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Market Update — January 8th, 2021

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MARKET UPDATE

The 2021 resin market has begun and oh, what a first week it was, so far the best of the year :) Supply / demand fundamentals remained very tight and sentiment was extremely bullish as a multitude of buyers continued to chase limited material availability. Polyethylene and Polypropylene prices continued their trek higher, and even accelerated their gains, supported by continued production outages, both planned and unexpected, along with rapidly rising energy and feedstock costs. Both key commodity resin sectors scored big gains in December and are heading higher in January. PP contracts are again poised to jump double digits, comprised of both a cost-push increase and margin enhancement, similar to Dec. Although it is still very early in the month, all signs are pointing towards the implementation of the Jan PE increase too, which also like the Dec hike, averages \$.05/lb. Export demand remains robust, but the highest bidders for US Polyethylene now come from Latin America as soaring ocean freight rates have become prohibitive, shifting around the export arbitrage and regional trade. Even as prices reach dizzying heights, spot material is hard to come by and there is yet to be light seen at the end of this tunnel. Processors that are quick to act are able to procure material, those that play coy and try to negotiate hard are quickly passed by as there are other buyers in line.

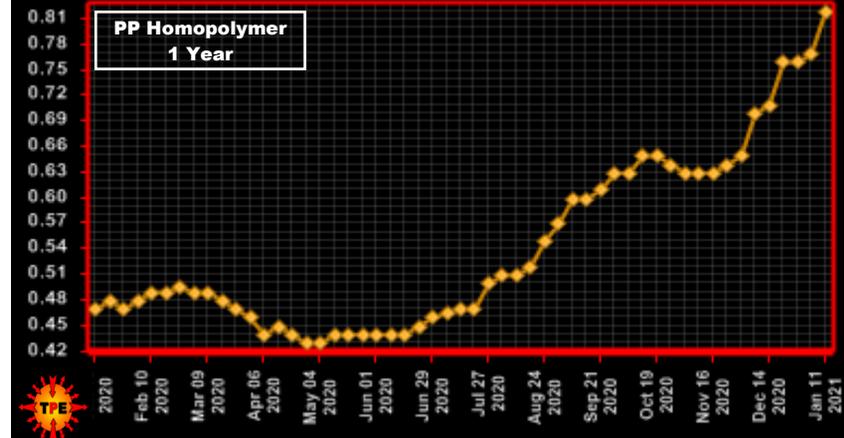
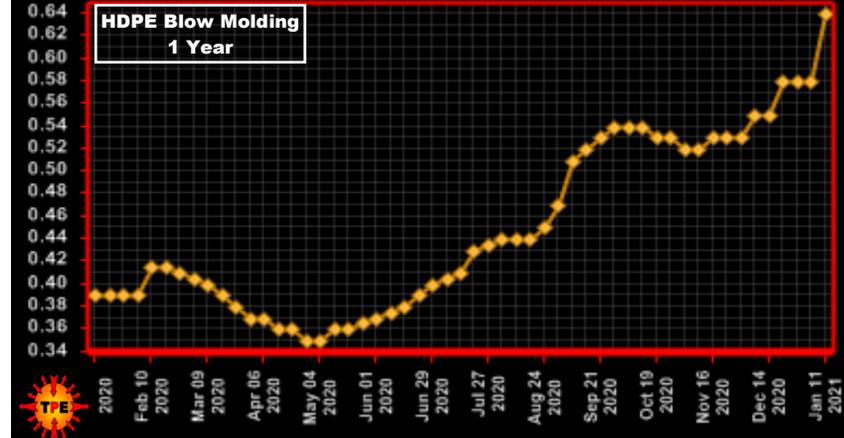
Polyethylene trading roared back to life after the New Year rang in, the spot market had largely been starved of material during December and buyers returned from the holidays in need of resin. Several ongoing production issues have greatly restricted Polyethylene supplies and since the start of the year, a massive monomer rally, spurred along by cracker outages, has further complicated the situation. Ethylene prices have now sprinted into the mid-\$.40s/lb; notwithstanding that producers are mostly integrated back to Ethane and the \$.24/lb PE contract gains since June, producers are still facing a margin squeeze and are given an option to either produce incremental Polyethylene or simply sell some monomer into the spot market. The cost-push pressures have emboldened producers to implement their Jan price increase, and this additional nickel will bring the total contract gains since June to \$.29/lb, which while painful downstream does encourage resin production. Spot PE prices have been quick to react and most grades rose by \$.03-.05/lb this past week alone. Many resellers have very light inventories and replacement material has been a challenge, so even as prices rise, they are only doling out limited volumes and choosing their sales wisely.

Spot Polypropylene trading was very active, buyers scrambled to secure material as prices ran higher. Our trading volumes were again restricted by the lack of resin availability and considerable demand remained unsatisfied. These runaway prices are also surely causing some demand destruction. The PP market has been categorically undersupplied due to continued production disruptions and extended Force Majeure declarations, at least 5 producers are facing challenges. Offgrade railcars came and went and even our prime market making supplies have dwindled to dismal levels as replacement material has been hard to source. Imports on the water have mostly been sold and high ocean freight costs have eaten into the incentive to bring additional cargoes. Spot PP prices added another \$.04/lb this past week, but certain grades like high flow CoPP, No break and Random Clarified resins were virtually non-existent in the spot market and if material could be found, price gains would exceed these levels. Polypropylene prices have been on an upward tear, December contracts jumped \$.14/lb including a \$.04/lb margin enhancement and given current PGP costs, and another nickel nominated for margin, the January increase could even eclipse the December gain.

The spot monomer markets were extremely active, large volumes of material changed hands for both prompt and forward delivery throughout the week, as prices continued to climb. Spot Ethylene prices leapt higher, packing on pennies at a time and by the end of the week, January deliveries had reached \$.445/lb, a six year high. Gains were mostly seen in the nearby months, shaping the forward curve into steep backwardation, meaning that Ethylene prices are currently forecasted to erode to as low as \$.27/lb by June. Spot Polymer Grade Propylene prices continued to rally, plagued by low refinery operating rates and PDH production issues; January PGP levels have reached \$.585/lb, which was up another \$.04/lb since the start of 2021. December PGP contracts settled at \$.485/lb, which was up \$.10/lb from the November price. Assuming the typical \$.025/lb premium that contracts generally hold to spot, if PGP did not budge from this level through Jan negotiations, we could expect monomer contracts to jump another \$.125/lb to \$.61/lb.

The major energy markets were very strong and volatile along with the rest of the resin supply chain. WTI Crude Oil established its low on Monday and prices rose each following days of the week. The Feb futures contract ended the week up \$3.72/bbl to \$52.24/bbl, the highest price since Feb, 2020. Brent Oil held above \$50/bbl all week along and saw a solid 8% gain as the March futures contract finished Friday at \$55.99/bbl, up \$4.19/bbl. Natural Gas bounced back nicely, posting a nice \$.161/mmBtu gain; the March contract ended the week at \$2.70/mmBtu. Ethane closed Friday at \$.225/gal (\$.095/lb); Propane ended at \$.855/gal (.2425/lb).

Resin for Sale 11,022,044 lbs		Spot Range		TPE Index	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	2,077,348	\$ 0.570	\$ 0.690	\$ 0.540	\$ 0.580
HDPE - Blow	1,437,116	\$ 0.610	\$ 0.690	\$ 0.600	\$ 0.640
LDPE - Film	1,366,852	\$ 0.680	\$ 0.770	\$ 0.690	\$ 0.730
PP Homo	1,238,828	\$ 0.750	\$ 0.865	\$ 0.780	\$ 0.820
PP Copo	1,182,012	\$ 0.800	\$ 0.910	\$ 0.840	\$ 0.880
HDPE - Inj	1,149,564	\$ 0.570	\$ 0.650	\$ 0.570	\$ 0.610
HMWPE - Film	970,024	\$ 0.540	\$ 0.610	\$ 0.550	\$ 0.590
LLDPE - Inj	858,748	\$ 0.640	\$ 0.740	\$ 0.650	\$ 0.690
LDPE - Inj	741,552	\$ 0.650	\$ 0.740	\$ 0.650	\$ 0.690



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