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Market Update — October 31, 2014

The spot resin market awoke from a two week nap, finishing October with quite a bang. Resin prices were weak, Generic Prime Polyethylene shed a cent; Polypropylene unwound a deuce. There were occasions of larger concessions in order to clear material. Demand has recently been dismal, backing up railcars that would eventually need to find disposition by month-end. Since overall market sentiment has now turned bearish, resellers have been willing to provide sharp discounts to avoid taking additional resin into inventory. Consequently, spot resin offerings were numerous as were transacted volumes that completed across our trading desk. Exports in general remain challenged by lower international prices, but anecdotally, some sharp deals were cut to move material offshore.

Prices for major energy markets were mixed. Crude Oil futures traded in about a \$3.50/bbl range; the low was on Monday and the high reached mid-week, before prices slid again. The December WTI futures contract then settled Friday at \$80.54/bbl; a net weekly loss of \$.47/bbl. Dec Brent Oil futures declined just \$.27/bbl to \$85.86/bbl. Dec Natural Gas made fresh contract lows of \$3.62/mmBtu early on Tuesday, but recovered from there, peaking as high as \$3.955/mmBtu before ending the week at \$3.873/mmBtu. It was still a sharp gain of \$.175/mmBtu, nearly 5%. The Crude Oil : Natural Gas ratio contracted to 20.8:1. Spot Ethane remained nearly a cent to \$.22/gal (\$.092/lb). After weeks of serious erosion Propane prices finally bounced a bit, adding \$.03/gal to \$.89/gal (\$.252/lb).

Spot Ethylene trading was extremely active, with dozens of transactions reported amongst deliveries both prompt and through 2015. After a very long cracker turnaround season, with a few unplanned outages peppered in, it seems that the light at the end of the tunnel is rapidly approaching. The market had been previously plagued by a period of constrained Ethylene supply, which extended well beyond expectations. However, conditions should be much improved in November as several crackers are expected to return online and with expanded capacity. The market has already been reacting, evidenced by \$.20/lb drop in spot prices since mid-Sept. This past week Ethylene for October and November changed hands at many prices in the mid-high \$.50s/lb, both above and below the previous week's ending price of \$.5825/lb; November's final Friday price was pegged a shade below \$.56/lb, down a couple of cents. The forward Ethylene curve through 2015 has flattened considerably. Just 6 weeks ago, prompt Ethylene was priced about \$.25/lb premium to Dec 2015, but the premium has largely evaporated as the front months fell precipitously while the back months held firmly near \$.50/lb. Do also note that Ethylene issues will persist as Formosa is now set to begin a scheduled turnaround of their Point Comfort Cracker and the Evangeline pipeline is again experiencing issues.

The spot Polyethylene market came under pressure as sellers with groups of railcars hit the market searching for buyers ahead of month-end. Average Polyethylene prices slid \$.01/lb, but there were more sizable discounts afforded for downgraded material. Isolated cases of specially priced export deals were also heard. Most commodity resin grades were represented in this little liquidation, but the market was not flooded with an overabundance of any particular grade. Despite several enduring production complications, spot offers had just begun to build, as processors shied away from larger purchases as they sensed lower price ahead. It is likely that the Polyethylene market will recoil a little in the coming week as sales pressure is relieved at the beginning of the month. Processors, eyeing the \$.20/lb drop in upstream spot Ethylene costs, are seeking a contract price decrease of perhaps \$.03/lb - which equals the September increase. Therefore, it would not be surprising to see an offsetting light flow of purchase orders early in November, paving the way for more intense 2-way action as the month trends on.

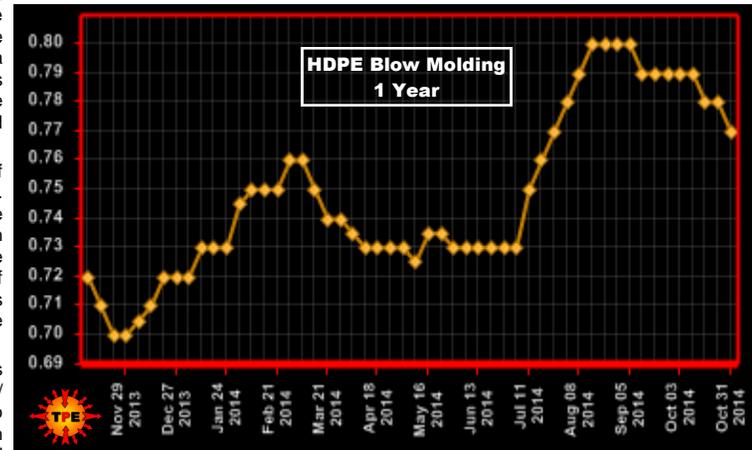
Spot Propylene was pressured, but only saw limited activity; just a couple of early trades were noted and then the market was offered lower. Early in the week, PGP for October delivery traded steady at \$.715/lb and was subsequently indicated around \$.70/lb. In the near future, November PGP could quite possibly transact at a price starting with a 6. RGP levels have dropped down into the mid-\$.50s/lb. October PGP contracts were pegged at \$.765/lb and November has been nominated to decrease \$.02/lb. Given current spot PGP levels, we believe that a larger decrease of \$.03-.05/lb makes more sense; of course spot conditions could change this upcoming first week of November. That said, a number of fundamental factors could also maintain and even accelerate the PGP market's negative bias including: the large PGP - RGP splitter margin, refineries' uninteresting alternative into the weak gasoline market, the large spread between PGP and Ethylene coupled with highly competitive Propane as a cracker feedstock (for those that can still shift) as well as questionable downstream Polypropylene demand as we head towards the year-end market.

Polypropylene activity improved; spot rail availability was better and prices dropped \$.02/lb. As the month drew to a close, resellers became more liberal on price, particularly for material committed earlier in the month which remained unsold. While suppliers in general have relatively light stocks of warehoused material, they still seemed geared towards protecting against downside risk, preferring further liquidation rather than taking extra cars into inventory. Processor demand is also slack as they too believe that cheaper prices lay ahead. The \$.02/lb decrease nominated for November PGP, which flows through to PP contracts, is deemed light so buyers that can afford to wait to procure are doing so. Spot PP exports to most locations are disengaged by price; in fact we are again seeing aggressive offers for imported PP resin.

The spot resin markets were active the first part of Oct and then fell silent, but this past week was stellar and it redeemed the month. There was a better flow of fresh offgrade railcars while Generic and downgraded Prime resins have again become more visible in the market. During October, Polypropylene market sentiment swung from the early fear of a sharp increase (as much as \$.105/lb was nominated!), then to relief as the actual increase was just \$.04/lb, and then it turned negative with expectations of a price decrease for Nov - which could even gain momentum into Dec. Polyethylene market sentiment is also bearish led by a \$.20/lb drop in spot feedstock costs. Although processors are hopeful for price relief, there is reason to be skeptical as one must turn the calendar back to Nov 2012 for the last marketwide Polyethylene decrease and even at that, it was just \$.02/lb.

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 17,014,064 lbs		Spot		Contract	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Inj	3,370,208	\$ 0.760	\$ 0.810	\$ 0.730	\$ 0.770
LLDPE - Film	2,634,932	\$ 0.770	\$ 0.840	\$ 0.750	\$ 0.790
HDPE - Blow Mold	2,208,208	\$ 0.710	\$ 0.780	\$ 0.730	\$ 0.770
HMWPE - Film	2,099,588	\$ 0.775	\$ 0.830	\$ 0.750	\$ 0.790
LDPE - Film	1,750,012	\$ 0.785	\$ 0.850	\$ 0.780	\$ 0.820
PP Homo - Inj	1,653,380	\$ 0.750	\$ 0.860	\$ 0.810	\$ 0.850
PP Copo - Inj	1,484,368	\$ 0.780	\$ 0.880	\$ 0.820	\$ 0.860
LLDPE - Inj	936,368	\$ 0.770	\$ 0.820	\$ 0.750	\$ 0.790
LDPE- Inj	877,000	\$ 0.750	\$ 0.830	\$ 0.780	\$ 0.820



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MARKET UPDATE

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