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## Market Update — February 9th, 2024

MARKET UPDATE

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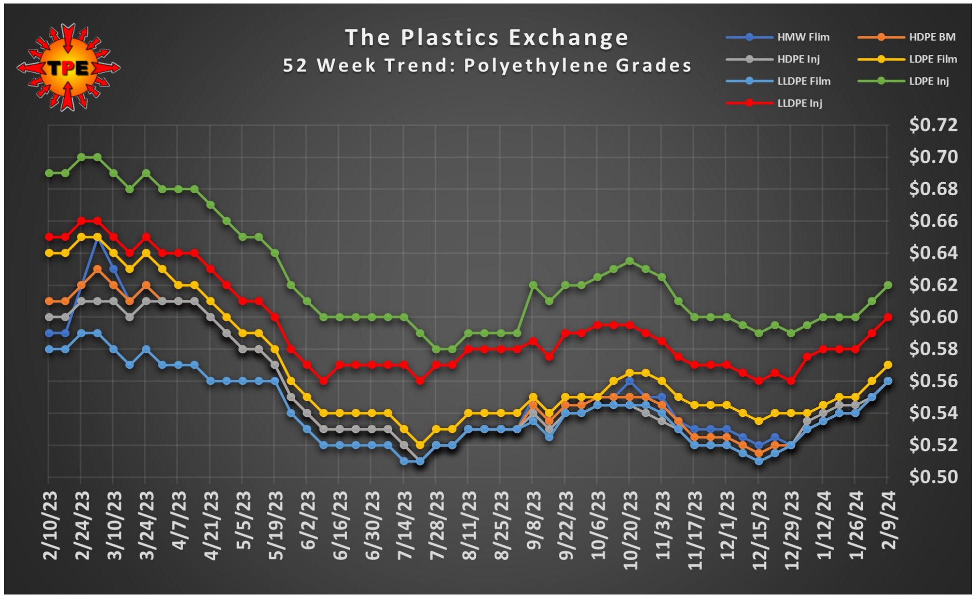
The resin markets kept active this past week, our completed volumes ran about average and Polyethylene sales edged out Polypropylene. The resin rally continued as PE gained a penny across the board while PP prices climbed another 2-cents as PGP monomer costs rose further, reaching their highest levels since March 2023. Demand from both domestic and international buyers was good as buyers have been reluctantly acclimating to the trend of rising prices. There was a steady flow of offgrade railcars while producers continue to restrict availability of spot prime material, diverting surplus supplies into the super strong export market. Resellers' stocks continued to thin, though older, oft-overlooked high-cost inventories are now emerging as available as prices rise and losses are reduced. The major indices ultimately granted Polyethylene producers their $.05/lb increase in January, alleviating some confusion from the past couple of weeks as one had originally estimated the market as flat, but they made the revision to up 5-cents. There is another nickel on the table for February PE. Jan Polypropylene contracts passed through the $.03/lb rise in PGP monomer costs and contracts are already shaping up for a slightly larger cost-push increase again in Feb.

Crude Oil prices rallied while Natural Gas prices plummeted this past week, pushing their price ratio out to an astounding 41:1 and parity is considered about 6:1. It is this very relationship that provides North American Polyethylene producers, who derive the vast majority of their Ethylene feedstocks from the Natural Gas chain, with a massive cost advantage compared to most of their international PE producing counterparts who get most of their Ethylene feedstocks from the much more expensive Crude Oil chain. The cost advantage, which became firmly established during the Shale revolution, was the underlying basis for the massive Petrochemical / Polyethylene plant investments and capacity expansions seen over the past decade. North American PE producers can essentially export resin to any world region at will and they continue to utilize this position to keep operating rates relatively high as they export ever growing volumes of resin year after year. In 2023 PE exports averaged 2.204 billion pounds per month, which is coincidentally 1 million metric tons.

| Resin for Sale 15,842,944 lbs | | Spot Range | | TPE Market | |
|---|---|---|---|---|---|
| **Resin** | **Total lbs** | **Low** | **High** | **Bid** | **Ask** |
| PP Homo - Inj | 2,758,024 | $ 0.495 | $ 0.690 | $ 0.610 | $ 0.660 |
| PP Copo - Inj | 2,475,220 | $ 0.540 | $ 0.725 | $ 0.670 | $ 0.720 |
| LDPE - Film | 2,438,692 | $ 0.510 | $ 0.610 | $ 0.520 | $ 0.570 |
| HDPE - Blow | 1,966,692 | $ 0.480 | $ 0.560 | $ 0.510 | $ 0.560 |
| LLDPE - Film | 1,945,496 | $ 0.515 | $ 0.590 | $ 0.510 | $ 0.560 |
| HDPE - Inj | 1,857,048 | $ 0.495 | $ 0.560 | $ 0.510 | $ 0.560 |
| LLDPE - Inj | 1,003,380 | $ 0.550 | $ 0.640 | $ 0.550 | $ 0.600 |
| HMWPE - Film | 925,932 | $ 0.510 | $ 0.555 | $ 0.510 | $ 0.560 |
| LDPE - Inj | 472,460 | $ 0.550 | $ 0.620 | $ 0.570 | $ 0.620 |

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Disclaimer: The information and data in this report is gathered from daily exchange observations, actual transactions, and commercial interactions with producers, distributors, brokers and processors. These are all considered reliable, but 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 complied with integrity and we hope that you find them of value. Chart values reflect our asking prices of generic prime resin bagged in Houston, TX.

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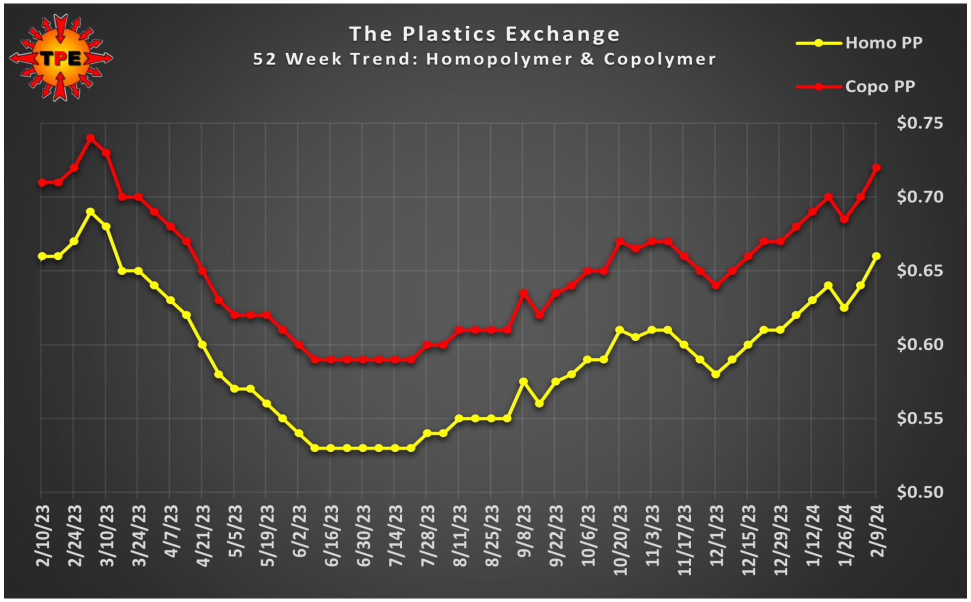
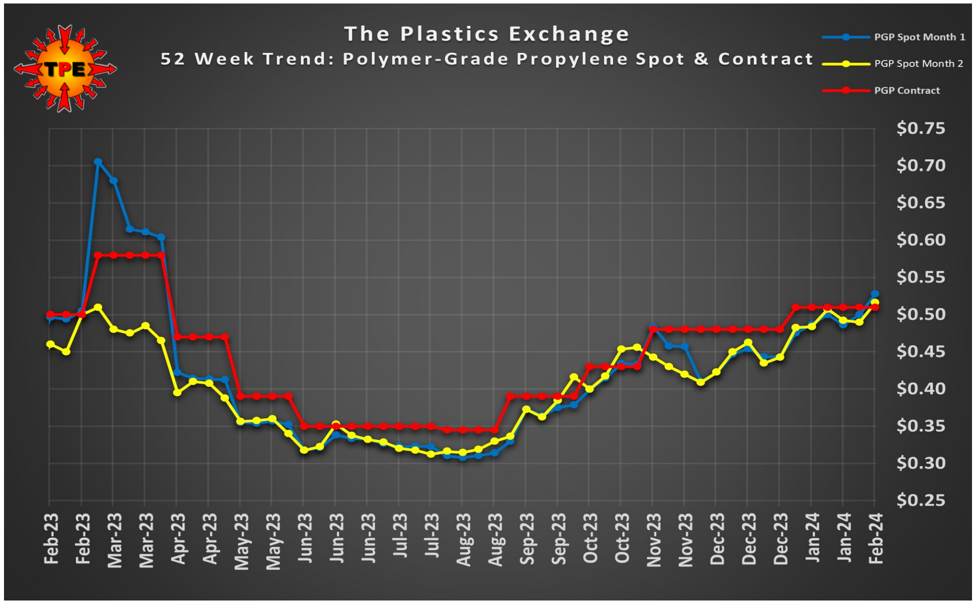
Dec 2023 exports were a record 49.7% of total PE sales, last summer we predicted that exports would reach 50% by the end of 2023, darn we missed it by a smidge. In contrast, in 2013, a decade ago, PE exports were only 7.881 billion pounds, representing just 20.4% of total PE sales. The ability to export massive amounts of resin also provides PE producers the opportunity to purge surplus material into the export abyss to help rebalance supply / demand when a burdensome overhang develops, which is one of the main factors which supports PE producer's general pricing power.

Polyethylene trading was swift, spot availability has become tighter and prices continued to step another penny higher as the insatiable export market has been willing to pay more for resin while also soaking up surplus supplies. The PE market seems tailored for a rally as international resin prices continue to rise as supported by escalating overseas freight costs, which lifts the Houston net back price and further buoys the bottom of the domestic spot market. Not only do US producers have a feedstock cost advantage, but now also enjoy a favored location and cheaper and faster freight when shipping resin to Europe and the east coast of Latin American, both affected by logistics constraints in the Red Sea and Panama Canal. Most commodity grade PE resins have become outright tight, as producers have well-managed this dynamic environment, diverting incremental pounds to offshore buyers while demand pents up in the US. We see a notable lack of ready to ship prime resin, especially HDPE for blow molding and film, even injection grade is becoming snug. LDPE and LLDPE film grades have also switched from loose to tight, and if conditions persist, the upward market momentum could encourage producers to truly dig in to pursue their Feb increase.

The Polypropylene market continued to rise and spot prices popped another $.02/lb fueled by escalating monomer costs. Demand was good, but well-priced supplies of prime and good offgrade were scarce, which limited our completed volumes this past week. There has been a continued flow of mostly undesirable low flow and transitional resin selling under monomer, but a number of resellers seem to be caught short of railcars to deliver and are scooping up high quality offgrade railcars before they hit the general spot market.

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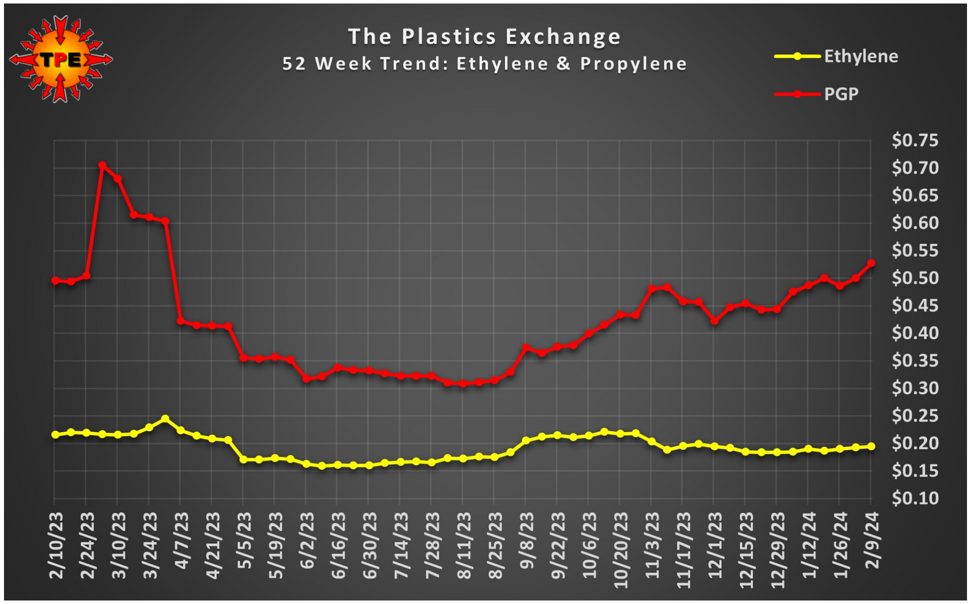
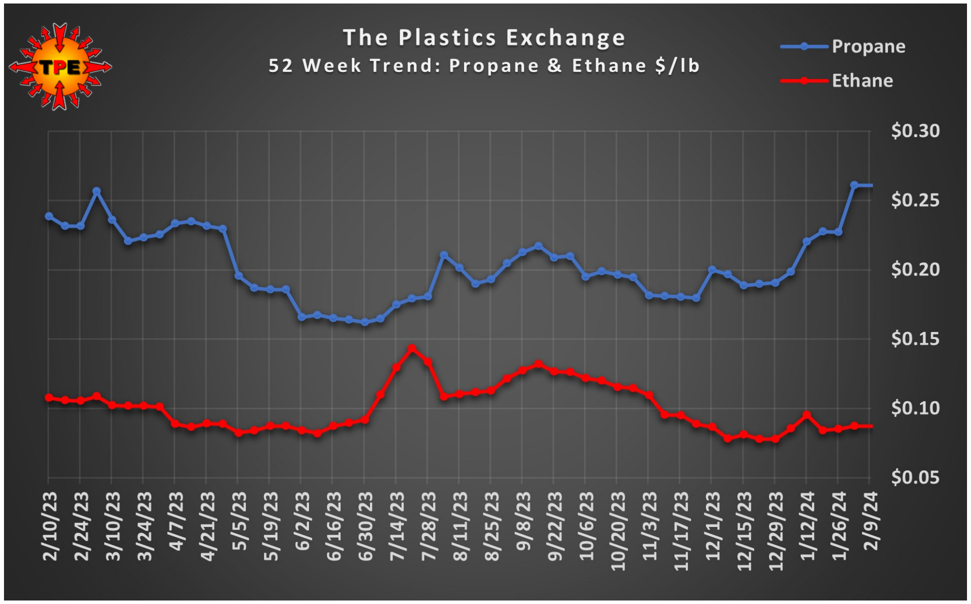
Adding to the bullishness is the Ineos Force Majeure, which remains in place at its Chocolate Bayou complex in Texas. Another producer has also put the breaks on all its Generic Prime sales due to monomer shortages, further tightening PP availability. Producers seemed to have learned a good lesson last year when they continued to run their reactors hard amid a shortage of monomer due to PDH disruptions, which drove PGP price sky-high but crushed PP demand along the way. The end result was compressed margins during the Q1'23 rally due to over production and reduced demand, and then once the monomer market busted at the end of the Q1, eventually selling their high cost resin at drastically reduced prices in Q2. It is a different story this year, though the market faces another spate of disruption-induced PGP shortages and rapidly rising monomer costs, PP producers are instead keeping resin reactors throttled back significantly which has tightened supplies and is turning pricing power back into the hands of sellers. It has been a while since a real margin enhancing price increase has stuck, but there is a very good chance, and even leaning towards likely, that in addition to the imminent cost-push increase this month, some or all of the extra 4-cent increase nominated for Feb could also be implemented.




Monomer market participation was sometimes sporadic, completed volumes tallied about average and prices moved higher. Ethylene generally saw a tight 2-sided market during the week, but finalized transactions fell short of exciting. The market began with strength and the first visible deal did not materialize until Tuesday morning when spot Feb Ethylene exchanged hands in Louisiana at $.1975/lb, up more than a half-cent. Later that afternoon another deal for Feb was solidified in LA at $.19625/lb, then over in Texas prompt Ethylene sold twice at $.19625/lb. On Wednesday, traders finalized another deal for 2Q Ethylene in TX at $.19375/lb. Prices peeled back some of the early week gains on Friday and one final deal was put in place when prompt Ethylene swapped ownership at $.19875/lb, Feb's weighted spot average ended the week with a fractional gain to nearly $.195/lb. Deferred contracts saw varying price movements and the forward curve now sits in an inverted bell shape, it starts with mild backwardation and bottom pricing is now set in June before the market turns back north to reach peak pricing early next year.

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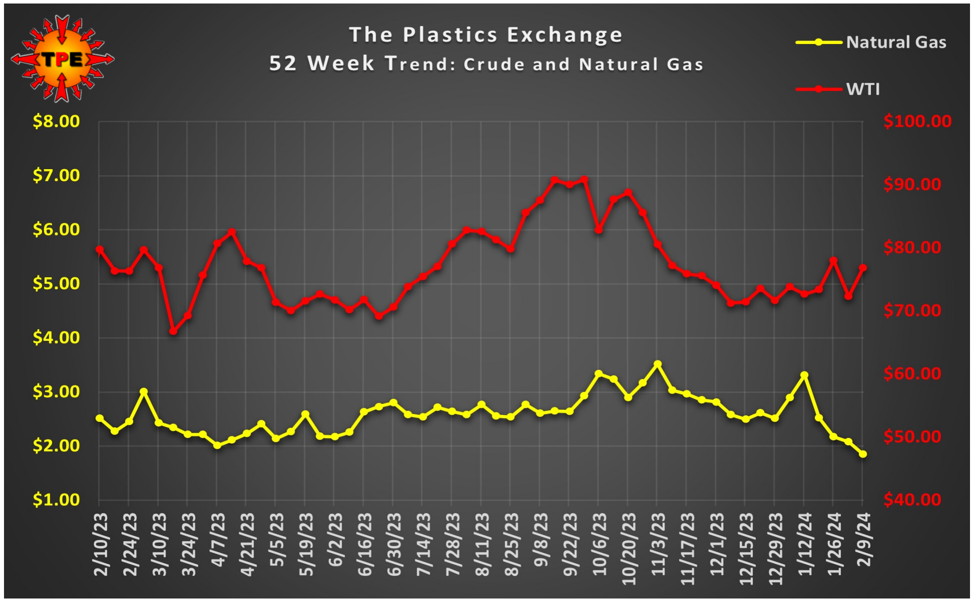
Upstream NGLs dropped with Feb Ethane down 1.4 cents to $.194/gal ($.082/lb) and Feb Propane down fractionally to $.916/gal ($.259lb).




Propylene endured somewhat volatile price swings following the announcement that Enterprise's PDH unit #1 was down again. Even though Polypropylene reactors continue to run at very reduced rates, PGP supplies are simply insufficient, having never fully recovered from the series of refinery and PDH outages in 2023 which have continued into this year. In addition to first-quarter turnarounds, crackers currently favor light NGL feedstocks, which produce minimal amounts of Propylene. PGP began the week under pressure and on Monday afternoon, prompt Feb monomer sold at $.48/lb, down 2-cents from Friday. The market began to recover on Tues and Feb PGP exchanged hands twice at $.49125/lb and then again at $.49/lb. Forward pricing discounts were well pronounced when March PGP concluded twice at $.48/lb, and later that afternoon a deal for April was inked in at $.465/lb. Traders put together three separate deals for 3Q '24 PGP on Wednesday, each inked at $.4375/lb. On Thursday, PGP caught a strong bid and prices ratcheted up higher with multiple deals finalized in high volume trading. In the morning, Feb PGP turned positive when it traded twice at $.52/lb and then traded four more times at $.54/lb. Also on Thursday, March PGP changed hands twice at $.52/lb and participants flipped Feb/Mar and Mar/Apr PGP deliveries. Feb PGP transacted at $.54/lb again on Friday and then rested for the weekend with a net 4-cent gain under its belt. The weighted average of spot Feb PGP leapt up nearly 3 cents on the week to $.528/lb. Back months also moved higher but were unable to keep pace with spot and the curve steepened. Peak pricing remains in prompt Feb with discounts afforded the balance of the year until prices reach $.45625/lb by Dec. As a reminder Jan PGP settled up $.03/lb to $.51/lb and though ample time remains before Feb contracts are concluded, based on current spot levels another 4 to 5-cent increase is forecast this month.

The energy complex moved firmly in opposite directions with Crude Oil gaining ground while Nat Gas continued to fall further. The jump in Crude Oil came on the back of tight refined product markets and mounting supply concerns over the ongoing conflict in the Middle East. Nat Gas on the other hand declined as milder weather conditions persisted. March WTI established its low of $71.41/bbl on Monday and proceeded to post gains every day, rising $5.88/bbl along the way to a Friday high of $77.29/bbl. After a little dip, March WTI went into the weekend at $76.84/bbl, a net gain of $4.56/bbl. April Brent followed the same trend and touched a Monday low of $76.62/bbl before climbing to a Friday high of $82.46/bbl. Brent closed out Friday at $82.19/bbl for a net weekly gain of $4.86/bbl. March Nat Gas futures went the other way, making its Monday high of $2.127/mmBtu and falling 31 cents to a Friday low of $1.817/mmBtu before recovering a bit to end the week at $1.847/mmBtu. The weekly 23 cent loss (-11%) drove Nat Gas prices to the lowest level since the summer of 2020.

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