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Market Update — December 12 2014

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MARKET UPDATE

The commodity resin markets continued their streak of hyperactivity; the flow of fresh railcars has been rapid and falling prices are encouraging processors to procure material. PE contracts decreased \$.03/lb in Nov and should see a decline of \$.04-.05/lb this month; barring an unforeseen event, they will likely find further pressure in the first quarter. PP contracts dropped \$.05/lb in Nov and commensurate with the dime decrease in PGP, will be as much as \$.10/lb lower in Dec, tempered by any margin expansion that producers can garner. While Houston prices continue to slide, international levels are falling even faster to complicate export sales.

The major energy markets continued to collapse in historic fashion. Crude Oil essentially began the week at its high and ended on the low, wiping away another \$8/bbl, a whopping 12.5%. The January futures contract settled Friday at \$57.81/bbl, the lowest level in 5 years. January Brent Oil futures saw similar losses, erasing more than \$7/bbl to end the week at \$61.85/bbl. Natural Gas futures skidded as much as \$.21/mmBtu, but rallied back as the week progressed, trimming the loss to less than a cent when the Jan contract closed Friday at \$3.795/mmBtu. The Crude Oil : Natural Gas ratio contracted to just 15.3:1, the tightest in almost 5 years; along the way the spread had briefly widened to more than 50:1. After continually making multi-year lows, NGL prices stabilized somewhat this past week. Spot Ethane was about steady at \$.17/gal (\$.071/lb). Spot Propane yielded another couple cents \$.55/gal (\$.156/lb).

Spot Ethylene prices continued to unravel; gulf crackers are almost all back online with some operating at increased capacity adding pressure to an already oversupplied situation. Ethylene trading was active, material for prompt delivery stepped lower in a series of transactions that brought prices down from \$.45/lb to \$.42/lb by midweek. However, not all sell orders were completed and the market was offered lower, indicating that next week's trades could be at \$.40/lb or below. The Ethylene forward curve flattened further; prices for the next 12 months are all within a penny or so, averaging around \$.40/lb.

The Polyethylene market remained very busy; there were several surges in spot offers that kept availability liquid even as processors were scooping up discounted material. Although prices are falling, and a level of buyer's remorse could develop when cheaper resin becomes offered, processors still need material to run and the lead time for delivery requires ongoing purchases. The strong current demand we are seeing is a result of the sharp slowdown in procurement last month as processors foresaw cheaper prices ahead. According to preliminary reports, domestic Polyethylene sales in November were under 2.4 billion lbs; almost 300 million lbs less than October and 220 million lbs below the trailing 12 month average. PE exports were equally dismal, barely 500 million lbs, which has only happened a handful of times in the past 8 years. Producers responded to the weakness by throttling back reactor rates to 88.5%, but production was still too high resulting in the fourth consecutive month of inventory build. December started with more than 3.62 billion lbs of Polyethylene, a figure eclipsed just once, and barely, in 8 years.

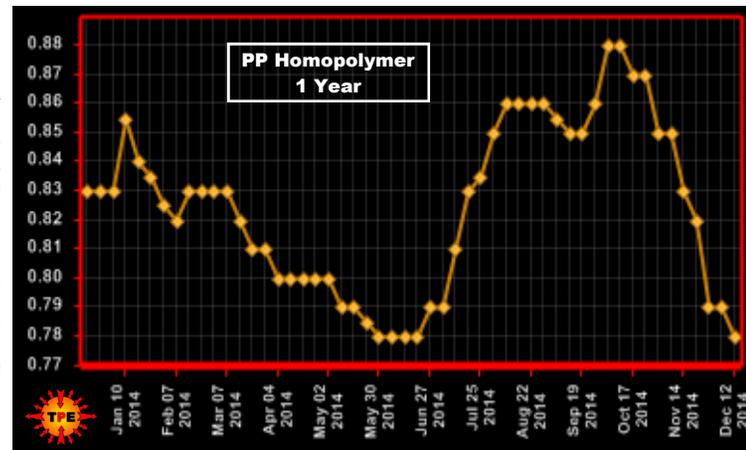
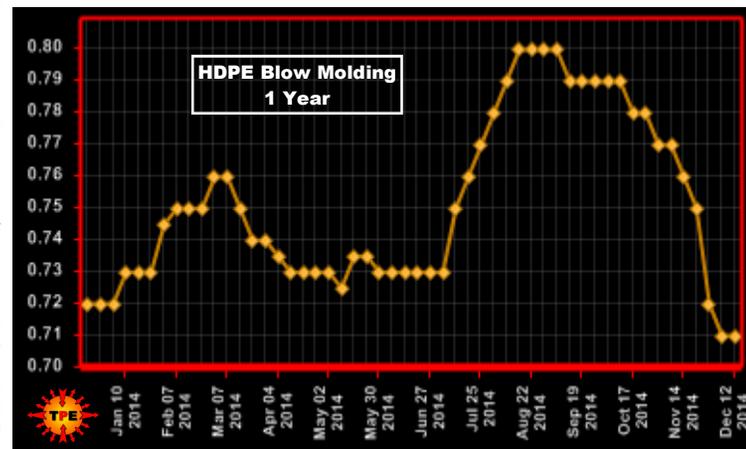
Spot Propylene trading was limited, but prices fell further. Just a single deal for Dec PGP was done a shade under \$.60/lb, which was down \$.02/lb from the previous trade. The market remained pressured as buyers could not be found; sellers offered the market down another couple cents and PGP was ultimately indicated around \$.56/lb by the end of the week. December PGP contracts were initially nominated to decline \$.04/lb; however, continued spot weakness encouraged a larger settlement of \$.10/lb to \$.615/lb, the largest monthly movement since the dime decrease of April 2013. The backwardated shape of the PGP forward curve steepened; monthly discounts are provided from prompt levels until about \$.04/lb is reached by December 2015. The spot RGP market was illiquid, but indicated down around \$.40/lb.

Polypropylene trading was better, the market slid further in light of a steep contract price decrease; however, overall availability is still surprisingly somewhat limited thus supporting elevated spot levels. Producers are receiving \$.10/lb relief against their contracted PGP monomer, and while they are passing along most of the benefit, several are looking to hang on to a couple cents and expand margins. Tight supplies could very well enable a level of disconnection from monomer, but the markets will likely drop again in January and this could create a challenge. Preliminary results show that domestic Polypropylene demand in November was 1.238 billion lbs, 70 million lbs less than October, and about 100 million lbs off pace from the last 12 months. PP exports improved to 50 million lbs, but at less than 4% of total sales, are still fairly insignificant. Polypropylene operating rates were reduced to 87.5%, but upstream resin inventories grew again, beginning December with 1.578 billion lbs on hand, about 100 million lbs above average. Perhaps more of this surplus material will start to show in the spot market.

The dramatic erosion in the prices of energy and feedstocks are also rushing downstream to resins; while the plastics market is not in an uncontrolled free-fall, Polyethylene and Polypropylene markets are in the midst of a significant price adjustment. Both Polyethylene and Polypropylene contracts will record back-to-back decreases for the first time since May/June 2012. PE contracts were down \$.03/lb in Nov and should see another \$.04-.05/lb peel off in Dec. PP contracts fell a nickel in Nov and could lose a dime in Dec, unless producers can manage to hang on to a couple of pennies for minor margin expansion. While processors are clearly enjoying the cheaper resin prices, they are still wisely buying material as needed and to assure the continuity of supply during the sometimes challenging last week of Dec and first couple weeks of the New Year.

Disclaimer: The information and data in this report is gathered from exchange observations as well as interactions with producers, distributors, brokers and processors. These are considered reliable. The accuracy and completeness of this information is not guaranteed. Any decision to purchase or sell as a result of the opinions expressed in this report will be the full responsibility of the person authorizing such a transaction. Our market updates are compiled with integrity and we hope that you find them of value. Chart values reflect our asking prices of generic prime railcars delivered in USA.

Total Offers 19,591,600 lbs		Spot		Contract	
Resin	Total lbs	Low	High	Bid	Offer
LDPE - Film	4,619,004	\$ 0.700	\$ 0.770	\$ 0.690	\$ 0.730
HDPE - Blow Mold	3,609,152	\$ 0.690	\$ 0.760	\$ 0.670	\$ 0.710
HDPE - Inj	2,781,840	\$ 0.640	\$ 0.760	\$ 0.690	\$ 0.730
LLDPE - Film	2,479,588	\$ 0.710	\$ 0.770	\$ 0.690	\$ 0.730
HMWPE - Film	1,851,864	\$ 0.715	\$ 0.760	\$ 0.690	\$ 0.730
PP Copo - Inj	1,421,024	\$ 0.740	\$ 0.820	\$ 0.750	\$ 0.790
PP Homo - Inj	1,099,104	\$ 0.720	\$ 0.800	\$ 0.740	\$ 0.780
LLDPE - Inj	922,736	\$ 0.700	\$ 0.770	\$ 0.700	\$ 0.740
LDPE - Inj	807,288	\$ 0.720	\$ 0.780	\$ 0.730	\$ 0.770



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