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The spot resin markets finally chilled from their hectic pace as the pending Chinese tariffs on US Polyethylene and Polypropylene resins have begun to turn US market sentiment negative, particularly for PE. Another down week in the Crude Oil markets has only added to this feeling. The flow of offers has continued and are starting to accumulate. While spot Polyethylene prices have swung through cycles, producers have continued to well manage domestic supply, even in the face of added production. To buyers frustration, contracts have been amazingly flat. Despite another attempt at a \$.03/lb price increase, with material backing up, the breaking point could finally be near. PP supply and demand are relatively in balance to tight, we expect a very modest cost-push increase for August contracts.

The energy markets were mostly lower with the Oil complex leading the way down. October rolled to the front month for WTI Crude Oil and it ended in the red, dropping another \$1.73/bbl to \$65.21/bbl – the lowest level in a month. Brent Oil futures pared its losses in the latter half of the week, but still ended down \$.98/bbl to \$71.83/bbl. Nat Gas Futures saw relatively little movement and went into the weekend essentially unchanged at \$2.946/mmBtu. NGLs prices were mixed. After a steady week, Ethane resumed its rally, adding a cent to \$.39/gal (\$.165/lb). On the other hand Propane slipped a cent to \$.95/gal (\$.269/lb) though still remains near the top of its recent range.

The monomer markets remained active, and while there was a lot of quoting, there were not a lot of deals seen completed and overall volumes were lighter. Ethylene prices were range bound, perhaps fractionally higher, but still limited to \$.16/lb in TX with a small premium for material in Choctaw, LA. Propylene activity was a bit muted early in the week, with more action developing as the days wore on. PGP for August delivery couldn't hold the \$.60/lb level and slipped at least a cent to \$.59/lb and indicated a little weaker late Friday. Forward PGP prices were pressured more, with Dec levels falling to \$.555/lb. Although the upward momentum has been sapped, current spot levels still support a modest price increase for August, perhaps a couple cents, unless prices soften further.

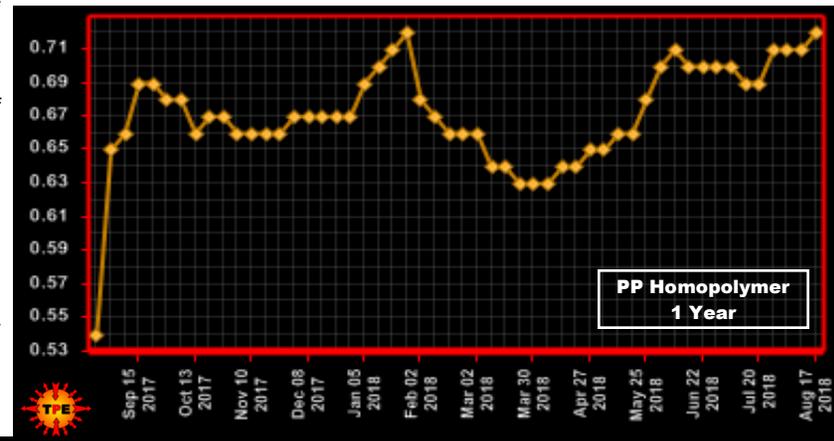
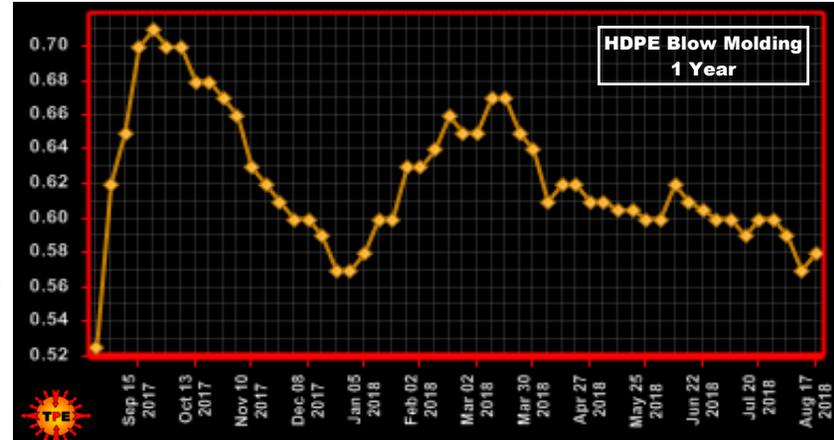
The spot Polyethylene market slowed dramatically this past week, taking a heavy breather from the very busy pace seen for most of the past couple of months. Spot demand diminished greatly as buyers took a wait and see approach with regard to new orders. The 25% Chinese tariffs on HDPE and LLDPE that are scheduled to implement on August 23rd have really begun to disrupt the market, particularly in Houston, the major resin export hub. Traders that had booked sales to China have been diverting cargoes already on the water and in many cases, simply not making new PE shipments to China. This has not only affected port activity, but is also jamming up the packaging warehouses. This developing situation has already been weighing on spot Polyethylene prices and as invoices start to come due, it could trigger another wave of trader / exporter selling.

After a one month reprieve in inventory build, upstream Polyethylene supplies have surged again. They increased about 250 million lbs in July and now stand near an astounding 5 billion lbs, an increase of more than 1.7 billion lbs since Oct, 2017. Unless production is throttled back substantially, and it ran nearly full out in July, the backup of resin could soon begin to overburden the domestic market leading to lower prices. There is a \$.03/lb contract price increase nominated for August, however, the market is expected to roll flat at most, while the case for a decrease is strengthening. Inquiries from other regions of the world have been flooding in to our trading desk as the opportunity to secure US supply at opportunistic prices has begun. However, the strengthening US dollar has added yet another factor to an increasingly difficult export environment. Unless the tariffs are resolved, or alternative export channels quickly opened, absent a weather event, which does not seem likely with a so far quiet tropical storm season, all of the fundamentals are pointing to lower pricing ahead.

Spot PP trading was slightly above average this past week. Demand was steady and prices edged up about a penny for both HoPP and CoPP. However, the recent minor retreat in upstream monomer costs could limit the August contract increase to perhaps \$.02/lb or less, rather than \$.03/lb. Spot PP availability increased a tad for the typical commodity grades, while some of the specialties remain scarce. While there are good volumes of PP material again on the water heading to the US shores, some of which is still unsold, a series of reactor turnarounds ahead in the far east could hamper additional supplies. Unlike PE, the Chinese tariffs should have little effect on PP, as exports are rather insignificant.

Market Update — August 17th, 2018

| Resin for Sale 13,121,376 lbs | | Spot Range | | TPE Index | |
|-------------------------------|-----------|------------|----------|-----------|----------|
| Resin | Total lbs | Low | High | Bid | Offer |
| LLDPE - Film | 3,161,428 | \$ 0.510 | \$ 0.600 | \$ 0.480 | \$ 0.520 |
| HDPE - Inj | 2,247,312 | \$ 0.520 | \$ 0.580 | \$ 0.500 | \$ 0.540 |
| PP Copo - Inj | 1,990,392 | \$ 0.670 | \$ 0.800 | \$ 0.720 | \$ 0.760 |
| HDPE - Blow | 1,571,736 | \$ 0.550 | \$ 0.610 | \$ 0.540 | \$ 0.580 |
| PP Homo - Inj | 1,202,736 | \$ 0.650 | \$ 0.750 | \$ 0.680 | \$ 0.720 |
| LDPE - Inj | 1,085,472 | \$ 0.570 | \$ 0.620 | \$ 0.580 | \$ 0.620 |
| LLDPE - Inj | 644,552 | \$ 0.595 | \$ 0.670 | \$ 0.580 | \$ 0.620 |
| LDPE - Film | 630,920 | \$ 0.580 | \$ 0.670 | \$ 0.550 | \$ 0.590 |
| HMWPE - Film | 586,828 | \$ 0.580 | \$ 0.630 | \$ 0.550 | \$ 0.590 |



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