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## Market Update — October 10, 2014

Total Offers 14,883,988 lbs		Spot		Contract	
Resin	Total lbs	Low	High	Bid	Offer
LDPE - Film	2,698,852	\$ 0.835	\$ 0.880	\$ 0.810	\$ 0.850
HDPE - Blow Mold	2,294,600	\$ 0.770	\$ 0.810	\$ 0.750	\$ 0.790
PP Homo - Inj	2,115,312	\$ 0.795	\$ 0.890	\$ 0.840	\$ 0.880
HDPE - Inj	1,941,312	\$ 0.770	\$ 0.820	\$ 0.750	\$ 0.790
LLDPE - Film	1,777,312	\$ 0.780	\$ 0.840	\$ 0.770	\$ 0.810
PP Copo - Inj	1,156,552	\$ 0.810	\$ 0.920	\$ 0.850	\$ 0.890
HMWPE - Film	1,115,932	\$ 0.780	\$ 0.840	\$ 0.770	\$ 0.810
LLDPE - Inj	1,019,380	\$ 0.750	\$ 0.840	\$ 0.770	\$ 0.810
LDPE - Inj	764,736	\$ 0.770	\$ 0.850	\$ 0.800	\$ 0.840

Spot resin trading continued to trade at a rapid clip; some discounted offers emerged and were met by good demand. Relatively high volumes of HDPE changed hands, it was a notable standout. Ultimately, prices for Generic Prime Polyethylene and Polypropylene were steady across the board. October PE contracts will roll flat, maintaining the \$.03/lb increase garnered in September. PP contracts will settle higher this month, but probably closer to a nickel rather than the nominated dime increase. Some producers have also been trying to expand PP margins by implementing increases beyond the change in monomer; however, there might still be too many processors whose contracts are tied directly to PGP to tip the scales in favor of expansion. Another round of annual contract negotiations are coming up around year-end, so de-coupling is more likely in early 2015.

The major US energy markets were pummeled and all ended deep in the red. Crude Oil futures began the week with a small gain, but prices eroded from there. On Friday, the November contract managed to bounce a hefty \$2.23/bbl from the low, trimming the week's losses, but the market still settled down \$3.92/bbl at \$85.82/bbl, peeling back prices to levels not seen since July of 2012. Natural Gas futures spent the entire week below \$4/mmBtu; by Friday the November contract stood at \$3.859/mmBtu, down \$.18/mmBtu, a 4.5% drop. The Crude Oil : Natural Gas ratio remained at 22.2:1. Spot Ethane lost more than a penny to end just shy of \$.23/gal (\$.097/lb). Propane prices plunged, falling about a dime to under \$.98/gal (\$.277/lb).

Spot Ethylene trading was sporadic, with significantly fewer pounds selling this past week. The market remains propped up by supply constraints as 5 crackers are now offline for planned turnarounds and unplanned repairs. Ethylene for October delivery began the week with strength, moving up \$.02/lb to \$.70/lb, but the market then began to slide and most recently transacted at \$.67/lb, down a penny for the week. The forward markets were also quieter and the market's current prompt premium remains prominently pronounced. Ethylene prices are set to slide each month for the foreseeable future - Dec 2014 is marked at \$.6325/lb and the discount grows more substantially next year with Dec 2015 indicated at \$.515/lb, falling smoothly along the way (but somehow it probably won't!)

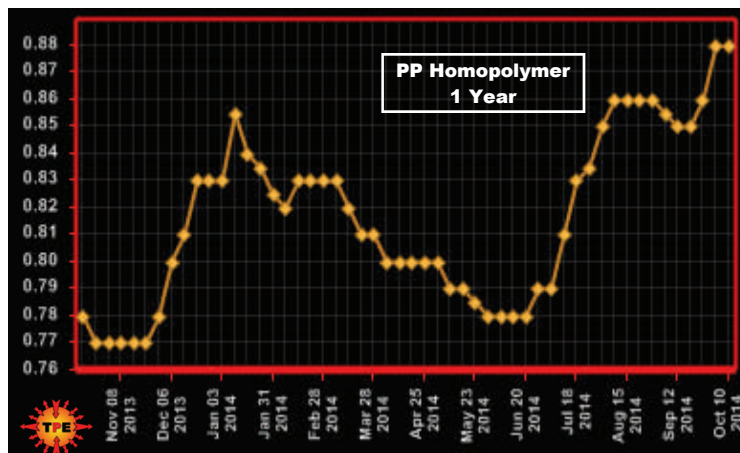
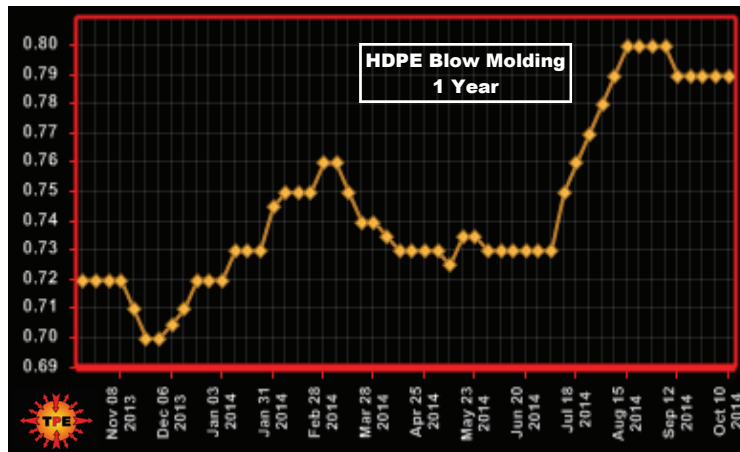
Spot Polyethylene trading was very good, enough buyers and sellers found urgency to converge at relatively steady prices to enable a high volume of transactions. Preliminary reports show that in September, domestic PE demand was 2.66 billion lbs, 42 million lbs less than August, but still 65 million lbs more than the trailing 12 month average. PE exports were just 580 million lbs, 45 million lbs below the 12 month average and 65 million lbs below the monthly average over the past 5 years. Production constraints limited PE operating rates to less than 95%; but upstream resin inventories still built 35 million lbs. October began with 3.36 billion lbs of Polyethylene on hand, 1% above average. There are a couple price increases currently on the table, but it is likely that for most grades, we have already seen the highest Polyethylene prices of the year.

The spot Propylene market had moderate activity and prices held in a relatively tight band. Production restrictions, primarily refinery turnarounds, have been supporting high Propylene price levels. Flint Hills' PDH unit (was sold by Petrologistics) is now also down for maintenance. PGP for October delivery inched a penny higher to \$.75/lb, before relinquishing the gains. PGP most recently sold at \$.7375/lb on Friday, but sell orders remained unsatisfied on Friday, pointing to lower prices to begin next week. When the spot market rallied early in the month, market participants were quick to revise price increase nominations higher from \$.05/lb to \$.075/lb, but now that spot has eased nearly \$.03/lb, a settlement has been elusive. Current levels indicate that even the initial nickel could be over-shooting value. The forward curve is backwarddated to the extent of \$.015/lb by Dec 2014 and a much larger discount is provided next year, as PGP falls every month until Dec 2015 prices at \$.615/lb.

The spot Polypropylene market was fairly busy and overall prices were flat. Well-priced offers found homes, but buyers quickly turned away from high asking prices. Softer spot monomer markets have taken some wind out of the PP market, which had caught fire when producers nominated October price increases as much as \$.105/lb. It is more likely that an increase around half that magnitude will actually take hold. Preliminary results show that domestic Polypropylene demand in September was 1.328 billion lbs, a tad below August and right on the trailing 12 month average. PP exports were an unremarkable 42 million lbs. PP reactor rates dropped to just 88.5% and production was beautifully matched with demand, so upstream resin inventories held at 1.472 billion lbs, just below average.

The resin markets were actually more exciting than the flat price movement would indicate. Processors have been actively filling in their supply gaps, some still due to slow rail shipments, while sellers have become more willing to meet in the middle to get a deal done. Upside momentum has been sapped, but tight monomer supplies are managing to keep resin prices above international levels. However, considering tumbling equity, commodity and energy markets— even in the shadow of military engagements, and a heavily backwarddated domestic feedstock pricing curve, it seems that a meaningful downward adjustment in domestic resin prices could be warranted. Cannot yet predict when a drop might begin, but it feels that we are now at historically high prices.

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.



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