



HIGHER CRACKER MARGINS HELP LIFT PETROCHEMICAL PLAYERS IN THE FIRST QUARTER

By Nigel Davis **MAY 2017**

The ICIS Petrochemical Index and cracker margin data have charted the spectacular uptick for some intermediates this year. Not surprisingly then, some companies have benefited as price increases, largely driven by specific regional supply and demand issues, have not been matched by raw material cost increases, and price deltas have improved.

Margin analysis adds a degree of granularity to the picture at the steam cracker. Operators were buoyed in the first quarter by strong cash margins for ethylene whether made from naphtha or from ethane.

Naphtha cracker margins in the quarter, however, were particularly strong in all regions and much higher than at the same time last year. In northeast Asia, the quarterly average spot naphtha margin hit a record that is not likely to be matched except in exceptional circumstances.

The table shows the raw data. Naphtha margins in northwest Europe were up 20.7% in the quarter year on year. Cracker margins in the US for those few processing naphtha were up close to 100% while naphtha-based margins in northeast Asia were at what is likely to be an all-time high of \$935/tonne, up 53.0% from the year earlier period.

Average quarterly cracker margins

Region	Q1 2017	Q1 2016	Change (%)	Q2 2017 to date
Northwest Europe*	652	540	20.7	777
US**	21.88	18.57	17.8	19.04
US***	25.03	12.52	99.9	23.4
Northeast Asia****	935	611	53.0	661

* naphtha, contract €/tonne; ** ethane, contract cents/lb; *** naphtha contract cents/lb; ****naphtha, spot \$/tonne

Even ethane margins for the cost-advantaged producers in the US rose by a healthy percentage.

The margin increases have been reflected in the first-quarter financial results of the sector's major players which also benefited greatly from higher volumes.

Those higher volumes were driven to some extent by nervousness in the market and uncertainty over the direction of the oil price, which was rising earlier in the year as the oil production cutbacks agreed by OPEC and some non-OPEC producers began to take hold.

The most significant derivatives price increases were seen in Asia, where some markets were particularly jittery ahead of the Lunar New Year holidays earlier in the year.

The nervousness has eased off, and while there is broad acceptance that demand is increasing, volume growth will not necessarily be the driver in the second and subsequent quarters of 2017 that it was in the first. Inventory building played its part in the growth picture in the earlier part of the year.

The quarterly financial results released by the big petrochemical players so far this reporting season have shown how significant the combined impact of faster growth and higher margins has been.



Steam cracker at BASF in Ludwigshafen
Source: BASF

BASF's petrochemicals sales were up 38% year on year, for instance, the higher naphtha price and "solid" demand helping to lift sales, especially for steam cracker products, it said.

Cracker margins were higher in all regions, the company added, and earnings before interest and tax (EBIT) before special items were much higher on higher margins and an increased earnings contribution from the BASF-YPC joint venture in Nanjing, China which recently expanded and was effectively sold out.

Sinopec said that it had seized the market opportunity of strong profitability from ethylene and ethylene derivatives in the quarter.

Its ethylene production reached 2.94m tonnes, up 4.2%. Chemicals segment profits were up 87.0%.

That tended to be the situation at the cracker although some producers found the quarter-to-quarter, year-on-year comparisons slipping.

ExxonMobil noted, for instance, that lower margins for specialties and increased turnaround activities had combined to depress its year-on-year chemicals Q1 earnings comparisons. Sequentially, Q4 2016 to Q1 2017 commodity petrochemical margins were much higher.

Dow Chemical reported strong volume and price growth, with pricing up 7% across its portfolio and volumes up 4% in the quarter.

The Dow result showed how it is not all rosy for producers on the US Gulf Coast who are bringing on new capacities. They are balancing expanded output with additional costs.

The Dow Performance Plastics segment earnings before interest, tax, depreciation and amortisation (EBITDA) were flat year on year as volume growth and price gains were offset by \$100m worth of costs evenly split, the company said, between planned maintenance and turnaround spending and US Gulf Coast commissioning costs. Plant availability through the second quarter will be vitally important for producers in markets where growth could be gaining momentum.

Dow Chemical said it sees strong conditions for ethylene and polyethylene (PE) margins in 2017 even despite the new cracker and PE plant start-ups.

“The ethylene cycle continues to look attractive to us, even in the slower growth environment... and a low-to-mid oil price environment, said Dow’s COO Jim Fitterling. “Operating rates are still hanging in there at 90%, even with new capacities coming on line,” he added.

Price downturns have hit cracker margins in northeast Asia, ICIS data show, and ethane margins in the US are down somewhat in the first weeks of the second quarter.

But by the beginning of the fourth week of April, naphtha feed margins in Europe were holding up extremely well.

About the author



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