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## Market Update — August 3<sup>rd</sup>, 2020

The resin markets entered July with a bang and ended the month with a bigger bang, the weeks in between, meh, sometimes not so much. In early July, as more and more US manufacturers who were shut down for Covid ramped back up, they needed resin to process and if they knew it or not, they were competing with international buyers for available US supply. Despite a price increase for export resin, super strong demand quickly soaked up general allotments, and as we have experienced since May, producers were again essentially sold out of export material by mid-month. The early strong sales boost provided producers with confidence to firmly pursue their domestic July price increases. This included \$.05/lb for Polyethylene and with PGP monomer costs quickly escalating, a similar cost-push hike for Polypropylene. Some incredulous processors only picked away or outright passed on early month offerings, while savvy traders / resellers scooped up the spot material, which in retrospect proved to be great deals. As offers sold, they were replaced with ever rising asking prices and we then saw a demand lull, as processors digested the higher levels. During the last 7-8 days of the month, processors en masse came to the table ready to buy and the late month surge pushed our completed volume to the best level since January.

The major energy markets reversed course and they all ended in negative territory. WTI Crude Oil prices were fairly flat in the low \$40s/bbl during the first part of the week, but then slipped down on Thursday and transacted with a \$38 handle. The Sept futures contract reclaimed the \$40 threshold and settled Friday at \$40.27/bbl, a net loss of \$1.02/bbl. Brent Oil rolled to October and did not see the same selling pressure that WTI did, only falling \$.26/bbl to \$43.52/bbl, pushing its premium out to \$4.25/bbl. Nat Gas futures rolled to September and continued the same range-bound action seen the last many months. The market moved around in nearly a 10% range and ultimately ended the week down \$.068/mmBtu to \$1.799/mmBtu. NGLs came under pressure; Ethane shed less than a cent to \$.207/gal (\$.087/lb); Propane dropped \$.022/gal to \$.497/gal (\$.141/lb).

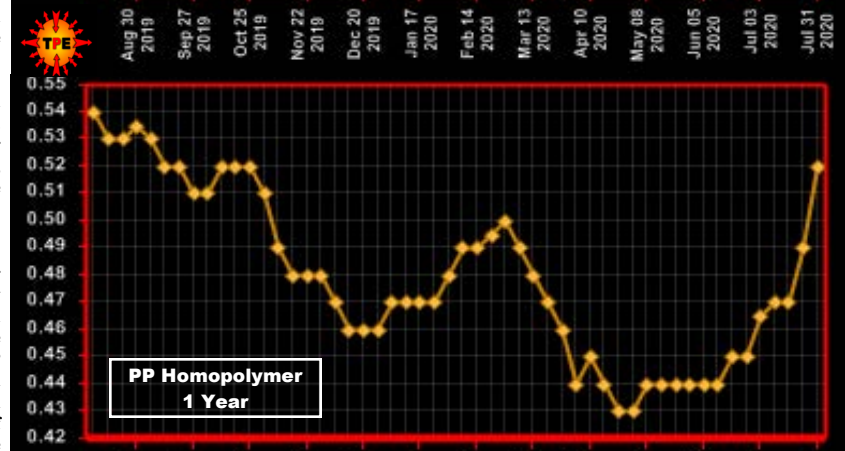
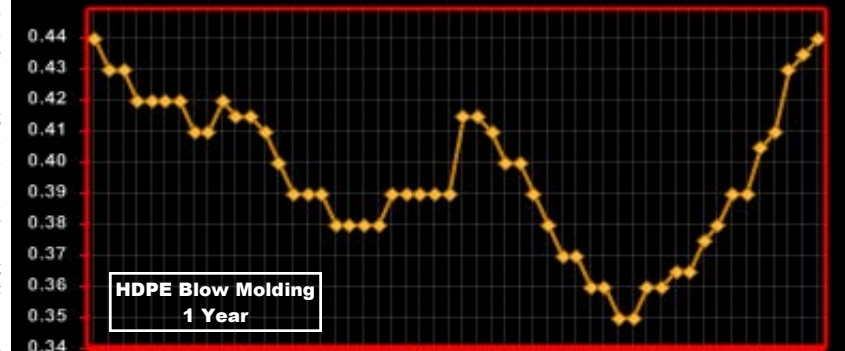
Monomer markets were mixed, Propylene maintained its frantic pace amid heavy volumes, and while Ethylene activity somewhat improved, visible transactions remained below average. Ethylene activity only limped into the week, with a single forward deal seen executed on Tuesday, additional transactions were not inked until later in the week. On Thursday, several more forward deals were done while prompt August Ethylene changed hands at \$.1575/lb. Houston material still held a premium to Ethylene in Louisiana, which has shrunk to \$.03/lb, transactions to swap Ethylene between the locations took place on both Thursday and Friday. August Ethylene settled the week where it last traded, up a quarter cent to \$.1575/lb.

Propylene saw a busy start as traders entered the new week eager to transact, spot prices pushed even higher before pulling back. On Monday, a variety of mostly forward financial transactions were inked at \$.37/lb. On Tuesday the market was blasted with bids, but reluctant sellers took a step back removing most offers, only a single transaction for December was seen finalized at \$.385/lb and the market showed the 2020 peak month of August at \$.39/lb. The market sold off a bit early Friday when an additional forward transaction completed at \$.37/lb and by the end of the day, August PGP had given back its 2-cent gain to end at \$.37/lb. It was a notable last day of the month reversal, which could be signaling a cap to this up leg of the cycle. July PGP contract negotiations also concluded and prices were set at \$.325/lb, up \$.06/lb from June. The settlement was a tad less than expected given the run up in spot prices seen over the last couple weeks, such are the mechanics of a weighted average pricing system. With spot PGP prices still nearly a nickel higher than contracts, another sizable increase can be anticipated for August contracts, though abundant time remains for sentiment to change and the bloom might already be off the rose.

The spot Polyethylene market finished July sizzling as volumes increased into month end while processors awoke after a slow week to buy ahead of yet another \$.05/lb price increase, which is on the table for August. Our trading desk took a flurry of fresh orders, transactions came together with relative ease and a high volume of resin changed hands. Availability was tight for some grades like LDPE film, LLDPE injection and HMW film, while few Prime railcars of any grade were made available. This allowed resellers to continue to sell off truckload after truckload of their inventories into this rally. Though our spot prices mostly consolidated recent gains, some grades pressed a bit higher. A series of turnarounds, outages and delays coupled with thinning upstream inventories resulting from massive exports, has placed the supply/demand balance in a tight situation. Although exports seem to be cooling as prices rise, producers have positioned themselves with few incremental pounds to offer beyond typical allocations. So even though the Polyethylene market already secured \$.09/lb of increases these past two months, this next nickel does appear to have some legs. Rarely has there been only one increase on the table, so we expect a Sept increase announcement, especially with hurricane season well under way and already proving to be active. Stay tuned, this market is quite interesting.

Polypropylene trading was very strong this last week of July, buyers rushed to the spot market to secure material as their throughput has been recovering and they sensed still higher prices ahead. The strong demand and much thinner availability sent our prices soaring another \$.03/lb, bringing the two week gain to a clean nickel. Railcar availability was scarce, and with prices on the rise, producers could afford to wait until August to move more material. Although most grades were able to be sourced in truckload volumes, resellers were only willing to sell limited loads before moving up with the market. The overall PP market remains very tightly supplied and we do not see it loosening much in the near term. Outages, turnarounds, and limited PGP monomer availability has crimped production, while excellent exports and returning domestic demand has placed Polypropylene inventories at historic lows. Manufacturing continues to strengthen after the Covid slowdowns and to top it off we are still early in hurricane season. Braskem's new plant will start production soon, but it will be some time until Prime material is consistently made and much of it is targeted for export. Since mid-June spot PGP is up \$.125/lb, but in that same period, spot Polypropylene has risen just \$.08/lb, no wonder PP producers are seeking a \$.03/lb margin enhancing increase. July PP contracts are passing through the \$.06/lb PGP monomer increase and an August increase seems likely.

Resin for Sale 11,415,368 lbs		Spot Range		TPE Index	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Inj	1,914,300	\$ 0.420	\$ 0.520	\$ 0.460	\$ 0.500
LDPE - Film	1,873,336	\$ 0.470	\$ 0.560	\$ 0.510	\$ 0.550
HDPE - Inj	1,605,404	\$ 0.390	\$ 0.460	\$ 0.380	\$ 0.420
LLDPE - Film	1,450,232	\$ 0.400	\$ 0.470	\$ 0.385	\$ 0.425
HDPE - Blow	1,269,220	\$ 0.410	\$ 0.480	\$ 0.400	\$ 0.440
PP Homo - Inj	1,196,576	\$ 0.450	\$ 0.540	\$ 0.480	\$ 0.520
PP Copo - Inj	1,000,828	\$ 0.470	\$ 0.590	\$ 0.500	\$ 0.540
LDPE - Inj	596,828	\$ 0.450	\$ 0.520	\$ 0.485	\$ 0.525
HMWPE - Film	508,644	\$ 0.390	\$ 0.470	\$ 0.420	\$ 0.460



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