : USD1,780/mt fob
- \* LDPE film 2102TX00(MI:1.9) ex IPCC : USD1,740/mt fob
- \* LDPE film 1925AS(MI:1.9) ex Tasnee : USD1,750/mt fob
- \* LDPE film PE-046A(MI:2) ex Spain origin : USD1,760/mt fob
- \* LDPE film FD0474(MI:4) ex Qapco : USD1,780/mt fob
- \* PP Fibre HP500N(MI:12) ex Basell : USD1,630/mt fob
- \* PP Inj.1100N(MI:12) ex Oman : USD1,630/mt fob
- \* PP Inj. HP528N(MI:11) ex Basell : USD1,670/mt fob
- \* PP Fibre Z30S(MI:25) ex ARPC : USD1,670/mt fob
- \* PP raffia H030SG(MI:3.4) ex Reliance : USD1,690 fob
- \* PP raffia 1102K(MI:3.4) ex APPC : USD1,680 fob
- \* PP raffia H503(MI:3.5) ex Braskem : USD1,640/mt fob
- \* PP raffia H1045(MI:4.5) ex Tasnee : USD1,670/mt fob
- \* PP copo EP332K(MI:5) ex Polymirae : USD1,710/mt fob

# Produce to demand & new capacities

- Dow, ChevronPhillips, Ineos, Westlake, LyondellBasell, Formosa
- -All studying new world-scale petrochemical capacities
- USG
- Modernization vs Expansion
- Where will off-take go?
- New Mexico plant (Braskem/Idesa)
- Enterprise new PGP capacity in 2013

# Outlook, "can't see beyond 5 days"

- Fundamentals will remain tight
- Prices may fall if crude oil drops more
- What supply shock is coming next?  
Hurricane season
- Inflation or deflation
- Figuring out how to pass on increases  
assures survival

# Thank You Very Much

Please keep in touch on the market

Benjamin Morse

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212-904-3133