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CAUSTIC SODA - LIQUID SPOT PRICES

LIQUID:

Click for Price History			Price Range		Four weeks ago	US CTS/LB
FOB NWE	USD/DMT	n/c	310-340	n/c	310-340	14.06-15.42
FOB MED	USD/DMT	n/c	280-310	n/c	280-310	12.70-14.06

NOTE: for full details on the criteria ICIS pricing uses in making these price assessments visit www.icispricing.com and click on "methodology".

ICIS will remove the flake FOB NWE, Med and pearl FOB NWE spot prices on 7 February for market reasons. Please send any feedback to the editor: heidi.finch@icis.com .

Q1 producers generally bullish on price increases on costs, buyers resistant on supply/demand

European liquid caustic soda quarterly contract discussions are still ongoing in several cases, as players slowly return to the market after the holidays. Producers in northwest and southern Europe remain firm on price increases for the first quarter, citing the need to address poor ECU (electrochemical unit) margins resulting from high manufacturing costs and recent price erosion for caustic soda over the last few quarters. Proposed price increases have been talked between €20-60/dmt.

One manufacturer said it will remain firm on an upward price movement in the first quarter, although it declined to comment on the magnitude of its target increase. It attributed the need for a price increase to poor profitability and low stock position, resulting from reasonable demand as well as maintenance plans. A second producer said it is targeting plus €50/dmt for the first quarter for margin reasons, but it acknowledged that discussions were likely to be tough amid reasonable, albeit fragile macroeconomic conditions which were affecting the whole value chain.

Despite this, one supplier in Iberia said it had passed on price increases pushing its average final price to €400/dmt amid eroded margins resulting from high electricity costs and some output constraints. However, there was no other market confirmation to substantiate any upward price movement or supply constraints in the region.

A few traders in the Mediterranean conceded that price increases have been difficult to achieve for Q1 business so far because of strong competition from certain players. One trader said it had implemented a price rollover for some of its first quarter accounts in parts of France, quoting prices of €400-420/dmt FD, although it noted that it had come from a higher starting point in December compared with a few others in the market amid some competitive pressure at that time which it had not followed. One producer in southern Europe said it had agreed stable prices at €420-440/dmt FD for its main customers in the first quarter on the back of good availability.

Buyers' price indications for the first quarter in northwest and southern Europe are slow to filter through. One customer said its contracts in northwest and southern Europe are fixed until

the end of January so its prices will roll over until the end of the month. For the remainder of the first quarter, the same source said it mainly expects price stability amid sufficient supply and the reasonable demand. However, it did not rule out the possibility of a slight price increase, depending on whether offtake were to improve slightly on the back of glimmers of economic recovery and if caustic soda supply were to be adversely affected by any seasonal chlorine related output cuts. The latter of which has not been apparent so far this winter on the back of mild temperatures to-date in Europe, which has meant that downstream polyvinyl chloride (PVC) activity has held up reasonably well for the time of the year. Caustic soda is co-produced with chlorine in the electrolysis process and output is driven by chlorine derivative demand.

One main consumer in the Mediterranean considered price increases unjustified from a market perspective, citing ongoing fragile demand for economic reasons and plentiful supply both domestically and from import sources as the main reasons for this. The same source said it had concluded some Q1 business with price reductions of 12-15% when compared with its price in Q4 2013

In central and eastern Europe, one producer had previously said that price increases had not been possible to implement in the first quarter, which it attributed to good supply, strong competition and the fact that demand has not fundamentally improved. The seller had said it had accepted price decreases of €20-25/tonne on average, as well as some rollovers, quoting its Q1 prices of €350-400/dmt FD, depending on volume. One customer said it had already concluded some quarterly and six monthly business with reductions of €25-30/dmt in central and eastern Europe at a price either side of €400/dmt FD, depending on location.

FOB values remain steady within the existing price ranges due to little-to-no market activity. One producer attributed the scarcity of market activity to the recent holiday period. However, another supplier suggested that export business is practically non-existent because of a lack of surplus volumes in the European system. Sellers said there was no reason to lower prices, suggesting that prices had already reached the bottom, following the price erosion seen in the second half of 2013. They expected stable, if not slightly firmer values amid low profitability and what they considered to be lacking export volumes.



One of the sellers said it is working on an export deal for outside the region in the second half of January, which it expects to conclude at \$340-360/dmt FOB northwest Europe. However, there is no market confirmation to support price levels in excess of \$340/dmt FOB NWE at present. Some sellers in northwest Europe acknowledged that while there was a need for price increases from a profitability perspective, there was no real room for any significant price increase in practical terms at present because prices in the US Gulf were at similar levels, which would be the direct competition for export opportunities in the US east coast. Northwest Europe's main export destination is the US east coast. One main European customer, however, suggested that FOB prices in northwest Europe had slipped below \$300/dmt, which it attributed to abundant supply. However, this price level was not confirmed by others. The same buying source considered prices in the upper \$200/dmt FOB MED to be most realistic based on market talk of import competition being at similar levels and a possible intra-European trade for January thought to have been sold in the low \$300s/dmt CFR Med and factoring in a freight of up to \$60/dmt, although the latter has not been confirmed by other market players. One reselling source in Turkey confirmed that prices within the published MED range were still valid, but that it is struggling with practically non-existent margins amid more than plentiful supply and strong competition from certain players.

Consumption remains fairly steady at the low levels seen over recent months. Caustic soda is not heavily seasonal due to its broad range of applications. One manufacturer noted that uses such as chemical intermediates and water treatments had largely steady offtake despite the recent holiday period. One customer noted that demand from the alumina sector remained

fragile following the economic effects seen over recent months. Another buyer said that downstream detergent activity is not particularly healthy in January, adding that detergents are mainly used during the spring and summer months. It, however, is hopeful of slightly better offtake in 2014 when compared to the previous year which is attributed to some more positive economic sentiment.

Shipping information

Fixtures
6,000 mts Caustic Soda Rotterdam / Searsport 1-7 Jan RNR
4,000 mts Caustic Soda ARA / Quebec 1-5 Jan RNR

Manufacturing news

INEOS ChlorVinyls chlorine and caustic soda operations at Rafnes, Norway are running slightly reduced, as some minor repair work is due to be finalised next week. This is following some electricity problems in the second half of December which had affected production at the site. Despite this, contracts are being covered as normal, said the chloralkali company source.

Arkema plans to initiate the restart of its chloralkali unit in Jarrie, France, on 15 January and production is expected to be back on line on 20 January, a company source said on Friday.

The unit went down in October 2013 so that a production technology upgrade could take place. The facility was originally due to resume output in early December, but the restart has been delayed several times since then for technical reasons.

The Jarrie unit produces 74,000 tonnes/year of chlorine and 81,000 dry metric tonnes/year of caustic soda. Caustic soda is a co-product of chlorine in the electrolysis process.

During the plant closure, Arkema will convert the chlorine production in Jarrie from mercury cell to membrane technology for legislative reasons.

In other news, one producer said its chloralkali operations in northwest Europe are due to undergo a brief planned maintenance stop in January and a three week long turnaround in March for routine maintenance. Contracts will be covered during the outages, said the company source.

CAUSTIC SODA - FLAKE AND PEARL SPOT PRICES

Click for Price History			Price Range		Four weeks ago	US CTS/LB
FLAKE:						
FOB NWE	USD/TONNE	n/c	500-530	n/c	500-530	22.68-24.04
FOB MED	USD/TONNE	n/c	550-590	n/c	550-590	24.95-26.76
PEARL:						
FOB NWE	USD/TONNE	n/c	730-750	n/c	730-750	33.11-34.02

In the pearl caustic soda market, price sentiment is mixed, depending on source. One pearl producer said it would need to raise its prices for margin reasons as is the case for liquid caustic soda. It had previously noted that the price difference for solid product over liquid was not sufficient, taking into account the additional production costs. One buyer, however, said it had managed to secure price reductions of €20-30/tonne for its Q1 pearl business amid good availability. On

the flake caustic soda market, spot prices continue to hold steady, according to one producer. By contrast, the same source noted that domestic prices have softened by €10-20/tonne in January when compared to December, following a slow start to the month, after the holidays, although it added that activity has picked up over the last week, but this was after this January business had been concluded.

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