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Market Update — September 7th, 2020

MARKET UPDATE
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Spot resin trading maintained its hectic pace while prices soared. High volumes continued to transact, mostly secured from resellers' inventories, as fresh railcar offers were very limited. Though some buyers scoffed at the rapidly rising prices, others bought what they could as they faced insufficient resin allocations due to a series of Force Majeure declarations in the wake of Hurricane Laura. While initial assessments indicated limited damages to Texas and Louisiana Petrochemical complexes, severe damages to the area's electrical grid has perpetuated widespread power outages and delayed restarts to affected facilities, particularly in Lake Charles, LA, home to major Polyethylene producing plants belonging to Sasol and Westlake Chemical and Polypropylene production owned by LyondellBasell. The production disruption, which could go on for many more weeks, will further restrict resin availability to an already tightly supplied market. In addition, the region's rail system has been compromised, adding to frustrating logistics delays and complicating empty railcar returns to plants. Given such a shock to the system, we expect September price increases to take hold, including \$.05/lb for Polyethylene and \$.03/lb for Polypropylene plus the change in PGP monomer costs. Even with the higher prices attached, resin could still be difficult to source; however and offsetting, export demand should ease as new Houston prices become uncompetitive to many global regions.

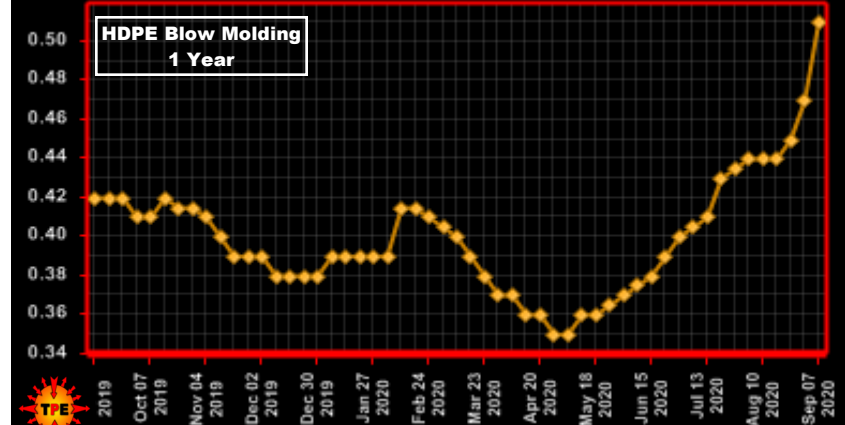
Spot Polyethylene trading was very active ahead of the Labor Day Holiday weekend, which typically brings end of summer vacations and a slight lull in transactions, but not this year. The heavy activity was brought upon by Hurricane Laura's disruptive impact which prompted declarations of Force Majeure. Although physical damages to the Petrochemical Hub in Louisiana and part of Eastern Texas were limited, the region remains without power, compromising plant re-starts and recovery. Few fresh domestic railcars were sent offered for September and none of them Prime, the export market was equally starved of resin to start the month, which sent overall Polyethylene prices jumping by as much as \$.04/lb this past week alone. Resellers did provide good liquidity to the spot market from their warehoused inventory, but they found it difficult to price, as there was barely replacement resin and new costs to consider. These market conditions support the \$.05/lb contract price increase on the table for September, and if implemented, which seems likely, it would total \$.19/lb in just a 4-month period. Export sales should tail off as rising prices will discourage demand from abroad and aside from contracted international sales commitments, PE producers would also be well served price-wise shifting discretionary resin to the domestic market to help satisfy demand.

Our spot Polypropylene market saw fewer deals completed than prior weeks, but it was not due to a lack of demand, rather a lack of supply. We actually saw very high processor and reseller activity through both our online platform and trading desk. Gulf coast PP production and logistics delays caused by Hurricane Laura reverberated through traditional distribution channels and customers came out of the woodwork searching for resin. For some, availability reigned king and it was only deemed a bonus if the resin was also reasonably priced. High flow CoPP and HoPP resins were most sought, Prime was generally preferred, but offgrade was also sufficient based on availability. Spot PP prices stepped another 3 cents higher by Friday, marking 11 cents of gains in just 30 days. As of Friday's close and since the beginning of June, spot PP and spot PGP levels are up \$.16/lb and \$.115/lb respectively; giving further strength to producer margin expansion efforts, which are currently 3 cents for September, on top of any cost push increases. In this type of market it is a heavy burden for producers to have PP contracts tied so closely to monomer movements. PGP actually lost ground this week, since offline PP plants were unable to process the available monomer. Domestic Polypropylene supplies should remain incredibly tight and spot prices will likely rise further, prompting opportunities. We have already seen a flurry of export offers develop from other international regions hoping to score sales into the US market.

Spot monomer trading was voracious and fueled by supply chain disconnections left by Laura; volume was massive and ultimately prices moved in opposite directions. Ethylene re-took centerstage and spot Sept changed hands late Monday at \$.24/lb. Prices surged more than 10% on Tuesday as multiple deals executed in Choctaw between \$.25-.265/lb, along with several other forward Houston transactions. High volume 4th quarter Ethylene dealings continued midweek in both Houston and Louisiana. The Louisiana Ethylene market then continued to ratchet higher, trades were executed at \$.285/lb and a couple more times at \$.28/lb before offers were raised and bids retreated, the wider market hampered additional sales. On Friday spot Sept Houston Ethylene settled at \$.265/lb, a weekly gain of \$.03/lb. Propylene opened with decent market interest, but visible transactions were elusive until midweek. On Wednesday multiple deals came to fruition, dealings were finalized in all forward contract months, providing an enormous one-day PGP volume tally. The market saw a few more stabs before going relatively quiet and by Friday afternoon spot PGP settled a penny and a half lower to \$.335/lb, the curve flattened some as future delivery prices relaxed more than spot. And as a reminder, Aug PGP contracts settled last week up \$.035/lb to \$.36/lb.

The major energy markets pulled back sharply this past week amid heightened 10% volatility. The Crude Oil complex finally saw some serious selling after many months of consolidation which had followed its historic spring plunge into negative territory. WTI Crude Oil bled red most of the week and the October contract ultimately gave back a hefty \$3.27/bbl (7.6%) to end below its \$40/bbl psychological support level, settling at \$39.77/bbl. Brent Oil essentially traded in lockstep with WTI and November futures lost \$3.15/bbl to \$42.66/bbl. Natural Gas began the week under heavy pressure and despite a late week recovery rally, still ended lower having shed \$.069/mmBtu to \$2.588/mmBtu. NGLs saw significant losses as 17% of Ethylene capacity remained offline, limiting outlets for these feedstocks. Ethane eroded a huge \$.047/gal (19.5%) to \$.196/gal (\$.083/lb). Propane dropped \$.014/gal to \$.336/gal (\$.137/lb).

Resin for Sale 14,144,724 lbs		Spot Range		TPE Index	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow	2,449,864	\$ 0.480	\$ 0.560	\$ 0.470	\$ 0.510
PP Homo - Inj	2,184,116	\$ 0.530	\$ 0.660	\$ 0.560	\$ 0.600
LDPE - Film	2,088,600	\$ 0.570	\$ 0.640	\$ 0.560	\$ 0.600
LLDPE - Film	1,984,140	\$ 0.470	\$ 0.555	\$ 0.460	\$ 0.500
PP Copo - Inj	1,902,208	\$ 0.560	\$ 0.660	\$ 0.580	\$ 0.620
HDPE - Inj	1,802,576	\$ 0.470	\$ 0.530	\$ 0.450	\$ 0.490
LLDPE - Inj	1,160,024	\$ 0.550	\$ 0.590	\$ 0.530	\$ 0.570
HMVPE - Film	396,828	\$ 0.510	\$ 0.560	\$ 0.480	\$ 0.520
LDPE - Inj	176,368	\$ 0.540	\$ 0.590	\$ 0.540	\$ 0.580



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