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# POLYMER PREDICTIONS THE ICIS VIEW



By John Richardson

# POLYOLEFINS

## POLYMER PREDICTIONS – THE ICIS VIEW

After a stellar 2018, China's PE demand should slow in 2019, influenced by domestic and global risks to growth. The country could also expand tariffs to include LDPE, according to the latest forecasts from ICIS

**BY JOHN RICHARDSON FEBRUARY 2019**

The job of an analyst is to talk about the future. Past data should only be used when it points to what the analyst thinks will happen in the future.

This might seem as obvious as today's economic slowdown in China or the global risks to growth represented by the US/China trade war. But a great deal of analysis focuses on the past with no clear view of the future.

People who mistakenly call themselves analysts may point to old data and say: "On the one hand this could happen, but on the other hand this could happen" without expressing an opinion. This is not helpful in scenario planning.

In the monthly ICIS Asia polyethylene (PE) and polypropylene (PP) price forecast reports we make crystal clear calls on the future, based on filtering through mountains of data, a great deal of background reading and talking to as many producers, buyers and traders as possible.

**“ A first prediction for this year: if the trade war continues and intensifies, China will extend its 25% tariffs to US LDPE.**

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This led us to forecast a decline in China's economic growth in 2018 because of lower availability of new lending via the country's shadow or private banking system. We made this prediction from February last year, well before conventional opinion recognised that China was slowing down.

We were also accurate when we warned in Q1 2018 that the trade war could well end up including US exports of PE to China.

Sure enough, China introduced an initial round of tariffs on US high-density PE (HDPE) and low-density PE (LDPE) in April. These 25% tariffs were then adjusted to include linear low-density PE (LLDPE) in August. The tariffs on HDPE stayed in place with duties on LDPE removed.



The increase in US LLDPE production exceeds that of HDPE with LDPE a distant third (see chart on p29). Because of anaemic domestic demand growth we forecast this will lead to:

- US LLDPE net exports (exports minus imports) increasing from 1.4m tonnes in 2018 to 2.4m tonnes in 2019 and 3.5m tonnes in 2020.
- HDPE net exports rising from 1.4m tonnes in 2018 to 1.7m tonnes in 2019 and 1.9m tonnes in 2020.
- LDPE net exports increasing from 639,000 tonnes in 2018 to 781,000 tonnes in 2019 and 1m tonnes in 2020.

China's decision to only impose duties on HDPE and LLDPE therefore makes sense as part of efforts to gain maximum leverage in trade negotiations with the US.

China is also aware that the US must be able to export to China in order to comfortably place all of this extra production. The reason is that China accounts for more than 40% of all global net imports across all three grades of PE – by far the biggest percentage of any country or region.

The HDPE and LLDPE tariffs could well make US material too expensive for Chinese buyers, resulting in a collapse of sales. An early sign of this was a steep fall in US shipments to China in September-October 2018.

Here's the thing: global LDPE demand is much smaller than that of the other two grades of PE. In 2019 we forecast that global LDPE consumption will be 20m tonnes versus 39m tonnes for LLDPE and 48m tonnes for HDPE.

This makes US LDPE producers vulnerable to a Chinese decision to extend tariffs to their polymer, despite their relatively small increases in production.

This leads us onto a first prediction for this year: if the trade war continues and intensifies, China will extend its 25% tariffs to US LDPE.

Returning to last year, we also successfully predicted the steep fall in oil prices in Q4.

### HEADING FOR A FALL

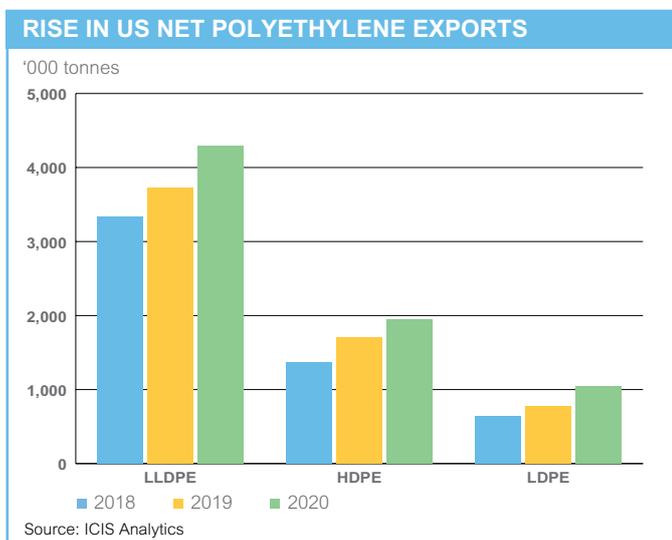
All of the above might come across as rather arrogant, and pride often comes before a fall. The truth is that we will be wrong as well as right. But here is our promise: all our points of view will be carefully thought out, they will always be based on the data – and when we are wrong we will explain why and adjust our outlook.

The value here, apart from hopefully being right more than 50% of the time, is to challenge your internal thinking. Sometimes within companies, it is difficult to ask the uncomfortable questions and to challenge conventional thinking. This is our job in order to help you build a range of scenarios – upside, base case and downside.

Our forecast reports are, as a result, about much more than just our price forecast numbers, which are as vulnerable as anybody else's forecast numbers due to the difficulty in accurately predicting oil prices.

### 2019: KEY TRENDS

So, what other key trends are we predicting for this year?



The US and China will complete a trade deal either by the 2 March deadline set by the US or a few months later. But the deal will be paper thin because of the wide gulf between the US and Chinese positions on economics and geopolitics. So expect any deal to eventually fall apart and the dispute to escalate.

One key risk is that President Trump's core supporters will pick any agreement apart on the basis that a deal cannot bridge the US/China gulf. Mr Trump could, as a result, pull the US out of the agreement.

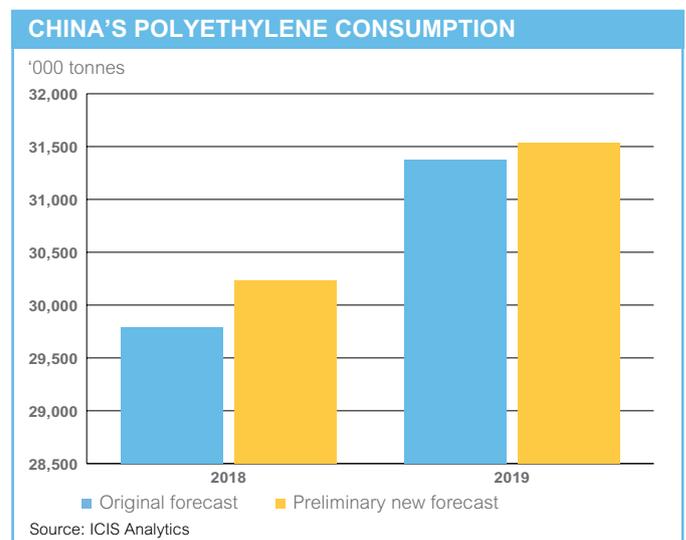
We also believe that a global economic recession is likely in either 2019 (most likely) or 2020 on rising interest rates, record levels of global corporate and sovereign debt, slower Chinese growth and the trade war.

Regarding our olefins forecasts, included together with PE and PP in our price forecast reports, we expect Asian ethylene price premiums over propylene to collapse from the historic highs seen since 2014. This will be the result of increased global ethylene spot supply and weaker ethylene derivatives demand.

Despite the slowdown in the Chinese economy, last year was a bumper year for growth in Chinese PE demand. But in 2019, demand growth will slow. A bumper 2018 was the result of heavy restrictions on imports of scrap or recycled PE that were introduced from January last year. This boosted demand for virgin PE resins.

Another factor behind the strong year was the continued boom in sales of goods over the internet. China leads the world in mobile internet sales. These sales needed protective packaging and a lot of the packaging was made from PE.

We had expected 2018 PE demand to grow by 5.4% over 2017 to around 29.8m tonnes (see chart, left). But



our preliminary revised forecast is for growth of 7%. This would leave consumption at just over 30m tonnes, 445,000 tonnes more than we had originally forecast.

In 2019, we forecast that growth will moderate to 4.3%. This would leave this year's demand at 31.5m tonnes.

PP in 2018 was a very different story because of the steep fall in durable goods sales on the economic slowdown, including the first decline in auto sales for more than 20 years. For this reason, we expect last year's PP demand in China to have grown below our original forecast with further weak growth this year.

*For more details of our price forecast reports, and to arrange a complimentary telephone call, contact [john.richardson@icis.com](mailto:john.richardson@icis.com)*



## ABOUT THE AUTHOR

**JOHN RICHARDSON**  
**ICIS CONSULTANT**

John Richardson is an ICIS chemicals industry consultant, who has been working in the industry for 22 years. Based in Asia-Pacific, he has deep knowledge of the companies and people that have transformed the region into the world's major production and consumption region. John's responsibilities include the PP Asia and PE Asia price forecast reports and other multi-client and single-client work.



## ICIS price forecast reports

Supply, demand and price trends at a glance

ICIS price forecast reports provide a clear view of prices and supply and demand trends for the next 12 months. Packed with vital information, the report includes everything you need to assess where the market is heading and the impact or opportunity that presents for your business.

### How price forecast reports can help you

#### ■ Understand the market

Use ICIS price forecast reports to understand where the market is heading and identify the risks and the opportunities for your business. What are the major demand developments for your product?

#### ■ Safeguard commercial decisions

Use market information to make better-informed business decisions relating to supply and demand. Learn about changes in market capacities. What factors will affect supply for you?

#### ■ Budgeting and planning

Whether you are planning how much you will be spending in the short term or medium term, use the price forecast reports to help assess future prices for your product. How will the price of your product fluctuate over the next 12 months?

	Asia	Europe	US	Global
Polypropylene	✓	✓	✓	
Polyethylene	✓	✓	✓	
Benzene				✓
Styrenics		✓		
Methanol				✓

To find out more visit: [www.icis.com/explore/priceforecasts/](http://www.icis.com/explore/priceforecasts/)