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Tel. +1 713525 2613
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The European petrochemicals industry was caught off guard in the ongoing US-China trade war that is changing trade patterns across the globe. In principle, the conflict between the world’s largest economies could have benefited European chemicals, but a domestic slowdown has also taken its toll.

Key chemicals end markets are going through a downturn, notably in the automotive sector, into which up to 20% of Europe-produced chemicals are sold. The industry is still suffering from the Dieselgate emissions-fixing scandal, as well as changing consumer habits favouring cleaner cars. The move towards electric vehicles (EVs) has also caught Europe’s automobile makers off guard, putting the predominance of German majors in doubt over the next few decades.
Climate change continues to be an opportunity to build a more circular economy, and a major threat

EUROPE CHEMICALS FEEL THE PAIN OF INDUSTRIAL SLOWDOWN, LONGER-TERM TRENDS

By Jonathan Lopez

While Europe’s economy continues to expand, the slowdown in the manufacturing sectors is reducing demand for chemicals, with some analysts forecasting that long-term trends are only expected to exacerbate this.

The 19-country eurozone is also suffering from a global slowdown in which Germany’s powerful export-oriented manufacturing sector has taken a hit: the US-China trade war has indirectly caused a slowdown for demand of German products, with the automobile sector being the main exponent of that.

Many chemicals produced in Europe, between 15% and 20%, have the automobile sector as its end customer: any slowdown in the industry is expected to significantly affect chemicals and the associated sectors.

Economy up, car sales down

Traditionally, car sales have been a good way to measure consumer confidence: people traditionally buy cars when the economy, employment and wages grow.

However, the sharp slowdown in the manufacturing sector in Europe in the last 12 months has not yet spilled over to the predominant services sector. On average, services account for 80% of European GDP.

While a global recession continues to be mooted by some analysts, the European economy is still holding up, reducing painful rates of unemployment – a legacy still of the 2008 financial crash – and increasing wages modestly.

This would be the key for the chemicals-intensive automobile sector. As consumers become more concerned about climate change, making sustainability part of their daily lives, demand for new cars is expected to continue decreasing.

Analysts place the beginning of the end in the ‘dieselgate scandal’, when several automobile majors rigged their carbon dioxide (CO2) emissions testing systems.

Climate threat

Climate change – which chemicals companies say represents for them an opportunity given the new materials needed to build a more circular economy – continues to be a major threat that many scientists are turning even more pessimistic about.

In a challenge that could significantly change the face of the earth in only 100 years, the fight against climate change should in theory involve a complete stop to the use of coal, the cheapest fossil fuel.

However, its use in 2018 increased globally as both developing and emerging economies – especially highly populated China and India – continue to burn millions of tonnes to produce the electricity that powers the supposedly cleaner electric vehicles (EVs) or the wide range of goods that make our daily lives possible.

Moreover, while China powers its EVs with dirty electricity, European manufacturers seem to be losing a race to become a key supplier for that type of vehicle.

The big German makers got into the sector late, and although they are pouring billions into research and development (R&D) now, they are behind US or Chinese competitors.

EVs are also a headache for the chemicals industry. A typical EV requires fewer parts than a traditional combustion engine car, and that invariably will reduce demand for chemicals.

Think big – reinvent yourself

These future trends all invariably point to lower chemicals demand. The EU’s publicised ‘circular economy’ would mean all materials are reused, making waste and reuse all part of the same circle.

While chemicals companies continue saying that they will be the providers of the new materials needed, the truth is that most of the products used in manufacturing today are linear, rather than circular. Most of them need to be disposed of at some point, creating a waste problem.

Chemicals producers will have to reinvent themselves as recyclers, or processors of waste, but the old business model will not pass the test of sustainability as societies focus on the environment and climate change.

“The longer you postpone the transition, the more materials you accumulate in society, and the more of a problem you are leaving to your children to solve,” said Bjorn Hansen.

\[15-20\%\]

percentage of chemicals produced in Europe have the automobile sector as the end customer

New passenger car registrations in the EU

Source: ACEA
Europe benzene and styrene supply is expected to remain long during 2019 and into next year on increased Asian capacities

**TRADE IS EXPECTED TO CONTINUE BEING THIN IN A LONG MARKET FOR BOTH PRODUCTS**

By Helena Strathearn

Benzene and styrene availability in Europe for the remainder of 2019 will most likely be long, and that length is set to last into 2020 on the back of increased Asian capacity.

Benzene and styrene are each coming out of the peak turnaround season, set to conclude by the end of June and which went according to plan, leaving little impact in the markets.

There was a massive inventory built up in preparation for the outages, which caused styrene prices to rise from November to April.

Inventories are now being drawn down.

Benzene prices have been following the US’s global pricing lead and look set to continue that trend for now.

Europe is trading at just below a workable arbitrage to the US. While Europe was the highest-priced region for a long while, it is now second, with Asia third.

Trade is expected to continue being thin in a long market for both products, with business increasingly being done on a contractual basis to limit risks.

**Crude oil a factor to watch**

Crude oil prices, as ever, are a factor to watch. The recent attacks on tankers in the key oil-producing region of the Gulf of Oman could cause disruption to logistics and freight rates.

Trade talks between the US and China’s presidents, Donald Trump and Xi Jinping, planned at the G20 summit at the end of June could impact prices.

Length in the global benzene market has been exacerbated by the start-up of on-spec production at Hengli Petrochemical’s 970,000 tonne/year benzene plant in April. The plant is in Dalian, China.

Output is slated for the merchant market, as the plant’s 720,000 tonne/year downstream styrene unit might not start up in 2019.

**Styrene**

European styrene prices have made recent gains on the back of a firmer prompt market in Asia, despite domestic length and weak derivative demand in a buyers’ market.

Inventories in east China have fallen recently to the lowest level recorded so far in 2019.

The Asian market could tighten as South Korea’s Hanwha Total is now expected to restart later than expected, in early July, and with normal production set for mid-July.

Around 150,000 tonnes of styrene arrived in Europe between April and June from the US and the Middle East to compensate for lost volumes during the spring maintenance period.

Up to 20,000 tonnes in exports might leave Europe for Asia – namely India and South Korea – in the coming weeks, but domestic supply will remain long.

As demand looks stable, at best, there is no likely home for excess volume.

Derivative demand is under pressure because of macroeconomic uncertainty, and that has reduced performance in end markets like automotive and other key manufacturing industries.

**G20**

Trade talks between Donald Trump and Xi Jinping planned at the G20 summit at the end of June could impact prices.
Brexit

Global trade has had to adapt to antidumping measures, the US-China trade war and Brexit discussions.

Demand is weak across derivatives like acrylonitrile-butadiene-styrene (ABS), high impact polystyrene (HIPS) and expandable polystyrene (EPS).

**Global woes**

Some of the uncertainties that are causing reticence are stemming from geopolitical issues.

Global trade has had to adapt to antidumping measures, work around the intensified US-China trade war, and deal with protracted Brexit discussions.

A general macroeconomic malaise has led to revised EPS forecasts, and suggestions that macroeconomic factors could dictate reduced run rates at styrene plants in some parts of the world.

Global styrene capacity is expected to grow at a remarkable rate over the next five years, with estimates of more than 5m tonnes/year on top of current capacity.

A number of plants are due to come on line, predominantly in Asia, and most in China.

A couple of the largest plants planned are the Zhejiang Petrochemicals facility and Hengli Petrochemical.

There are turnarounds planned for the third quarter in Europe, but Asian supply will lengthen once plants there restart.

If everything plays out as it appears at present, the market will stay long and most likely lengthen.
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Concerns from consumers about the likelihood of ample, secure supply to run out

**EUROPEAN BASE OILS MARKETS SEE GROWING GII/III COMPETITION, ONGOING WEAK GROUP I MARGINS**

By Sarah Trinder and Vicky Ellis

A consistent weakness in European base oils prices in 2019 has made its way through the whole spectrum - from the lightest, clear-as-water grades to the deeper shades of heavier, thickest Group I.

Ample supply has meant any upstream price moves have had very little impact on pricing. Nevertheless, this is a key factor to watch for in the second half of 2019, as it could dictate how loudly and insistently refiners push for prices to rise.

Particularly in the Group I market, the crushed margins have created some talks of whether this could spell rationalisation and closure for some players, and concern from consumers about the likelihood of ample, secure supply to run out.

**Group I leads the way down**

Group I's dramatic dive certainly led the way in 2019. This is partly attributed to the historic dominance of Group I in providing direction for other prices, both from competition between the grades and because some companies and contracts are priced based on a formula relating to Group I.

Fierce competition in the Group III market and a global glut of Group II base oils have been big factors, as well as a weaker performance in western Europe's economy. The Brexit effect can also be blamed for adding nerves to businesses located in, or with interests in, the UK.

**Group I outlook**

Crude oil's lift in early 2019 heaped pressure onto refiners, with an unusually slim spread between base oils and its feedstock, vacuum gasoil (VGO). The difference in price with VGO and the lighter, cheaper grade of Group I base oil, SN150, slipped below $100/tonne in May, according to ICIS data.

What happens now that crude prices reversed in June, falling back to around $60/bbl, and market players are forced into action while the Brexit deadline is pushed back, is a key question.

The outlook remains extremely unclear in many eyes.

Some players are of the opinion that stability will reign, given these factors: healthy local Group I supply, competition in overseas markets dampening the success of European Group I exports and cutting off that release valve for excess material, plus competition in Europe from north American and Dutch Group II material.

Weak economic data for Europe for early 2019 has dented expectations for consumption.

For others, rising North American values in the second quarter of 2019 are a sign of price pressure which could affect Europe.

Seasonally, there can be a downturn in the market in autumn, both as a reaction to an easing in demand after summer's stronger period and as suppliers tend to offload stocks at the year-end for bookkeeping purposes. With the recent divergence in 2019 of seasonal trends so far, it has been suggested there could be a knock-on effect in the second half of the year, which of course remains to be seen.

In the short-term, agricultural use of lubricants in tractors and machinery will drive strong demand over the summer for heavier base oils.

Another factor to consider is the start of strict new International Maritime Organization (IMO) rules for marine fuels as of 1 January 2020. This is set to challenge the whole supply chain from refiners to lubricant makers, fuel consumers and shipping firms.

**Group II cues up battle between Dutch and US rivals**

In the Group II market, the seeds of a battle are sprouting between currently dominant Chevron and other US importers, with the Group II producer ExxonMobil at its new Dutch plant.

The Rotterdam refinery began producing Group II commercially in February 2019, one of its executives announced at the ICIS World Base Oils conference in London this year.

Watching the newcomer's progress in the market will continue to obsess the market for the next couple of years.

While Chevron has a healthy suite of approvals for use with the rubberstamp of OEMs, and existing contracts with consumers, some of which will have limited storage space and therefore be unwilling to have multiple tanks, ExxonMobil has an advantage in its location. It also has a well-established position in the local Group I market and is expected to try and feed through its customers to the Group II.

ExxonMobil is offering 150N and 600N. Some market players had received samples in 2018, while other consumers have also received them for testing.

A buyer said of Group II: “It is oversupplied... That will obviously put pressure on Group II. Big plant in Rotterdam, Chevron brings to market materials, then other US refiners bring materials. Probably going to replace Group I, we don't have upsurge in organic growth. Something has to give up.”

**Group III - multiple players**

Compared to Group II's duel of two majors, Group III is more like a Formula 1 race, with multiple contenders over several heats, and different levels of dominance in the competition.

SK Lubricants and Neste have multiple OEM approvals, but the high performance for several factors – such as Noack - has brought $100/tn

The difference in price with VGO and the lighter, cheaper grade of Group I base oil, SN150 in May
non-approved ADNOC’s product into the limelight. Also lining up on the grid is semi-approved product from Malaysia’s Petronas and South Korea’s S-Oil, as well as Russian material.

Some players say they are totally in the dark about how the rest of the year will pan out. One Group III supplier has remarked it is “hard to predict” with so many variables in the market, “especially” with the new Group II product and “still increasing” Group III competition.

What is clear, though, is there are no signs this competition will abate in the second half of 2019.

Some sellers are now trying to distinguish themselves by marketing Group III+ material, due to the shift to lower viscosity formulations for lubricants in the automotive sector.

There is also an increasing interest in the industrial area where buyers are looking for alternatives for Group I, II and GTL (gas to liquids) material.

2019 – An atypical year
2019 was always going to be an exceptional year due to big changes coming into fruition.

The base oils market had been anticipating the start-up of the ExxonMobil Group II capacity in Europe and is looking ahead to prepare for the IMO 2020 implementation.

The robust crude oil prices have played their part in bringing more uncertainty into the mix, maintaining pressure on margins as well as refiners.

Ample global supply has diminished export opportunities for players in Europe and Russia, which are predominantly Group I-producing regions.

This has helped contribute to well-supplied conditions during the first half of 2019 and has weighed on values.

With some refiners now slowing production, it remains to be seen whether the fortunes of Group I will be reversed during the second half of the year.

Group II and Group III base oils will face their own struggles as these markets grow more competitive, but it is clear that 2019 is likely to be a tough year for Group I as the shift towards higher-numbered base stocks accelerates.

Typical seasonal trends have been disrupted. Buyers, traders and refiners are watching for any signs of extended shutdowns in Europe Group I plants, while the Group II base oils oversupply globally and Group III competition are major trends watched.
EUROPE ETHYLENE, PROPYLENE IN CAUTIOUS MODE AFTER H1 EXPECTATIONS DISRUPTED BY GLOBAL WOES
By Nel Weddle

European ethylene and propylene players may be revising their original plans for the remainder of 2019 to show much more caution, after the first half did not go according to expectations.

The 2019 turnaround slate, and in particular the coinciding outages at Europe’s two largest crackers this spring, led to extensive preparations, including derivative outages and structural imports.

Many consumers also extended their contractual supply exposure.

The first half of 2019 was also littered by unplanned issues and, together, all of these supply constraints under normal market conditions would have led to heightened demand for volumes and, potentially, very high spot prices.

However, demand did not hold up to expectations.

LOWER DEMAND, MORE CAPACITIES
The US-China trade dispute, slower economic growth in China, and other macro economic worries have led to uncertainty going forward and, subsequently, a lack of buyer confidence.

At this point, there is not a great deal of optimism that this uncertainty will wane, and there are also concerns over how the supply and demand landscape will look when all the 2019 turnarounds are over.

That demand has slowed in 2019 is especially worrying as new monomer and polymer capacities are either on-stream, or soon due to be, in the US.

While players had anticipated some detrimental impact on Europe’s polymer markets as a result of US volumes usurping Europe’s in Asia, the fact that a large proportion of European capacity would be offline this year was widely expected to insure against any major shocks in the market.

Europe is now faced with the prospect of more US volumes coming direct to its shores.

Additionally, while the European market has been focused on
supply constraints, elsewhere prices are softer and well below that of Europe.

The ready availability of both ethylene and propylene volumes from outside of Europe has been another factor behind the stronger-than-expected balances in the markets.

On the flip side, this has impacted heavily on some of Europe’s derivatives, with high costs limiting export potential and creating issues with affordability.

**JULY CONTRACTS TO SET DEMAND TONE**
The July contract reference prices had yet to be established at the time of writing, but they are being viewed as an important settlement as demand opportunities over the summer months could be hinging on the settlements’ outcome.

Feedstock prices have plummeted month on month but, for many, an improved price position relative to the rest of the world is key.

A trickier consideration is that, on paper, European production should be back to normal by the end of July, but this is of course not yet proven.

Planned turnarounds in the autumn should provide some support, although sources remarked that the outages will be less concentrated in just the one area.

This should minimise some of the logistical challenges seen in the first half of 2019, but a repeat of last year's River Rhine low water levels, and potentially some hurricane-related disruptions to imports ex-US, could also help offset low demand conditions.

Given players’ experiences over the first half of 2019, buyers are more relaxed over their options for the remainder of the year. However, there is growing tension among sellers.

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**Cracker maintenance 2019**

- **INEOS H2 2019**
  - 4-6 weeks
  - Grangemouth

- **DOW**
  - Sep-Oct
  - 6 weeks
  - Terneuzen 1

- **BASF**
  - 2 May-16 Jun
  - 6-8 weeks
  - Antwerp

- **SABIC**
  - Sep-Oct
  - 6 weeks
  - Geleen 4

- **Shell**
  - 20 Apr-21 Jun
  - 8 weeks
  - Moerdijk

- **BPRP**
  - End Aug-Mid Oct
  - 6 weeks
  - Gelsenkirchen 3

- **BASF**
  - 18 Aug-30 Sep
  - 5 weeks
  - Ludwigshafen 1

- **MOL**
  - H2 2019
  - TBC
  - Bratislava

- **MOL**
  - Sep-Oct
  - TBC
  - Tiszaujvaros

- **REPSOL**
  - Oct-Nov
  - 6-7 weeks
  - Tarragona

- **Versalis**
  - Sep-Oct
  - 6 weeks
  - Priolo

- **HIP Petrohemija**
  - 20 Mar-25 Apr
  - 5 weeks
  - Pancevo

Note: This information is according to sources and may not be confirmed by the companies involved.
More PE is expected to arrive in Europe in greater volumes as capacities keep coming on stream in the US and elsewhere, particularly if trade flows continue to be affected by the US-China trade war.

EUROPE PE, PP PRICES HOLD BUT LOWER UPSTREAM COSTS, US PRODUCT COULD UPEND MARKET
by Linda Naylor

The extent of the US-origin polyethylene (PE) influx, and the timing, will be key for European prices.

Most of US’ new capacities are destined for export markets; while the destination of choice is Asia, political tensions on the back of the trade war, as well as the sheer volume of material coming on stream, mean that some of that material is bound to arrive in Europe.

In 2019, an extra 6.5m tonnes/year of capacities for PE, or 41% of US capacity, will come on stream, and this will increase to 12.1m tonnes/year by 2022.

By the end of the year, other large PE plants are due on stream in Russia, Malaysia, and China, with several smaller plants due on stream elsewhere in Asia.

A solid swathe of polypropylene (PP) capacity is also due on stream in China, Russia, Malaysia, and India this year.

Impact on Europe
Until now, European PE and PP have been shielded to some extent by the planned cracker maintenance turnaround season during the second quarter, supporting prices for both products as buyers bought volumes on concerns over possible supply disruption.

There have been no disruptions, so an element of destocking, particularly at smaller accounts, could be expected.

However, the market has only gone through the first part of the 2019 planned cracker outages. A second phase will begin later in the year, with some sources expecting September to be another “crunch month” for propylene supply.

These outages could support PP and PE prices to some extent in the second half of the year, but more PE imports into Europe are likely.

The recent crash in upstream naphtha prices is also likely to affect pricing, making Europe an unattractive place to export to.

PE and PP prices, however, have remained stronger than many had expected it to so far in 2019.

US-China trade
From October 2018 through February 2019, average monthly US exports of high density polyethylene (HDPE) to China were down 58% year on year to 10,611 tonnes, according to the ICIS Supply and Demand Database.

For linear low density polyethylene (LLDPE), US export to China fell 62% to 9,218 tonnes.

The US now sends far more LLDPE to Vietnam than to China.

Despite such data, there has not been a notable increased flow of US LLDPE exports into Europe. Although some sources said there have been “incursions” of product, these have been limited.

In May, LLDPE C4 (butene based) spot prices rallied from former lows.

Some of the lack of visibility of increased imports to Europe could be that volumes from the region’s main C4 LLDPE importer, Saudi Arabia, have been lower.

Traders are sometimes hesitant to purchase in a market that could easily fall, leaving high-priced stock in their hands.

PE and PP are used in packaging and the manufacture of household goods. PE is also used in agriculture and PP in the automotive industry.
World olefins & polyolefin capacity additions by region 2017-2022 (million tonnes)

Contributing analyst - Lorenzo Meazza and Fabrizio Galie