

MARKET INSIGHT

BY MATT TUDBALL AUGUST 2019

POLYMERS MARKETS MAY ENDURE GEOPOLITICAL AND TRADE TENSIONS BETTER THAN OTHERS INTO 2020

European petrochemical markets are a challenging place to be right now, as global political and economic issues create uncertainty, and crude prices and exchange rates bring volatility, all of which are taking their toll on end-use sectors such as automotives and construction. All this with the shadow of the US-China trade war, and increasingly, a possible no-deal Brexit still looming large over Europe and other regions.

Adding to the uncertainty, major players such as BASF, SABIC, and Brenntag are seeing margins squeezed and prices dropping, while Dow announced plans to slash capex spending by \$500m, as they wait for signs of a pick-up in demand, signs they hope will appear on the horizon before the end of the year.

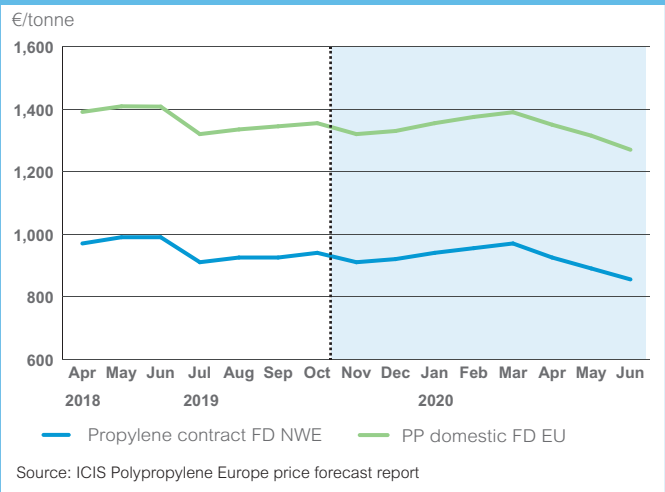
However, it is very easy to get caught up in the wave of pessimism rolling over the global petrochemical markets, when, in fact, some markets such as polyethylene (PE) and polypropylene (PP) do not, necessarily, look as gloomy as others.

In fact, despite reducing capex expenditure because of economic uncertainty, Dow's CEO, Jim Fitterling, still remains optimistic: "We had double-digit growth in China – both in PE and downstream silicones, so the market demand growth is there," said Fitterling during the company's Q2 earnings conference call at the end of July.

Despite the downturn in some markets, ICIS predicts that PP prices will be fairly consistent for the remainder of the year, not seeing too many dramatic swings up and down, as seen in other markets so far this year. Seasonal summer slowdowns will be offset by some supply and demand constraints, followed by the expected September and October demand increase as markets return from vacation and production returns increase.

One area that may fly below the polymer market's radar, but players may want to watch is the impact of the International Maritime Organisation's (IMO) sulphur regulations on marine fuel, which come into effect on 1 January 2020. The new regulation will limit the sulphur content in bunker fuel used by ocean-going vessels in international waters to 0.5% by weight, a reduction from the previous global limit of 3.5% established in 2012.

EUROPE: PROPYLENE AND PP PRICES



As a result, low and medium sulphur crude prices are expected to rise, leading to an increase in WTI and BFOE prices from current levels, according to ICIS analyst Ajay Parmar.

"This is because a certain portion of shipping companies will be looking to purchase the new 0.5% sulphur fuel oil, and in order to produce this, many of the simple refineries (of which there are many) will require low sulphur crude as their feed," Parmar added.

This increase in oil prices will likely filter down into the European propylene and PP market, and prices are likely to be more bullish towards the end of the year and into 2020, according to the ICIS Polypropylene Europe Price Forecast Report.

POLYETHYLENE MORE VOLATILE

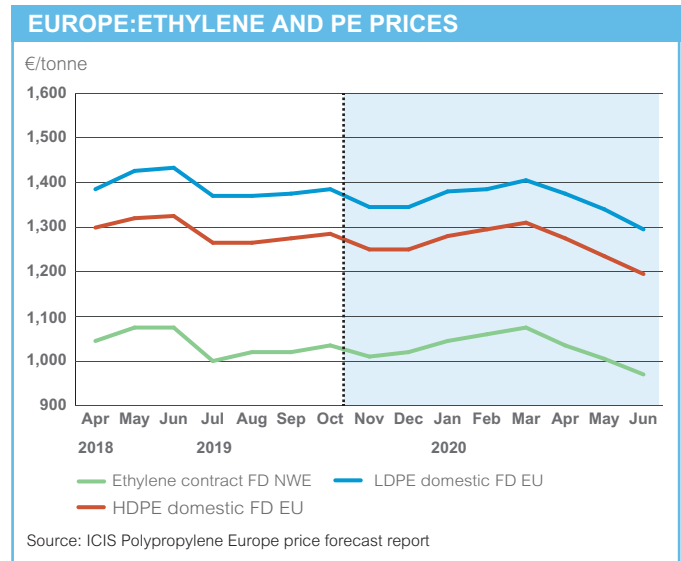
Looking ahead to PE price activity, this is where ICIS sees a bit more volatility compared to PP. While many of the same factors such as seasonality and rising feedstock prices towards the end of the year and into 2020 will play on PE prices, it is the increase in capacity that brings a bearish sentiment to the market into Q2 next year.

Increasing capacity additions in both the US and China means there is more product available for buyers, both in Europe and across the globe. This, coupled with the current and, most-likely, ongoing uncertain economic outlook means this new material enters the market amid weaker demand. Therefore it is likely that margins will be squeezed as producers try and find a home for this new material.

Obviously, situations can change and unexpected events can cause sudden swings in prices in either the upstream or downstream markets, or both (Rhine levels in 2018, for example), it will be the economy, particularly in Europe, that will be the major factor on demand and prices going forward.

The Eurozone Composite PMI came in at 51.5 points in July, with the manufacturing sector seeing its steepest drop in production since April 2013. This will no doubt impact the automotive and construction sectors, which are key markets for some polymer applications.

Add to this the uncertainty surrounding Brexit, a topic that has come back to mainstream media attention with the appointment of Boris Johnson as the UK's new prime minister, and petrochemical companies can only do their best to keep a view on where their markets may be heading in these very uncertain times.



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

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