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Market Update — December 5, 2014

The spot resin markets began the month with a fury; material availability continued to improve and a large number of transactions were completed. The flow of Polyethylene railcars remained strong and prices were again driven lower. PE contracts were down \$.03/lb in November and are poised to drop further in December. Polypropylene supplies are not as voluminous; however, contract prices are still tumbling. November contracts decreased \$.05/lb and the December decline will be at least the same and quite possibly larger. Although Houston prices are eroding, spot exports are challenging as international resin prices are often below US levels and the market's uncertainty further encourages regional buyers to procure locally for quicker delivery.

The major energy markets all moved lower in volatile trading. Crude Oil Futures had a nearly \$6/bbl range on Monday alone and settled the day up nearly \$3/bbl. The January Crude contract then gave back all the early-week gains and a bit more too, ending the week at \$65.84/bbl, down \$.31/bbl. January Brent Oil futures slid about \$1/bbl and closed Friday at \$69.07/bbl. Natural Gas futures had back-to-back large losses, peeling off another \$.286/mmBtu to settle Friday at \$3.802/mmBtu, the lowest weekly close in about a year. The Crude Oil : Natural Gas ratio expanded to 17.3:1. NGL prices eroded further to multi-year lows. Spot Ethane chunked off another nickel, more than 23%, to just \$.17/gal (\$.071/lb). Spot Propane dropped another dime to just above \$.57/gal (\$.162/lb) – less than 2 months ago Propane traded over \$1/gal.

The spot Ethylene market was very active and prices got smacked down by about 13%. Williams is now, and finally, in the process of returning their Geismar cracker on-stream with expanded capacity. Dow and Formosa are the only two producers with crackers currently offline for (planned) maintenance. Ethylene for prompt delivery resumed trading after the Thanksgiving holiday with a quick \$.02/lb drop and continued to slide from there. By the end of the week, December Ethylene transacted below \$.45/lb; a weekly loss of \$.07/lb - the lowest price in more than a year. The Ethylene forward curve is still backwardated, but flattened further; prices for the next year are separated by less than \$.02/lb.

The Polyethylene market was extremely active; spot supplies were liquid, trading was fluid and a vast sea of prices was floated throughout the week. The tide has certainly turned; railcar offers came in waves and at times the market was flooded with material, particularly HDPE blow molding and LDPE / LLDPE for film. It was the beginning of a month, so initially only Polyethylene export offers were deeply discounted but by the end of the week, super sharp prices were also shown to the domestic market and it was also wash in resin. Resellers, some swimming in resin, have been trying to ship out uncommitted inventories while limiting losses, but for some it is already water under the bridge. Processors, especially those with shallow inventories, dove right in - fishing for deals, catching compelling prices - hook, line and sinker. November PE contracts sunk \$.03/lb and another decrease is on the horizon for Dec; it is early so the magnitude is still murky, but a \$.04-.05/lb drop has been cast out.

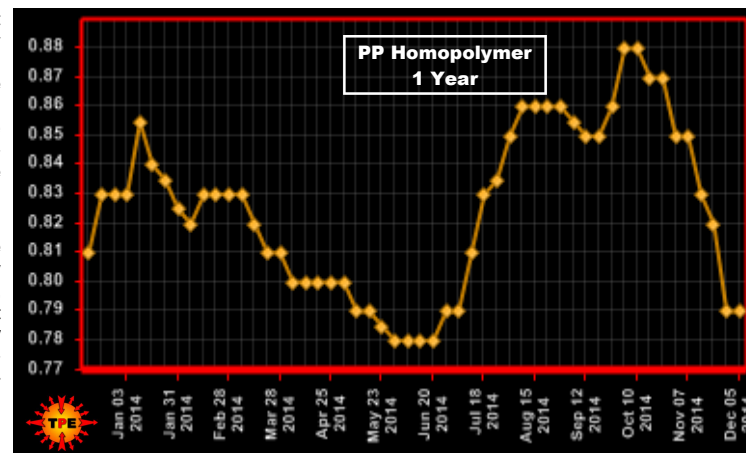
The spot Propylene market was pressured all week and only transacted sporadically. PGP for December delivery worked its way down to transact around \$.615/lb, but sell orders remained unsatisfied and the market was indicated at \$.60/lb by Friday. December PGP contracts have been nominated to decrease \$.04/lb to \$.675/lb; however, continued spot market weakness will necessitate a larger price concession. Based on current spot levels, we believe that a decrease of \$.08-.09/lb is warranted. The PGP forward curve is backwardated; small monthly discounts accumulate until a total of nearly \$.02/lb is reached by December. RGP trading was relatively inactive, although sell offers placed the market into the lower \$.40s/lb.

Polypropylene trading is improving as prices are falling, but limited availability is still making spot sourcing an effort. PP market circumstances are very interesting: it seems that resin producers have been cutting operating rates, opting to sell monomer rather than over-produce material into year-end. This activity has pushed spot PGP prices sharply lower, and since PP resin contracts are still largely tied to monomer, December PP will also settle down significantly. Strangely though, snug supplies are helping spot PP prices hang at relatively lofty levels; higher in fact than many contracts could be in December. This plays well into Polypropylene producers' plans to expand margins by lowering PP selling prices in Dec, but by a smaller amount than the decrease in PGP monomer costs. For instance, PGP contracts could drop \$.08-.09/lb and PP just \$.05-.06/lb. The fundamentals and timing are currently in favor to accomplish this, and if successful, lead to the larger goal of finally disconnecting the absolute correlation between PGP and PP contracts which has been in place for years.

Spot resin prices have been dropping and prices for most commodity grades have quickly returned to levels at or below those seen in January 2014. Negative sentiment persists and the markets' momentum could carry prices even lower. Dramatically falling energy and feedstock costs, particularly from the Crude chain, have depressed Oil dependent international resin prices, squashing large export market balancing opportunities. This has already translated into the first domestic Polyethylene contract decrease in two years and December is gearing for a larger drop than November's \$.03/lb. Some buyers have backed away from the market, waiting for the contract decrease to become known, but many processors are actively engaging the spot market along the way, taking advantage of the great deals already at hand. Polypropylene contracts will at least double up on November's nickel price relief, although a larger December decline could be tempered by relatively tight resin supplies.

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 19,976,116 lbs		Spot		Contract	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	4,053,704	\$ 0.690	\$ 0.760	\$ 0.670	\$ 0.710
LDPE - Film	3,794,416	\$ 0.700	\$ 0.820	\$ 0.710	\$ 0.750
HDPE - Inj	2,577,220	\$ 0.680	\$ 0.760	\$ 0.680	\$ 0.720
PP Homo - Inj	2,215,036	\$ 0.720	\$ 0.810	\$ 0.750	\$ 0.790
HMWPE - Film	2,130,048	\$ 0.700	\$ 0.780	\$ 0.700	\$ 0.740
LLDPE - Film	2,052,300	\$ 0.700	\$ 0.800	\$ 0.700	\$ 0.740
PP Copo - Inj	1,294,368	\$ 0.740	\$ 0.840	\$ 0.760	\$ 0.800
LDPE- Inj	1,084,288	\$ 0.720	\$ 0.800	\$ 0.730	\$ 0.770
LLDPE - Inj	774,736	\$ 0.730	\$ 0.800	\$ 0.700	\$ 0.740



Dominick Russo and Jay Schreiber — Editors

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Michael Greenberg 312.202.0002 @ResinGuru