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Americas Chemicals Outlook | January 2016
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• POLYPROPYLENE
• ACRYLONITRILE BUTADIENE STYRENE (ABS)
• POLYVINYL CHLORIDE (PVC)
• POLYSTYRENE (EPS)
• PLASTICIZERS
• POLYSTYRENE
• MELAMINE

AROMATICS
• BENZENE
• STYRENE

RUBBER
• STYRENE BUTADIENE RUBBER (SBR)

FIBRE CHAIN
• POLYETHYLENE TEREPTHALATE (PET)

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• OXO-ALCOHOLS
• METHANOL

ACIDS
• ACRYLIC ACID
• VINYL ACETATE MONOMER (VAM)

PETROCHEMICALS
• FATTY ACIDS
• FATTY ALCOHOLS
• BUTYL ACETATE
• PHENOL AND ACETONE
• EPOXY
• METHYL ETHYL KETONE
• PHTHALIC ANHYDRIDE

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LONG PROPYLENE COULD CUT VOLATILITY
By John Dietrich | 21 December 2015

HOUSTON (ICIS)—US propylene supply will likely stay long for much of 2016 owing to new propane dehydrogenation (PDH) units and continued efforts involving cracker expansions.

Dow Chemical should have its Freeport PDH unit in Texas at full rates for all of 2016, adding 750,000 tonnes/year of possible capacity to the market.

Another PDH unit, owned by Enterprise Products, is expected to start up in 2016 in Mont Belvieu, Texas, and add another 750,000 tonnes/year of possible capacity. With propane prices expected to hold at low levels throughout 2016, this should keep margins strong and push Dow and Enterprise to operate the units at high levels.

This addition of on-purpose propylene will likely ease volatility in the market and could push crackers to favour ethane for more of the year.

In 2015, crackers favoured propane and butane for much of the year, owing to higher co-product yields and prices. Lower propylene prices in 2016 could reverse that trend, especially if supply from refineries is also high.

Refinery-grade propylene (RGP) inventories were well above year-ago levels throughout 2015, as low crude oil prices led to low gasoline prices. This drove an increase in gasoline consumption to near-record levels, leading to an abundance of RGP production.

This kept RGP prices below alkylation levels and kept margins for propylene splitters, which use RGP to manufacture polymer-grade propylene (PGP), strong.

Demand for PGP is expected to be strong throughout 2016, as downstream polypropylene (PP) demand should be strong.

PP supply domestically is expected to remain tight until new capacity is added or imports become attractive, neither of which is likely for 2016, sources said.

The strong demand for PGP should limit the downside of propylene prices throughout the year, but long supply could
push prices lower on a year-on-year basis. Major US propylene producers include Chevron Phillips, Enterprise Products, ExxonMobil, LyondellBasell and Shell Chemical. Major buyers include Ascend Performance Materials, Braskem, Dow Chemical, INEOS and Total.

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US ETHYLENE LIKELY TO SURGE IN Q2
By John Dietrich | 21 December 2015

HOUSTON (ICIS)--With a heavy turnaround season set to peak in April of 2016, US ethylene prices are expected to rise in the first half of the year. Sources have said that a heavy turnaround season set for the first quarter, with a peak of up to 16% of capacity down in April, is likely to boost ethylene prices. That increase could take until April, however, as storage space will remain tight until then, limiting opportunities for buyers. Sellers are also likely to be keeping a tighter hold on ethylene during the first quarter of 2016 in an effort to fulfill contract volumes during the heavy turnaround period.

"With everyone being worried about this, something could easily come up and ease things off," a buyer said. "Someone might delay a turnaround or inventories might be higher than expected." Sources said they expect spot ethylene prices to end the first quarter around the 30 cent/lb ($661/tonne) level, with slight increases on improving demand and derivative export opportunities. Some market sources said smaller increases could also be the most likely outcome, depending on how much inventory building was done during the fourth quarter of 2015.

These sources said they are seeing adequate inventories to last through the heavy turnaround period, adding that supply issues would only occur if turnarounds last longer than expected or there are any major unplanned outages. If storage space is increased in April and inventories are tight from the supply outages, spot prices could spike as high as the 60 cents/lb level, sources said. Beyond the turnaround season, most ethylene market players are expecting a similar year to 2015, mostly on factors related to the global crude oil market.

With continued cheap feedstock costs from ethane, propane or butane, US sellers of ethylene derivatives will have a cost advantage in overseas markets. However, while margins on those products should remain strong, the low overseas crude oil and naphtha prices will limit the upside for ethylene and derivative sellers. US ethylene contract prices are likely to rise alongside spot values once the second quarter hits.

Cash costs for ethylene production will likely remain low, although boosted propylene production could keep prices lower, raising ethylene cash costs.


However, inventory levels of cracker co-products will likely start 2016 higher than in 2015, which could lead to more volatility in the preferred feedstock for crackers, making cash costs volatile as well.

Major US ethylene producers include Chevron Phillips, ExxonMobil, INEOS, LyondellBasell and Shell Chemical.

Major US buyers include Axiall, Braskem, Dow Chemical, Occidental Chemical and Total. ICIS senior editor-manager Tracy Dang contributed to this story.

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US BD TO GROW SLIGHTLY AMID AMPLE SUPPLY
By Tracy Dang | 23 December 2015

HOUSTON (ICIS)--US butadiene (BD) market participants are expecting 2016 to be similar to 2015, with supply to be plentiful and demand to show slight growth.

“I don’t see 2016 as the year that we’re going to see anything big,” a consumer said. “I don’t see much happening that will make this [upcoming] year stand out.”

Domestic availability is expected to remain ample, with contract aggregated fees said to be slipping by a few cents/lb. These premiums to the published contract prices are confidential and based on individual contract terms.

“Supply-wise, I think domestically, there has not been a lot of changes in production,” a producer said. “The region feels longer because of the imports.”

New capacity in Europe has lengthened the market there and opened up more opportunities for exports into the US. Europe is a major net exporter of BD, with the US being a key destination.

Market sources said that US BD buyers are going to be contracting volumes from the European market more in 2016.

“I think the EU capacity additions will make its way to the US,” another buyer said. “I think the EU producers will also offer better discounts in 2016 versus 2015.”

The added volumes – in both contractual and spot material – should keep BD availability in the US from becoming constrained, which was a concern in the previous years should demand outpace supply.

Additionally, 2016 may see US crackers continue to favour heavier usage of feedstocks propane and butane, which produce more BD compared with ethane.

In 2015, low crude oil prices compressed the price gap between ethane and other natural gas liquids (NGLs), such as propane and butane, and higher co-product credits for propylene and BD gave ethylene producers incentive to run on a heavier feedslate.

Despite a heavy cracker turnaround season scheduled for the first and second
quarters, most US BD market participants are not concerned about tightening supply.

On the demand side, there is optimism that consumption levels will continue to expand, albeit slightly, particularly from the major downstream synthetic rubber markets.

“I think there’s going to be some growth in 2016 – moderate,” a producer said. “A lot of it will be specifically around the [styrene butadiene rubber] SBR market. [Growth of] 4-5% would be fantastic. Theoretically, rubber can do well, but we have to take into account imports.”

The synthetic rubber markets make up about 50% of BD demand, and those chemicals are primarily used in the production of tyres.

Sources said this would be the main thing to watch on determining how well the market will do in 2016.

“We predicted a growth rate of 4-6% – over the next four years, 7-8% – so you have to stop and think where we’re coming up with these numbers,” a tyre maker said. “I think the biggest single factor that you can put in your model, since we’re pretty clear on the supply side – it’s pretty well known we’ve got a few factors – and we’re pretty clear on the other derivatives side. At 50% of demand, [synthetic rubber] is the single biggest input in our forecast.”

With passenger car and light truck tyres expected to expand by 2.5% over the next five years and heavy truck tyres to show gains of around 1.5%, the source said, BD demand is expected to see some growth. BD consumption levels should also see some boost from other derivatives such as acrylonitrile-butadiene styrene (ABS), styrene-butadiene latex (SBL) and nylon 6,6.
PE WATCHERS EXPECT BUYERS’ MARKET
By Lane Kelley | 21 December 2015

HOUSTON (ICIS)—With too much supply already and more capacity scheduled to come online during the new year, veteran US polyethylene (PE) watchers expect 2016 to be – at the very least – a buyer’s market for the king of polymers.

A more dramatic forecast comes from analyst Robert Bauman at Polymer Consulting International. "Ethylene/polyethylene could be facing its most severe period of overcapacity and financial performance in recent history," Bauman said in a presentation earlier this year.

Another market analyst expects 2016 to be the first resin market in years where processors will have the advantage. "Processors should expect low resin cost, relative to the five-year average, ample inventory and an aggressive buyers’ market," the analyst said in a recent note to customers.

A trader echoed the opinion, predicting flat prices for PE monthly contracts for the first few months of 2016, at least through March. "Historically, that’s been a slow period," the trader said.

Most sources say the first big date on the PE market calendar will be whenever the new Braskem Idesa XXI plant opens in Mexico, presumably at some point in the first quarter. Bauman says the Braskem startup could provide “a preview of what the future could look like.”

The trader expects PE prices to drop when the Braskem unit gets up and running – with three new PE units producing slightly more than 1m tonnes/year.

The analyst disagreed, saying it was doubtful that the Braskem startup alone would cause prices to drop. "It’s going to keep them from going up, though, that’s for sure," the analyst said.

In mid-November, sources said the plant would probably get started a little later than projected. Two sources at that time expected the unit would start running in January, while another put the start date toward the end of the first quarter.

Whenever the Braskem plant gets started, many PE watchers have it pegged as a game-changer, because the unit is in Mexico and will compete with US producers.

Two other PE expansion projects will add close to 1m tonnes of capacity next year: the Sasol/INEOS 470,000 tonne/year high density (HDPE) joint venture near Houston at La Porte, Texas; and NOVA Chemicals’ 454,000 tonne/year linear low density (LLDPE) expansion project in Joffre, Alberta, Canada, with startup expected in
the third quarter of 2016.

And that’s not even all of what Bauman considers to be the first wave of new PE capacity coming, which when finished could bring another 11m tonnes of supply.

The problem for the PE market is that most or all of the new capacity is targeted for the export market. Bauman says at least 40% of all new capacity will have to be exported, but others say it will be much higher.

Bauman said recently that producers are overestimating their ability to sell into the export market. China is building PE plants and reducing imports, Latin America is stagnant and Brazil a “disaster”, he said, while the Middle East has a lower cost of production and is expanding.

Even worse, US producers have a huge logistics problem, especially along the US Gulf Coast, where most PE plants are located. At a conference earlier this month, Gary Furneaux, supply chain manager at ExxonMobil Chemical, described the problem with a seemingly impossible analogy.

“Think of the python swallowing the pig,” Furneaux said.
CHANGES AHEAD FOR LATIN AMERICA POLYOLEFINS

24 December 2015

HOUSTON (ICIS)--Political change, new production capacity, looser regulatory environments and growing optimism for the future are promising significant change for the Latin American plastics markets in 2016.

Latin America polyolefin market participants are projecting different scenarios, but most indicators point to more supply, more competition and softer prices.

Still, the plastics market is expected to grow, but at a slower, more predictable rate.

From the start, participants in the polyethylene (PE) market expect the first resin material from the Braskem-Ideasa Ethylene XXI project, which is anticipated to increase production in Mexico by 1.05m tonnes/year, will present a market challenge to US producers selling into Mexico and to other regional players.

The project is projected to add supply to the region, in particular Colombia and Central America.

Latin America is a big importer of PE resins from the US and Asia, but also is supplied by the regional producer in Brazil. By contrast, the supply of polypropylene (PP) may continue to be relatively tight as only one PP project was heard being discussed in the Latin America region. Olefinas III from Venezuela’s Pequiven, optimistically, could not be completed for another five years, at least.

However, the company is still looking for investors, and faces the challenge of a depressed economy and restrictions to access to US dollars.

Argentina state energy producer YPF’s plan to buy stakes in plastics producers Petrocuyo and Petroken has been postponed for a lack of the currency to accomplish the transaction, according to sources. It is unknown if the deal will be concluded in 2016 or whether it would have much market significance.

Asia continues to be an important player for Latin America, and is one of the drivers of PP prices, in particular, in the Andean region. US propylene price is another key driver for Latin America PP prices.

With no new projects and still enjoying ample supply, polystyrene (PS) market dynamics are projected to remain flat in 2016.

PS markets are among the slowest growing resins in the world, with consumption expected to grow a meager 1.4% in 2016, according to ICIS figures.

Overall, raw materials will continue to weigh heavily on price direction. So market participants will keep their eyes on the cost of PS feedstocks benzene and styrene. However, some market prices likely will be pushed down by cheaper imports from Asia. Lower prices in Asia usually cause prices in the Andean region to soften also.
Crude oil prices will continue to play a role by influencing feedstock and prices. In 2015, falling crude oil prices saw West Texas Intermediate (WTI) drop from $65.84/barrel in December 2014 to $37.51/barrel in December 2015.

Lower oil prices will have two opposing effects: They will hamper export-dependent economies in Venezuela and Colombia, but help keep chemical feedstock costs low to regional producers.

High impact PS prices in the domestic market over the year - USD/tonne

The new political situations in Argentina and Venezuela are expected to change the polyolefins market for the better, according to sources.

On one hand, Argentina market participants expect more import volumes if some restrictions are lifted, as expected, with a new business-friendly government under President Mauricio Macri.

Venezuela sources said that the election of an opposition party in control of parliament is expected to counter the fierce populism of President Nicolas Maduro. Overall, it is hoped that it will foster institutionalisation, or greater observance of the rule of law, and less black market activity. That should help to bring trust to the domestic economy, and therefore, to stabilise the currency, the bolivar.

However, depressed economies there and elsewhere are projected to weigh on the supply and demand equation next year, a factor that will likely hamper Latin America consumer demand.

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US MELAMINE HIGHER ON TIGHT GLOBAL SUPPLY
06 January 2016

HOUSTON (ICIS)–The US melamine market is entering 2016 with higher prices amid tight global supplies as a result of a spate of planned turnarounds and other outages at various plants – mostly in Europe – during Q4.

The sole producer in the US, Cornerstone Chemical, announced a 10 cent/lb price increase effective 1 January as a result of steady-to-strong US demand and global supply constraints. US prices firmed by 2 cents/lb in Q4. The producer has raised melamine prices for six consecutive quarters.

Additionally, material in the US market was tight as product from Trinidad and Tobago and China was reduced sharply due to the US International Trade Commission’s (ITC) anti-dumping and countervailing duty investigations regarding melamine.

The investigations were requested in petitions filed in November 2014 by Cornerstone Chemical.

In June 2015 the ITC’s Department of Commerce preliminarily determined that melamine from China had been sold in the US at a dumping margin of 363.31%. The department also preliminarily determined that melamine from Trinidad and Tobago had been sold in the US at a dumping margin of 174.22%.
The investigation took over one year to complete, but on 2 December the ITC determined that melamine imports from Trinidad and Tobago did not cause material damage to the US industry.

However, the ITC did find that Chinese melamine was subsidised and sold in the US at less than fair value, causing significant harm to the industry.

The ruling allows Trinidad and Tobago to resume melamine exports to the US without incurring any duties, but the high duties imposed against China will terminate imports from that country in 2016 and beyond.

Prior to the investigation, Trinidad and Tobago and China were the two largest melamine suppliers to the US. Due to import volumes from the two countries being sharply reduced in 2015, the Netherlands and Germany, respectively, took over as the largest melamine suppliers to the US market.

With Trinidad being cleared by the ITC, it will likely regain the top slot in 2016 in terms of melamine supply to the US.

Even though the Netherlands and Germany filled some of the void left by Trinidad and Tobago and China, there was still a significant import shortfall last year. Year to date through September, US imports of melamine were down by 36% year on year.

You can rely on ICIS for all your Melamine market intelligence needs
US PP PRICES HEADED HIGHER
By Lane Kelley | 22 December 2015

HOUSTON (ICIS)--US polypropylene (PP) prices fell for the most part in 2015, but veteran PP watchers expect higher prices in 2016.

Producers definitely are pushing for big increases in the new year, with ExxonMobil out first with a 6 cents/lb hike for 1 January.

“You’re going to see a lot of follow on that,” a buyer said.

A handful of other producers quickly followed with their own increases for early or mid-January, and the odds are that the first month of 2016 will be followed by others.

One forecaster sees four price hikes in the first five months of 2016, citing rising demand that has grown faster than any increase in production. The forecaster attributed the PP demand growth to the automotive sector because the polymer is the most popular one used in US-made cars.

A trader said substitution also boosted PP demand in 2015 and will continue to push prices up during the first half of the new year. The trader said PP became a lower-priced substitute for polyethylene (PE) and polystyrene (PS), particularly in housewares.

“PP became the cheapest product over PE and PS,” he said. “Anybody that could switch between the two did. If they could make PP dishes instead of PS dishes, they did. If they could make PP forks over PS forks, they did.”

At current prices, PP homopolymer injection material is 4-5 cents/lb cheaper than high-density polyethylene (HDPE) injection, and at least 25 cents/lb below equivalent grade PS (GPPS) material.

This year, PP prices have been pulled down by the cost of feedstock propylene, which has declined 49%, while PP prices have dropped by less than half that much, down 16%.

Meanwhile, producers’ have used the propylene drop to add big-time to their margins. Through the end of November, propylene contract prices had dropped by 28 cents/lb in 2015, while PP contracts had declined by only 12 cents/lb.

The difference between the two numbers – 16 cents/lb – is what producers gained in additional margin this year.

“Producers are in the driver’s seat,” a buyer said.

The big margin gains came as propylene (PGP) plunged, but another big drop in the feedstock seems unlikely or at least a longshot, considering that propylene already is on the rebound from a six-year low in August. To hit the 10-year low of 15.5 cents/lb, PGP would need another 50% drop as it had (or nearly had) in 2015.

Some PP sources expect producers’ margin expansion to continue, but maybe to a lesser degree in the new year. The
Plastics Exchange in Chicago said in a December note that domestic PP demand remains “quite good and the market is still categorically short of material, so we expect producers to continue to edge resin prices higher for as long as they still can.”

One buyer said producers might get another 5 cents/lb in margin during 2016, but not more than triple that amount as happened in 2015.

“This year wound up being like Disneyland, it was so wild,” a buyer said. That buyer worried, though, that producers will get greedy from their rising margins.

The buyer said the difference now between US and Asian PP is at least 20-25 cents/lb on many grades, which makes him worry about US producers killing the golden goose, as it were.

Yet the buyer said he did not seriously expect US customers to resort to imported resin anytime soon.

“Everybody likes their railcars,” the buyer said. “Everybody likes everything being consistent, they crave getting the same amount of resin every month.”

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IMPORTS REMAIN A THREAT TO US ABS
By Tracy Dang | 23 December 2015

By Tracy Dang
HOUSTON (ICIS)—With overall supply and demand fundamentals expected to be steady in 2016, US acrylonitrile-butadiene-styrene (ABS) market participants will continue to monitor import levels and see if competitive pricing will disturb the balance in the domestic market.

For much of 2015, weak economic conditions in Asia had driven down demand for ABS-made goods, such as consumer products, depressing resin prices in that region and resulting in ABS imports into the US.

With the influx of very low priced imports being offered, US producers and suppliers had to lower their pricing in order to keep their share of the market. And that problem is not expected to go away in 2016.

“I think the biggest issue is oversupply in Asia,” a producer said. “We have no control over there. Until Asia picks up and is able to absorb excess capacity, we will continue to see imports into the US.”

Otherwise, ABS prices for freely negotiated business are expected to remain relatively stable, although at low levels.

Continued declines in upstream crude oil values had trickled through the supply chain, dragging down many downstream chemicals, including key ABS feedstocks styrene monomer (SM), butadiene (BD) and acrylonitrile (ACN).

With crude oil values appearing to be less volatile toward the end of 2015, ABS raw material costs were stabilising, resulting in overall steady resin pricing.

“I think 2016 might follow 2015, but it seems like we are hitting a bottom on pricing,” a distributor said. “At least, [it’s] difficult to see how they could go any lower.”

For the most part, market participants are expecting demand to continue to be healthy in 2016, primarily driven by good levels of consumption from the downstream automotive market.

“Auto looks to stay strong in 2016, though most are near capacity, so I do not expect too much growth in early 2016,” another distributor said.

“It may be capped at capacity, but online conversion of products into plastic, that
is ongoing, so we expect demand to continue to be strong,” a supplier added. “We may not have the overall growth we saw this year, but still good.”

Meanwhile, the compounding market is expected to continue to do well, especially for blends with polycarbonate (PC).

“We remain strong in North America and continue to see manufacturing being reshored here, so there’s a lot of positives,” a source said.

Major uses are in the automotive and electronics sectors. Other applications include appliances, pipes, fittings and other construction products, as well as recreational items such as boats, mobile phones and games consoles.

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![Table of Companies and Capacities](image)

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STEADY BUT SOFT FOR LATIN AMERICA PVC
By Ron Coifman | 24 December 2015

HOUSTON (ICIS)--As the fourth quarter of 2015 comes to an end, polyvinyl chloride (PVC) industry participants in Latin America were expecting prices to remain soft into early 2016, driven by weak upstream markets and moderate demand throughout petrochemicals markets. However, most regional participants believe a bottom to PVC prices has been reached, and are not projecting that PVC prices could fall significantly in the near future.

Ethylene and crude oil prices fell since January 2015. US ethylene was at 28.25 cents/lb in October 2015, compared with 38.25 cents/lb in December 2014. Meanwhile crude oil prices were hovering around $40/bbl in early December 2015. Several Latin American countries were plagued by devaluations against the US dollar in 2015, making products more expensive in local currencies and reducing demand. With the exception of the continuing deterioration of Brazil’s economy, most South American countries’ currencies appeared more stable by end-December of 2015.

The major South American economy, Brazil, was suffering from a recession, inflation and currency devaluation. A corruption scandal is making it difficult for Brazil’s congress to adopt new fiscal targets and policies that would address the recession. Brazil’s Q3 GDP fell by 4.5% year on year and by 1.7% quarter on quarter, according to the state statistical agency (IBGE). Industrial production fell by 6.7% year on year and 1.3% quarter on quarter.

Because of weak domestic demand, Brazil had been left with substantial PVC resin inventories, which the country has attempted to export during the second half of 2015.

On the brighter side, other countries in Latin America were performing satisfactorily, according to sources in the region. However, despite greater stability, participants in countries in Latin America were not projecting stellar performances. At best, demand is expected to remain steady but moderate into early 2016. Also, results of parliamentary elections in Venezuela and presidential elections in Argentina offered hope of improving conditions in the two countries, according to local sources.

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STRONG US EPS DEMAND EXPECTED
By David Love | 28 December 2015

HOUSTON (ICIS)--US expandable polystyrene (EPS) prices firmed in December for only the second time in 2015, and market sentiment pointed to higher prices in early 2016.

EPS prices typically begin to rise around December, but especially between January and March.

Feedstock benzene will continue to be the biggest factor in determining EPS prices in 2016, so market participants will watch spot and contract benzene prices very closely. The typical rule of thumb is that EPS prices move by 1 cent/lb for every 10 cents/gal move on benzene prices.

Prices in the US EPS market are considered spot prices, but could better be described as monthly negotiated prices, market participants say. Given its close proximity to the US, EPS produced in Mexico and Canada is readily exported into the US market. As a result, Mexico and Canada are two of the top EPS suppliers to the US.

A US producer also has a production facility in the Bahamas, thus that country is also one of the top three EPS exporters to the US. The US is a net importer of EPS.

Mexico is by far the largest destination for US EPS exports, as close to 70% of
exports make their way to the country. That trend is set to continue in 2016.

The EPS market saw strong demand in 2015, and that is expected to continue in 2016, market participants said.

The largest markets for EPS are construction and packaging.

In the mature North American market, EPS demand historically has grown at GDP growth rates, by low single-digit percentages. Through 2020, EPS is expected to grow by 1.2% a year.

The packaging sector has presented considerable challenges for EPS producers during the last four years, including continuing efforts to ban EPS foam for food packaging by several cities in the US. Some bans have been overturned, but bans are becoming more widespread.

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PLASTICIZERS SUBDUED ON SLUGGISH DEMAND
By Larry Terry | 29 December 2015

HOUSTON (ICIS)—US plasticizers markets will remain mostly quiet in the first half of 2016 or beyond, even with feedstock values remaining mostly at low levels.

General plasticizers volume for 2016 will probably track forecast GDP growth of 2.6%, but growth will be easier to estimate in February because construction markets will still be gearing up for spring in January, a seller said.

A buyer suggested, however, that in the construction markets, demand may be diminished because of a slowdown in some segments of that market, including coatings used in the oil and gas industry, which has been adversely affected by weakness in the crude oil market and could weaken some raw materials.

Upstream, propylene has been firming up on some production decreases at the cracker level, stemming from a switch in focus to ethane cracking. Additionally, refiners are producing less propylene and drawing down inventories, although stockpiles remain high.

Propylene inventories are difficult to predict because that depends on the popularity and pricing of propylene precursors ethane, propane and butane in 2016, an olefins source said.

With propylene, however, regional price and supply volatility will be able to be somewhat offset with material sourced from other regions, a plasticizers producer said.

Downstream, architectural-construction demand is not likely to be as strong as usual because some new permits were said to have been requested for multi-family projects, which typically use lower-quality materials than in private single-family homes, a source said.

A major development in 2016 will be the ongoing conversion of BASF’s 125,000-tonne/year phthalic anhydride (PA) plant to produce dioctyl terephthalate (DOTP). The plant conversion in Pasadena, Texas, is expected to be completed no later than early 2017.

In the meantime, supply constraints for PA and its derivative di-propyl heptyl phthalate (DPHP) are likely to continue for the near term. Force majeure declarations were implemented for those products.
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Following an August 2015 shutdown of the Pasadena plant, Mayor US plasticizer producers include ExxonMobil, BASF and Eastman Chemical.
US POLYSTYRENE TO TRACK BENZENE
28 December 2015

HOUSTON (ICIS)--US polystyrene (PS) prices will largely follow the direction of feedstock benzene in 2016, given that benzene is the largest determining factor in PS price direction. However, PS supply and demand fundamentals also will come into play in pricing decisions.

PS prices rolled over in each month during the fourth quarter, and demand dropped off as 2015 came to a close.

The demand prospect for 2016, however, remains positive.

Benzene accounts for about 75% of the cost of the other major PS raw material – styrene – and was a prime mover in the market last year.

A popular rule of thumb holds that PS prices move 1 cent/lb for every 10 cents/gas move on benzene contract prices.

PS prices hit lows in 2015 not seen since 2012, while benzene prices last year dropped to the lowest levels since 2009.

PS prices firmed a little in December after rolling over in October and November.

PS producers believe PS prices are still too low, and that concern will continue to be addressed in 2016.

Global PS demand is expected to grow by an average of 4.7% from 2014 to 2020, led by rising demand from the packaging industry in developing countries, as well
as increasing demand from consumer electronics, according to Transparency Market Research.

However, growth rates in the US are much lower, with little to no growth seen for the market each year.

In order to take better advantage of that international demand, US PS exports climbed to 102,659 tonnes YTD through September 2015, which was up by 2% year on year, according to data from the US International Trade Commission.

US exports in 2016 are expected to increase to countries including Mexico and Canada, which together account for over 92% of total exports.

Some challenges remain in the industry, including ongoing efforts to ban the use of PS for food and other packaging due to environmental concerns.

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DEMAND, LOW IMPORTS BOOST US BENZENE
By Jessie Waldheim | 23 December 2015

HOUSTON (ICIS)—US benzene imports are expected to remain at a low level into early 2016 while demand is expected to remain healthy, which should keep the aromatic’s value strong relative to upstream crude oil costs.

The spread between benzene and upstream West Texas Intermediate (WTI) crude oil futures strengthened in the later part of 2015, on strong demand and limited US imports.

SUPPLY
Benzene imports, were at a high level in 3Q 2015 with an average of 337m litres (298,000 tonnes) received each month.

In October, import levels at 276m litres were at the lowest monthly level for 2015, according to US International Trade Commission (ITC) data.

Imports for the remainder of 2015 had been estimated to be similar to October, with market sources expecting those levels to continue through early 2016.

“Not seeing too much fixed,” one source said about imports scheduled to be shipped to the US in January.

The benzene market is structurally short in the US. In 2014, benzene consumption outpaced production by an average of nearly 140,000 tonnes/month.

Imports are necessary to make up the structural shortage, and low import levels can put upward pressure on benzene prices.

Should imports continue at October levels, benzene values will stay strong relative to upstream crude oil costs.

DEMAND
Meanwhile, demand for US benzene in late 2015 has been strong for all derivatives. Demand did stall slightly in the final two weeks of the year, which was likely due to an avoidance of inventory build-up prior to the end of the year.

A benzene trader said demand could return after the start of 2016.

The majority of US benzene is consumed to produce ethylbenzene for styrene production. Benzene also produces cumene for phenol/acetone production, cyclohexane for the nylon chain and aniline in the polyurethane chain.

While some derivative sectors may be approaching seasonal demand lulls, the styrene sector is expected to continue consuming benzene at a strong rate.

The North American styrene market was tight in much of 2015 due to multiple plant outages.

The most recent styrene shutdown was
resolved in late October, resulting in stronger benzene consumption since November.

Styrene inventories remain low and demand for US styrene exports remains high despite anticipated seasonal demand lull for the global styrene sector. Consumption levels for benzene remain strong in the styrene sector.

A benzene market source said this week that downstream styrene producers had already sold out of January material. However, unanticipated outages in the styrene sector could reduce benzene consumption levels and push prices down relative to styrene.

Earlier in 2015, the benzene/styrene spread widened as multiple shutdowns tightened styrene and loosened the benzene market.

UPSTREAM
Even with strong demand and low volumes, benzene values may decline in the early year on softness in the upstream markets.

In early December, crude oil values plummeted to their lowest levels since 2009, pressuring benzene values lower. During the first three weeks of December, WTI crude oil futures fell more than $5/bbl. The upstream weakness pressured spot benzene values lower, with prices dropping about 20 cents/gal over the same time period.

Benzene contract values tend to follow the spot market. If the lower values in the spot market continue throughout December, January will likely settle lower than the December value of $2.30/gal.

Further upstream declines would continue to push benzene spot and contract values lower in 2016. Benzene contracts are generally settled on the last day of the prior month.
US styrene contract prices in 2016 will largely be determined by feedstock benzene and styrene spot prices, neither of which looks set to change much in the near term.

November contract prices settled in early December between a rollover and up 1 cent/lb. Contract prices are coming off of a year in which they peaked in May and July, before dropping to the lowest level of the year in September and October. Contract prices for December will be settled in early January.

Benzene contract prices in 2015 fell to the lowest levels since 2009 and, as a result, styrene spot and contract prices also fell to the lowest level since 2009. US styrene demand for 2016 looks fairly strong, as previously negotiated contracts for the year were for healthy volumes, according to a producer in December.

Styrene’s main outlet is in polystyrene (PS) and expandable polystyrene (EPS), which together account for about two-thirds of global consumption.

The US will continue to ship the lion’s share of styrene exports to Mexico, China and the Netherlands in 2016. US shipments to the three countries accounted for 62% of total exports for 2015 through September.

The US is a net exporter of styrene, and shipments in the first three quarters of 2015 rose by 12% year on year, but it...
remains to be seen if exports in 2016 will continue at the same clip.

China holds a lot of intrigue, as exports to the country climbed to 271,377 tonnes in 2015 through September, which was up by 374% year on year.

However, slowing economic expansion in China and Asia continued to dampen demand for resins at the end of 2015.

Market participants chose to keep low stocks and were only buying on an as-needed basis.

Canada is the only supplier of styrene to the US market. Imports from Canada dropped in 2015, but it is yet unclear what imports will do in 2016.

Prices in the global styrene market are expected to be higher over the next three to four years due to improved demand and the fact that no new styrene capacity is expected during that timeframe.

With global demand growth rates of 2-2.5% per year, the market will also see operating rates climb beyond the current approximate range of 85-86%
IMPORTS REMAIN MAJOR CONCERN FOR US SBR
By Tracy Dang | 23 December 2015

HOUSTON (ICIS)—US styrene butadiene rubber (SBR) producers are expecting margins to remain squeezed in 2016 as very low priced imports continue to weigh down domestic values amid global oversupply.

“The biggest swing we are seeing for 2016 is a ruthless hit to pricing,” a producer said. “The rubber consumers are using import pricing to really push hard on domestic supplier pricing. The competition is very strong in the market right now, forcing very low pricing to hold onto business in North America. This is certainly going to hurt domestic suppliers’ profitability.”

A number of emulsion-SBR (E-SBR) plants have come online, bringing global capacity in 2015 to 4.848m tonnes/year, according to industry group International Institute of Synthetic Rubber Producers (IISRP). However, E-SBR plants are operating at low rates, with the global average estimated at 64%.

If US prices for main raw material butadiene (BD) are not in line with those in the global market – particularly Asia, but also Europe – foreign SBR producers with the cost advantage could boost up their operating rates and offer material to US buyers at lower prices than domestic. “[There will be] big pressure for the local producers to adjust their prices downward if they have to maintain the volume,” a downstream tyre maker said.

While that downward pressure is expected
to remain, sources are wondering how much lower SBR pricing can go. “There doesn’t appear to be anything going on to drive it back up,” another tyre maker said.

“Domestic supply is more than adequate, and I have seen some very aggressive pricing options for 2016 from the domestics and from Asia.

Europe seems to be a bit behind with that, but all in all, I think pricing will stabilise over the next 60-90 days.

I’m not sure there is much more to give on the down side.”

Meanwhile, overall market fundamentals in 2016 are expected to be similar to 2015, with demand expected to show very slight growth. Earlier this month, US industry group Rubber Manufacturers Association (RMA) forecasted that US tyre shipments will improve by 0.4% in 2015 from 2014, and SBR market participants are expecting a similar trend in 2016.

“For 2016, the passenger [and] light truck tyre demand looks to remain steady and strong,” and SBR producer said.

However, the outlook was not so positive for the rest of the tyre industry.

“Agriculture and off-road tyres continue to be forecasted at very depressed levels – 25-30% down from pre-2014 levels,” the SBR producer added.

“I would say for those types of tires, 2016 will be very similar to 2015.

Tyre manufacturers don’t see a lot of optimism in this number going up in 2016.” There are a number of downstream tyre manufacturing facilities that are coming online, and this could increase demand for SBR.

You can rely on ICIS for all your Styrene Butadiene Rubber market intelligence needs
HOUSTON (ICIS)—Although the Latin American polyethylene terephthalate (PET) market has seen a slight demand uptick due to the start of the summer season in the region, the global PET glut is likely to keep values fairly stable during the first quarter of 2016.

Demand in most countries is expected to remain steady in the summer months. In Argentina, PET market participants will be looking at how new economic policies will affect the market. The country ended the restrictions on US dollars entering the market and also announced a currency deprecation.

The policies are aimed at opening Argentina’s economy to imports. The net effect of the policy changes is that petrochemical prices could drop in the country as more imports enter the market.

For PET, the end result could be a softening of what has long been the highest prices in the world. Because Argentina has one producer – DAK – and has had a closed, protectionist economy, PET prices have been inflated.

PET buyers have long wanted more competition in the country.

Sources said this week that they were expecting producers to keep prices steady until February, and then decrease prices to reduce the gap with potential imports.

Colombia could continue to see currency devaluation, further putting a damper on that country’s once-hot economy.

Cheaper Asian imports threaten the market. Moreover, higher-than-expected rates of inflation could also slow down the country. Brazil is not expected to see any increase in PET demand, and the country’s glut could get worse. Petroquimica Suape (PQS) has started its second PET line, which has a capacity of 200,000 tonnes/year. The company has said it will export the excess material to the US, but the US is also struggling with too much PET. In addition, Brazil’s central bank expects GDP to fall by well over 2% in 2016, continuing the pessimistic projections for the country’s economy.

In Mexico, things are likely to remain stable, as that country’s PET market – like the US’s – experiences slowing during the winter. However, things could pick up in the spring, ahead of the busy beverage consumption season in the summer.

PET prices in Chile were slightly up at the end of 2015, but sentiment is that cheaper prices in Asia could possibly keep prices flat in early 2016.

You can rely on ICIS for all your PET market intelligence needs
US OXO-ALCOHOLS EXPECTED MOSTLY STABLE
By Larry Terry | 22 December 2015

HOUSTON (ICIS)—US oxo-alcohols demand is generally expected to track GDP growth in 2016, with prices heavily influenced by propylene if the feedstock stabilises during the first half of the year.

US paint and coatings demand, which usually peaks in the spring, is a key driver of the oxo-alcohols market, especially its derivatives butyl acrylate (butyl-A) and glycol ethers. Heightened seasonal demand in the first half of 2016 could bring price-hike initiatives, buyers said, despite the oversupply of oxo-alcohols n-butanol (NBA) and 2-ethylhexanol (2-EH).

Part of the oversupply will stem from...
weakness in China, which will continue to push imports into the US, a source said.

Full-year demand is likely to be in line with US 2016 GDP growth recently forecast at 2.6%, some sources have suggested, but it may take all of 2016 and beyond for the market to absorb the current supply overhang, a distributor asserted.

Late in 2015, however, producers successfully defended margins that had been severely eroded as upstream propylene weakness persisted for most of the last year, mildly resurgent only since October.

That approach is expected to continue at least early in 2016, as sellers attempt to recapture margins that are more “sustainable” than was seen in 2015.

Recently, US propylene has been firming up on some production decreases at the cracker level, stemming from a switch in focus to ethane cracking. Additionally, refiners are producing less propylene and drawing down inventories, although stockpiles remain high.

Propylene inventories are difficult to predict because that depends on the popularity and pricing of propylene precursors ethane, propane and butane in 2016, an olefins source said.

Given the rained-out spring 2015 coatings season, latent coatings demand kept buying interest active until early in Q4. Market sources hope some of that pent-up demand will surface in spring, and that the weather will be cooperative in the first half of 2016.

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However, weak energy values during 2015 are expected to persist well into much of 2016, keeping a lid on demand, and limiting propylene price strength, sources said.

Major US o xo-alcohols producers include Oxea, BASF, Dow Chemical, Eastman Chemical and Sasol.

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US OXO-ALCOHOLS EXPECTED MOSTLY STABLE
By Bobbie Clark | 30 December 2015

HOUSTON (ICIS)--The US methanol market is poised for some stability in the coming year, after capacity surged by 76.5% in 2015.

In the first quarter of 2015 alone, Methanex started up a 1m tonne/year facility in Geismar, Louisiana, and OCI expanded production at its Beaumont plant in Texas to 912,500 tonnes/year, up from 730,000 tonnes/year.

Then in October, Celanese and Mistui started up a joint venture 1.4m tonne/year plant in Clear Lake, Texas, that is currently the largest in the US.

On 30 December, Methanex confirmed that it has started up a second 1m tonne/year plant in Geismar, Louisiana.

While there are plans for at least nine more plants in the US, nothing has been finalised and construction has yet to start on any of them.

A trader said the methanol spot market likely will be under pressure in 2016, adding that any gains will be related to strength in the crude oil markets. Globally, methanol demand is mostly driven by fuel applications, especially in China, where the production of di methyl ether (DME) and direct gasoline blending is prevalent.

The burgeoning methanol-to-olefins (MTO) movement in China has slowed as a result of low oil prices, which make naphtha, another olefins feedstock, much more competitive.

A broker said the decline in spot prices this year will likely lead to a change in future methanol contracts.

Prior to 2015, the spot methanol market was much more volatile because of the unpredictable supply situation.

Much of the market had to rely on supplies from Trinidad and Tobago and Venezuela, where feedstock natural gas curtailments and production issues were the norm.

As a result, spot prices were unpredictable and most of the market set up contracts

<table>
<thead>
<tr>
<th>Company</th>
<th>Capacity (tonne/year)</th>
<th>Location</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yuhuang Chemical</td>
<td>1.7m</td>
<td>St James Parish, Louisiana</td>
<td>Construction starts at end 2015</td>
</tr>
<tr>
<td>G2X Energy</td>
<td>1.4m</td>
<td>Lake Charles, Louisiana</td>
<td>Construction starts at end 2015</td>
</tr>
<tr>
<td>Syngas Energy</td>
<td>0.5m</td>
<td>St James Parish, Louisiana</td>
<td>Construction starts Q2 2016</td>
</tr>
<tr>
<td>South Louisiana Methanol</td>
<td>1.9m</td>
<td>St James Parish, Louisiana</td>
<td>Air permit, land acquired</td>
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<td>Celanese/Mistui</td>
<td>1.3m</td>
<td>Bishop, Texas</td>
<td>N/A</td>
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with very little exposure to the spot market.

Now that methanol spot prices have hit a six-and-a-half year low, that contract dynamic may change, as buyers feel secure with more exposure to the spot market.

The methanol spot price is at its lowest level since 17 July 2009, when the price was 61.5 cents/gal, when the US was just recovering from the worst recession in decades.

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US ACRYLIC ACID MARGINS WILL BE A PRIORITY
By Larry Terry | 22 December 2015

HOUSTON (ICIS)—With US acrylic acid margins eroding throughout much of the past year as contract values tracked persistently weak feedstock propylene downward, returning margins to “healthy” levels is expected to be a priority especially in the first half of 2016. US paint and coatings demand, which usually peaks in the spring, is vital to producers of acrylic acid and its esters because of the use of the monomers in industrial, architectural, marine and other coatings. That demand is likely to bring 1H price-hike efforts, a producer said, but not because volumes are expected to increase remarkably in 2016.

Year-on-year demand may improve – probably tracking US 2016 GDP growth recently forecast at 2.6%, some sources have suggested. Another buyer was more optimistic, pegging improvement at 5-7% higher than in 2015, although volumes will still lag peak levels seen in Q3 2014, mostly held lower by soft energy values.

Price initiatives are more likely to be driven by a need to protect and expand margins, a seller said. “There’s been a consistent decline in prices and margins for the past year or longer,” the producer said. “Part of it has been driven by raw materials, but the reality is that things have gotten so competitive that we’ve ended up with returns that are just not sustainable.

So the market needs to be recalibrated.”

Additionally, the seller said, “because of where the returns on margins have been, we likely will see more price increases.”

In the meantime, buyers expect the market to remain at least moderately oversupplied, barring any unplanned outages interrupting supply. On that front, there is growing concern about plant reliability in 2016, given that planned maintenance was mostly postponed in 2015 because of poor economics. “The biggest concern for buyers at this point should be the delayed turnarounds by the glacial acrylic acid (GAA) producers,” a buyer said.

“In my opinion, GAA producers are running with minimal inventory due to slow demand, and any operational upset could immediately push prices sharply higher or worse, result in short market for a period of time.” A seller conceded that some “fallout from delayed maintenance” is likely within the next 12-18 months if no turnarounds are undertaken.
On the feedstock front, propylene may continue to experience the kind of moderate price strength that surfaced in October and November and was expected for December.

Major US acrylates producers include Arkema, BASF and Dow Chemical.

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TURNAROUNDS TIGHTEN US VAM, ACETIC
By Bobbie Clark | 30 December 2015

HOUSTON (ICIS)—US vinyl acetate monomer (VAM) supplies will be tight to start 2016, as 41.3% of capacity will be in turnaround during the first quarter. Dow Chemical and Kuraray will conduct maintenance on their plants after the New Year. Meanwhile, LyondellBasell continues to rebuild supplies after a planned maintenance turnaround that began in September devolved into a force majeure on VAM and acetic acid that lasted through the end of 2015.

LyondellBasell’s 385,000 tonne/year VAM unit and 544,000 tonne/year acetic acid unit, both in La Porte, Texas, were scheduled to start back up in late October, but equipment problems forced a delay. Customers were put on sales allocations for both products. Market sources said the force majeure was expected to be over once the New Year began. Accordingly, a buyer said they expect prices to rise further after the first of the year, especially with production issues in Asia, creating an even tighter global supply situation.

US VAM capacity

<table>
<thead>
<tr>
<th>Company</th>
<th>Location</th>
<th>Capacity</th>
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<tbody>
<tr>
<td>Celanese</td>
<td>Bay City, Texas</td>
<td>300,000 t/yr</td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>Texas City, Texas</td>
<td>365,000 t/yr</td>
</tr>
<tr>
<td>LyondellBasell</td>
<td>La Porte, Texas</td>
<td>385,000 t/yr</td>
</tr>
<tr>
<td>Polymers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DuPont de Nemours &amp; Co</td>
<td>La Porte, Texas</td>
<td>80,000 t/yr</td>
</tr>
<tr>
<td>Eastman Chemical Co</td>
<td>Kingsport, Tenn</td>
<td>277,000 t/yr</td>
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<td>Eastman Chemical Co</td>
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<td>590,000 t/yr</td>
</tr>
<tr>
<td>LyondellBasell</td>
<td>La Porte, Texas</td>
<td>544,000 t/yr</td>
</tr>
</tbody>
</table>

Additionally, Celanese announced in November that it will expand its VAM capacity in North America by 150,000 tonnes/year. Celanese will raise its total VAM capacity at its Clear Lake plant in Texas to about 450,000 tonnes/year, making it the largest such plant in the world. The expansion will be complete in 2018. The company plans to make incremental increases to capacity during that time. However, Celanese said they have the capability to increase capacity as the market dictates.

Meanwhile, the US acetic acid market has also experienced supply tightness as a result of the LyondellBasell force majeure on acetic acid. However, the company’s simultaneous
force majeure on VAM, which is a key downstream derivative, has helped to balance the market.

The second round of VAM turnarounds during the first quarter will help to alleviate market tightness. Spot prices remain steady, but demand will be weaker in the first quarter.

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SUPPLY LEAVES US FATTY ACIDS BEARISH
By Leela Landress de Perez | 31 December 2015

MEDELLIN, Colombia (ICIS)--US fatty acids supply is likely to remain long and pricing low through 2016 amid low feedstock prices and overcapacity as rationalisation and new uses remain distant targets.

The fatty acids market globally probably has about 2m tonnes/year of excess capacity, a source said.

There is talk in the sector about consolidation and shutdowns as being the solution to the oversupply. However, some industry experts do not agree.

“Some of the most profitable plants today are the oldest,” a consultant said.

US tallow based fatty acids prices have trended lower throughout 2015.

Another possible solution being discussed is new uses, but the sector has not seen any large new uses arise in recent years, the source said.

In previous years, the oleochemical sector looked to demand in China as the solution to overcapacity. However, that scenario looks to have changed in the past year.

China’s economy will continue to grow at slower rates in coming years as it rebalances from a manufacturing model toward consumption and services, the Organisation for Economic Cooperation and Development (OECD) recently said.

With growth expected at 6.8% in 2015, China’s GDP will continue to decline gradually thereafter with growth forecast at 6.5% in 2016 and 6.2% in 2017.

The outlook for oleochemicals also looks bearish as feedstock prices are forecast to remain low. Historically, in the oleochemicals industry, low feedstock prices also equate to low margins for the sector, the consultant said.

Experts think that fats and oils prices will remain low in the foreseeable future, with the exception of climate and mandates.

The El Nino weather pattern typically supports palm prices, as the dry weather it brings to Southeast Asia curbs yields and hits production. But Indonesian output could remain steady as new plantations mature.

El Nino occurs when winds in the equatorial Pacific slow down or reverse
direction. That warms water over a vast area, which in turn can upend weather around the world.

Australia’s weather bureau recently said the current El Nino event is near peak intensity and likely to persist well into 2016, although some indicators are showing signs of easing.

In addition to a possible strong El Nino this year, another possible boost to the feedstocks could be biodiesel mandates. Indonesia is aggressively looking at mandates of 15% biodiesel, which could take out 5m tonnes of palm oil.

Indonesia, the world’s top palm oil producer, is promoting the use of biodiesel in an attempt to create new demand for the tropical oil and cut the country’s oil import bill.

In July, it began collecting a $50/tonne levy on crude palm oil (CPO) exports to fund increased biodiesel subsidies and raised the minimum blend in biodiesel fuel used for transport to 15% from 10% previously.

This will rise again in 2016 to 20% and in 2020 to 30%. Despite the push, motorists are still able to also buy regular diesel at most outlets and it remains the preferred transport fuel for most Indonesian motorists, experts in the sector said.

Analysts estimate that the cost of production for biodiesel is more than for diesel, and are sceptical that Indonesia can enforce and achieve its 2016 targets after failing in previous years.

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US FATTY ALCOHOL FACES IMBALANCE

By Judith Taylor | 31 December 2015

HOUSTON (ICIS)–The US fatty alcohol market is facing a continued supply/demand imbalance going into 2016, with little relief expected throughout the first quarter. Plummeting petroleum crude oil prices knocked a hole in US horizontal drilling and fracking activity, significantly reducing the use of surfactants (surface active agents) tied to the shale and tight oil production boom.

Mid cut detergent range alcohols in the C12-15 natural and synthetic, C12-14 and C12-16 natural cuts had hopeful prognosis for 2015 to be a buoyant year for sales because of the fresh demand outlets offered for surfactants in Enhanced Oil Recovery (EOR) operations and other surfactant-related options in the booming US shale and tight oil sector.

With tepid prospects for this part of surfactant demand, the outlook for 2016 is unlikely to offer a consistent outlet for burgeoning supply of natural alcohols from Asia. The US is a large net-importer of natural fatty alcohols that use either palm kernel oil (PKO) or coconut oil (CNO) as feedstocks, with minimal domestic production of naturals.

However, there are two domestic synthetic producers as Shell makes mid cut alcohols through ethylene-based processes and Sasol produces via its gas-to-liquids (GTL) process. The 2014/early 2015 demand boom attracted several fresh and aggressive players in the import side while low-cost ethylene and natural gas prices sharpened the appetite of domestic synthetic alcohol producers for possible market share gains.

Since US alcohol prices and demand are widely considered a strong sales option globally, additional importers are attracted to the region, drawn by the relative regional stability but also attracted because of the natural alcohol oversupply condition in Asia.

An estimated 800,000 tonnes of additional natural fatty alcohol production capacity was slated to come on-stream by 2015, but most US sources say not even half of this is active and some question how much of the purported new capacity was even completed.

A near-market for this additional capacity was supposed to be China. But China’s demand for alcohols fell aside rapidly in 2015, leaving exporters in Asia with an abundant oversupply of natural fatty alcohols.

The effects on the flood of mid cut alcohols into the US market are shown in the following graph that tracks the price trend for the year.

The margin differential offered by ethylene-based production is an attractive one as ethylene prices have drifted down.

Another factor is that natural gas prices in
the US are also highly moderated, offering lower production costs overall and some benefit to GTL production processes.

These factors also counter the production and feedstock costs in Asia as well as costs incurred from trans-Pacific shipping and US storage, making 2016 a year to watch for the US fatty alcohol sector.

The following chart shows the typical placement of fatty alcohol production in the oleochemical process route.

You can rely on ICIS for all your Fatty alcohols market intelligence needs.
HOUSTON (ICIS)–US butyl acetate (butac) demand will likely track GDP growth in 2016, even as pricing will tend to follow the pace of upstream propylene, market sources said.

US paint and coatings demand, which usually peaks in the spring, is important to butac producers, so demand within that market will be another harbinger of butac demand levels. Butac demand will probably be resurgent on spring interest in coatings despite ample supply, but full-year demand will likely be in line with US 2016 GDP growth recently forecast at 2.6%, some sources have suggested.

Spring 2015 coatings demand was severely dampened by rain and otherwise inclement weather, although latent demand kept buying interest active until early in Q4. There may still be some pent-up demand ahead, stemming from the previous spring and summer, sources said.

However, weak energy values during 2015 are expected to persist well into much of 2016, keeping a lid on demand.

As for input costs, the US propylene market has been firming up on some production decreases at the cracker level, stemming from a switch in focus to ethane cracking.

Additionally, refiners are producing less propylene and drawing down inventories, although stockpiles remain high.

Although butac pricing in recent months has been driven more by margin protection than propylene values, the feedstock is likely to experience more stable supply in the near term despite some expected improvement in polypropylene (PP) demand.

Propylene inventories are difficult to predict because that depends on the popularity and pricing of propylene precursors ethane, propane and butane in 2016, an olefins source said.

Generally, butac sources expected market conditions to reflect the broader economy’s GDP pace, with no near-term significant market-moving conditions expected.

"In January a couple of years ago, there was a large uplick in demand," a distributor said.

“We had to increase our volumes to have
the material we needed for customers. So we could see that again, and the middle of January is usually when that happens.” Major US butac producers include Dow Chemical, Eastman Chemical and Oxea.

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SELLERS TO BENEFIT FROM US PHENOL/ACETONE SHIFTS
By Dustin Hall | 05 January 2016

HOUSTON (ICIS)—Recent shifts in US phenol/acetone production are expected to benefit sellers in 2016, with reductions in domestic capacity seen supporting efforts to raise prices.

2015 marked an unusually active year in the market, with one major production facility shuttered permanently and another idled for several months as sellers struggled with profitability following sharp declines in commodities prices.

Producer Axiall closed its Louisiana phenol/acetone plant following the sale of its aromatics business to INEOS Phenol in October, while Haverhill Chemicals sold its idled Ohio plant to Altivia Petrochemicals in November following Haverhill’s Chapter
With a backdrop of reduced production capacity and fewer players in the market as 2016 contract negotiations began, sellers believed they were in a better position to move prices up to levels they view as healthier.

Market participants have said 2016 contract adders are at a range of 4-6 cents/lb higher than 2015 levels.

Imports of acetone from Asia are expected to continue, with US production directly linked to demand for primary product phenol. Growth for both products is expected to be limited to the increase in gross domestic product (GDP).

Major US phenol/acetone producers include Altivia Petrochemicals, Dow Chemical, Honeywell, INEOS Phenol and Shell Chemical.

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US EPOXY IMPORTS, MMA DEMAND KEY FOR GROWTH
By Dustin Hall | 05 January 2015

HOUSTON (ICIS)--Two major chemicals in the US coatings industry, methyl methacrylate (MMA) and epoxy resins, will have different focuses in 2016 when it comes to keeping growth steady.

US methyl methacrylate (MMA) contract pricing will continue to be driven by movement in feedstock barge acetone in 2016.

Barge acetone fell to a six-year low in 2015 driven largely by weakness in upstream refinery-grade propylene (RGP). MMA prices declined throughout much of the year as a result of the feedstock movement.

In addition, soft MMA supply/demand fundamentals are likely to extend into the new year. Buyers and sellers generally agreed that the key paint and coatings season failed to meet expectations in 2015, with adverse weather and weak macroeconomic conditions cited as factors.

Coatings applications drive much of the domestic demand for MMA, with the construction sector seen as a market bellwether.

Coatings and construction also play a major role in epoxy resin demand, as does oilfield activity for oilfield resins.

However, the biggest focus for the US epoxy resin market in 2016 is the status of imports of lower-priced material from Asia.

Expectations that crude oil will remain low are expected to keep overseas benzene and propylene values low, allowing for Asian producers to offer lower-priced product.

With oversupply in the market, only strong demand in Asia tends to keep imports from pushing into the US market and increasing competition for market share.

This has US epoxy resin producers looking to tamp down on expectations of growth in 2016 to around gross domestic product (GDP) levels, even as low feedstock costs could lead to improving demand in the US.

MMA market participants have said they are also expecting growth in line with the US GDP, currently projected between 2-3%.

MMA is a liquid monomer used primarily to produce resins and acrylic polymers. It is...
used in the production of surface coatings and acrylic sheeting.

Major US producers of MMA include Arkema, Dow Chemical, Evonik and Lucite.

Major US producers of epoxy resins include Hexion, Huntsman and Olin.

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US SOLVENTS COULD HOLD AT HISTORIC LOWS
By Adam Yanelli | 30 December 2015

HOUSTON (ICIS)--Participants in the US solvents markets do not foresee any factors that would cause prices to rise significantly in 2016 from their current historic lows.

For US methyl ethyl ketone (MEK), some sources have suggested there is still room for prices – which have been suppressed largely because of pressure from less expensive Asian material, ample supply and softer upstream costs - to drop further.

"I really do not see this as being the bottom," a source said. "I can see it going to the low-50s cents/lb or even the upper 40s sometime after the first of the year.

Part of the reason is still the imports, but a lot of it right now is just that the American market is following oil for a change."

Others have said they think MEK is at a bottom.

"I do think we are at the bottom because Asia seems to be pushing higher and the arbitrage window has closed, in my opinion," another source said.

In the US isopropanol (IPA) market, many participants were expecting the market to be flat-to-soft in the first quarter.

Then, US supplier Shell announced it is seeking a 2.5 cents/lb ($55/tonne) price increase for IPA effective 1 January, or as contracts allow.

The company did not give a reason for the increase, but like many propylene derivatives, the IPA price is tied directly to value changes in feedstocks.

Propylene values – after falling steadily for most of the year – rose by 1 cent/lb for November contracts and by a half-cent for December contracts.

IPA prices are at multi-year lows tracking feedstock propylene values, which are down more than 35% from January 2015.

Like IPA, values in the US methyl isobutyl ketone (MIBK) market are connected to the price of propylene, as well as acetone prices. MIBK tends to be a quiet market, with little movement.

And like IPA, MIBK values are at their lowest of the year.

In the US ethyl acetate (etac) market, participants will be watching during the first quarter of 2016 to see if a 5 cents/lb
price hike by producers to the distributor price will hold.

Etac, like the other solvents, was at historic lows when producers separately sought increases in early and mid-November.

A distributor source said that while it has seen the price increase generally accepted, it was still too early to tell if it would take hold for the long term. Distributor sources previously said that supply remains ample and demand flat, factors that would not support an increase.

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US PA CONTRACTING, MA EXPANDING
07 January 2016

NEW YORK (ICIS)–The US phthalic anhydride (PA) market is expected to lose out on competitive pricing in 2016 as a major player exits, while the US maleic anhydride (MA) market could see improved supply year on year.

The exit of BASF from the market leaves only two major domestic PA producers that sell to the merchant market. Stepan and Koppers will be left. ExxonMobil produces PA for captive consumption.

“This will hurt the competitive nature of pricing on PA. I do think that we’ll see upward pricing on PA going forward as a result,” a market source said.

Monthly US PA contract prices typically settle on the delta of the previous month’s feedstock orthoxylene (OX) contract. This mechanism will remain in place, but the adder number used in the PA formula pricing could move up.

US PA contracts vs. OX contract (cents/lb)

BASF’s exit will not likely impact availability, sources said. PA supply is ample and demand is typically flat year-round.

BASF is ending production of molten PA at its Pasadena, Texas, plant because it is converting the plant to production of diethylhexyl terephthalate (DOTP), a plasticizer, BASF said in late October.

Meanwhile, US MA supply should be improved as Canadian producer Bartek moves more product into the market.

The company said it completed an MA reactor in the third quarter, and US buyers have said that an increase in spot MA availability was noticeable in the fourth quarter.

Additionally, several planned outages throughout 2015 should keep turnarounds limited in 2016.

The major driver for MA prices in 2016 is expected to be feedstock butane costs, which have been significantly lower on falling commodity markets.

Demand is mostly expected to grow alongside the US gross domestic product (GDP), especially if exports to Asia stay flat on weak demand in that region.

Major US MA producers include Ashland, Flint Hills Resources, Huntsman and LANXESS.
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US GLYCERINE MARKET FACES LONG SUPPLY
By Leela Landress de Perez | 31 December 2015

MEDELLIN, Colombia (ICIS)--The US glycerine market is facing lengthening supply going into 2016 because of increased refining capacity and prolific imports hitting US shores.

“Over capacity, over supply globally,” said a large seller. “Imports continue to come in, domestic refining capacity continues to increase. If domestic demand is staying flat at best, prices will come down.”

Louis Dreyfus Commodities announced in August that it is adding a glycerine refinery to its soybean crushing and biodiesel plant in Claypool, Indiana, with construction expected to be complete by the end of 2015.

The new refinery will be a large plant, producing US pharmacopeia (USP) grade kosher refined glycerine, with a capacity of 80m lbs/year.

It should allow the plant to process up to 100% of its crude glycerine production into USP-grade kosher refined glycerine, the company said.

In October 2012, Vantage Specialty Chemicals announced plans to expand its oleochemical production capacity for refined glycerine at its Chicago, Illinois, facility.

The refined glycerine expansion added a kosher vegetable glycerine unit into the facility, adding to the tallow USP glycerine production now done at the Food and Drug Administration (FDA) registered facility.

The company did not release specifics on the amount of additional glycerine production capacity to be added to the Chicago facility.

The exact production capacity for kosher refined glycerine in the US is a closely guarded secret by each producer, but there is an estimated minimum of 550m lbs/year (250,000 tonnes/year) of domestic production. Over half of that targeted for captive use, while the remainder is sold into premium accounts that require kosher specification, sources said.

On the trade side of the supply scenario, there has been a decline of imported refined glycerine so far this year. However, with almost 133,000 tonnes imported in 2014, there was some surplus length in the market throughout 2015, sources said.

The US historically has been a net importer of refined glycerine, with demand estimated at about 470,000 tonnes/year, which includes captive consumption.

The current refining capacity is at about 365,000 tonnes/year across all tiers.

With the added capacity expected in 2016, demand for imported product is unlikely to top 100,000 tonnes, sources said.

Tracking rates from Q1, Q2 and Q3 this year, a producer said imports are about 130,000 tonnes for 2015.

US refined glycerine imports have decreased by 14% year to date (YTD) through October year on year, according to data from the US International Trade Commission (ITC).

<table>
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<td><strong>Argentina</strong></td>
<td>26,106</td>
<td>13,129</td>
</tr>
</tbody>
</table>

Oleochemical players say it will take...
much of 2016 for new capacity to find established sales channels and that product from that capacity is likely to sell into the technical and some vegetable markets until then.

"Here is fight for market share as improved global supply and demand projected and expected by end 2016," said a large seller.

"Plus reduced 2016 prices are due to lack of demand from China, lack of domestic demand in South America, the desire to export some out of Europe and the need for the Asian producers to put additional product into the US.

Then the settlement of the [biodiesel] mandate and the entrance of [Louis] Dreyfus puts even more volume into the US marketplace."

The US refined glycerine market for all grades has seen prices soften this year, as oleochemical producers, importers and domestic biodiesel producers fight for market share.

US refined glycerine suppliers include Procter & Gamble, Vantage Oleochemical, Emery Oleochemical, Twin Rivers Technology, Peter Cremer North America, ADM, Cargill, Owensboro Grain, Louis Dreyfus and Future Fuels among others.
STEADY BUT SOFT UPSTREAM DRIVES ISOCYANATES
By Ron Coifman | 05 January 2015

HOUSTON (ICIS)—Initial talk about the first quarter outlook for US toluene diisocyanate (TDI) markets pointed to flat pricing from the fourth quarter of 2015 on support from steady upstream markets, according to industry participants.

Toluene prices have been range-bound since mid-September at around $2/gal, after falling from more than $3/gal in June and July during the summer fuel season. Crude oil prices fell since January 2015, and were hovering around $40/bbl in early December 2015.

Sources said that the crude oil market is now gauged only as moderately volatile, even as prices fluctuate between the high $30s/bbl to $50/bbl, swings which no longer surprise industry participants. Only a dramatic shift in crude oil prices could have a significant impact on markets and modify isocyanates price direction, sources said.

TDI supply is abundant around the world, according to sources. In November, BASF inaugurated a new 300,000 tonne/year TDI plant in Ludwigshafen, Germany, while some TDI plants in Asia are not operating at full capacity. Although industry sources described US isocyanates activity as in line with seasonality from key consuming sectors such as bedding, furniture and automotive, overall demand slowed in December because of year-end destocking, the shorter work month and the holidays.

Several factors may be contributing to the stable TDI market outlook in the US, among them: the steady contact with US sellers, reliable contract supply of domestic isocyanates, balanced US market fundamentals, reasonable margins, and US producers’ firm price stewardship.

In South America, however, US TDI continues to be offered aggressively, meeting low-priced quotes from Asia, sources said.

Several Latin American countries were plagued by devaluations against the US dollar in 2015, making products more expensive in local currencies and reducing demand. With the exception of the continuing deterioration of Brazil’s economy, South American countries’ markets appeared more stable by end-December of 2015. On the brighter side, other countries in Latin America were performing satisfactorily, according to sources in the region. However, despite greater stability, participants in countries in Latin America were not projecting stellar performances. At best, demand is expected to remain steady but moderate into early 2016.

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HOUSTON (ICIS)--Mexico will continue opening its energy sector in 2016 while its economy continues to grow by moderate rates.

Mexico, Latin America’s second largest economy, should grow by 2.8% in 2016, according to the International Monetary Fund (IMF). While the rate is not spectacular, it beats the two other large economies in Latin America, Brazil and Argentina.

Brazil’s deep recession should continue in 2016, while Argentina’s GDP should decline slightly, according to the IMF.

Mexico’s growth can be attributed to its close economic ties with the US and to the economic reforms that it has adopted over the past several years, said Jose Valera. He is a partner at the Houston office of the Mayer Brown law firm.

Those reforms range from trade agreements, privatisation and central-bank autonomy.

Autonomy helped the central bank keep inflation at 40-year lows, even though the Mexican peso lost 15% of its value.

Mexico is now undertaking another round of reforms by opening up its energy sector. For decades, state-owned energy producer Pemex was the only entity allowed to produce oil, natural gas and natural gas liquids (NGLs). Only Pemex could refine oil, import fuel and sell gasoline and diesel.

President Enrique Pena Nieto signed off on the energy reform legislation last year, opening up Mexico to private investment for the first time in 75 years.

The reforms are intended to attract investment into Mexico’s energy sector. While Mexico exports oil, it has deficits in every other type of hydrocarbon.

Imports satisfy 50% of gasoline demand, 20% of natural gas and 30% of liquefied petroleum gas (LPG).

If the reforms are successful, they can attract the investment needed to
increase energy production and provide the feedstock necessary to expand the nation’s petrochemical industry.

Mexico will deplete its supplies of excess ethane with the start-up of the Ethylene XXI integrated polyethylene (PE) project. The rate in which Mexico can replenish its ethane supplies will depend on the success of its energy reforms.

Already, companies other than Pemex have been bidding on exploration blocks. The first phase of Round One did not attract a lot of qualifying bids, Valera said. These companies did not know what the minimum bid had to be until after they made their submissions. Hence, only a small number of bids qualified.

During the second phase of Round One, the government disclosed the minimum bid in advance, Valera said. As a result, there were far more qualifying bids. The offers for the third phase of Round One were due in December 2015, Valera said.

The third phase could attract a good amount of participation – based on the number of companies that went through the pre-qualification process, Valera said. The government should also issue the tender rules this month for phase four of Round One, the deep-water phase.

This could also attract bids – judging by the recent lease sale the US conducted for the outer continental shelf (OCS), Valera said.

While companies are reducing expenditures, they are not eliminating them, Valera said. Oil and gas producers still need to replenish their reserves, despite the drop in crude prices.

“The very large companies will still look for opportunities worldwide to keep themselves in business,” Valera said. Round Two should start in 2016.

In Mexico’s fuel markets, starting in 2016, other firms will be able to start importing diesel and gasoline. In addition, companies other than Pemex can start selling gasoline from service stations.

In 2017, gasoline and diesel imports will open up. In 2018, markets will replace the government as the price setter for diesel and gasoline.

That same year, companies outside of Pemex can start refining oil in Mexico. Mexico’s reforms are taking place at a time of plummeting oil prices, creating a sense of urgency.

Oil exports from Pemex flow into the country’s treasury, where they pay for ongoing, ordinary government expenditures, Valera said.

When oil prices were high, they made up a third of the government’s revenue, he said.

Mexico needs to increase oil production to make up for the loss of revenue resulting from the drop in oil prices, Valera said.

Pemex itself is struggling because of the drop in oil prices. It reported a Q3 2015 loss of Mexican peso (Ps)167.6bn, equal to about $10bn.

The challenge for Mexico is to conduct as many auctions as possible so it can replenish its reserves, increase production and make up for the decline in revenue, Valera said.

In a sense, the reforms could not have come at a better time.

Already, Mexico has a good recent track record of overseeing its economy and treating foreign investors well, he said.

The country’s energy reforms should give the industry confidence that its investments will be protected under a predictable regulatory regime.

Mexico’s reforms and its investor friendly track record should help it compete against other countries in attracting foreign investment.

“The competition for capital is fierce all over the world,” Valera said. “Those who are going to win that competition are those that distinguish themselves for security, stability, predictability and low political risk.” Valera added: “Investors today are in the driver’s seat. They look at the world map and they have many places to choose from.”

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SLOWDOWN LOOMS FOR SOUTH AMERICA
24 December 2015

HOUSTON (ICIS)--South America’s two largest economies will likely shrink next year, with Brazil’s downturn showing no signs of bottoming out and Argentina deprecating its currency.

Brazil’s Q3 2015 GDP fell by 1.7% quarter on quarter and 4.5% year on year.

The latter was Brazil’s worst performance since it adopted its new GDP reporting regime in 1996.

The bad performance surprised Marimar Torreblanca, an analyst at UBS, who now expects Brazil’s GDP to shrink by 3.6% in 2015.

Economists surveyed by the nation’s central bank expect GDP in 2016 to contract by well over 2%.

Brazil’s economy began shrinking year on year in the second quarter of 2014.

The economy has contracted in every quarter since.

Brazil’s prospects worsened when investigators unveiled a massive corruption scandal called Lava Jato, Portuguese for car wash.

Under it, contractors allegedly paid state energy-producer Petrobras executives bribes in return for inflated contracts.

A portion of the money went to politicians. Petrobras is regarded as Brazil’s most important company, and it is a major source of jobs and investment. Petrobras’s entanglement in the country’s biggest-ever corruption scandal was another blow to Brazil’s economy.

Normally, central banks would lower interest rates to stimulate GDP. However, lower rates can also push inflation higher, and Brazil’s rate exceeds 10%, well above the country’s target of 2.5-6.5%.

As a result, the Central Bank of Brazil has kept the key Selic interest rate at a high 14.25% – despite the country’s deep recession.

Economists expect inflation will remain above target in 2016, and the Selic interest rate will remain near 14.25%.

Meanwhile, the government needs to rein in spending, according to Moody’s Investors Service. However, the political cooperation needed to control government spending is becoming less likely.

Dilma Rousseff is facing impeachment proceedings while the speaker of the lower legislative chamber, Eduardo Cunha, could face an ethics probe.

Political stalemate makes it unlikely that Brazil will resolve its worsening fiscal outlook, Moody’s said.

The agency is considering whether it will downgrade Brazil’s ratings to speculative grade or junk. If Moody’s were to do that, it would join Standard & Poor’s.

Fitch Ratings, the third major ratings agency, has downgraded Brazil’s ratings to one notch above junk with a negative outlook, meaning it could lower the country again.

If two of the three ratings agencies downgrade Brazil to speculative status, then some institutional investors will be forced to sell their Brazilian assets.

Brazil’s gloomy economic outlook makes it increasingly unlikely that petrochemical producers will expand capacity anytime soon.
Braskem has no timeline for an expansion of its gas cracker in Duque de Caxias in Rio de Janeiro state. Construction start-up will depend on securing a long-term ethane contract.

Meanwhile, Petrobras has cancelled several refining and fertilizer projects because of the Lava Jato scandal. Styrolution and Braskem suspended a styrenics joint venture because of Brazil’s poor economic outlook.

Synthos cancelled a neodymium polybutadiene (Nd-PBR) project because it could not secure feedstock.

The most notable suspension was that of the petrochemical portion of Comperj, which was originally envisioned to be a massive complex in Rio de Janeiro state.

Argentina’s outlook is not as worrisome as Brazil’s, but its economy is still expected to shrink next year – by -0.7%, according to the International Monetary Fund (IMF).

The country’s new president, Mauricio Macri, has pledged to adopt business-friendly policies that will restore growth to the country and reverse the populist measures adopted by the previous two heads of state, the late Nestor Kirchner and his wife, Cristina Fernandez.

Nestor Kirchner’s response to the country’s default in 2001 led to a group of creditors holding out for better terms.

The resulting dispute locked Argentina out of foreign-debt markets.

Reaching a deal with the hold-out creditors will allow Macri to adopt other policies that could improve the economy and attract foreign investment.

If Argentina could raise foreign debt, it could remove its restrictive currency controls, which were intended to preserve its reserves of dollars.

These foreign-exchange controls discouraged energy production because it made it difficult to import supplies and to repatriate pesos.

Macri could also encourage energy production by removing price caps and subsidies.

However, he will face substantial challenges in adopting these policies. He defeated Fernandez’s hand-picked successor, Daniel Scioli, by a slim margin.

Venezuela’s Congress is in a fight with President Nicolas Maduro, whose party still controls the courts, the military and the nation’s oil. (Source: Xinhua News Agency/REX Shutterstock)

Moreover, Scioli’s allies head the majority of the country’s provinces, and they still hold majorities in both of Argentina’s legislative chambers.

Critically, Macri will need to pass legislation before he can reach some sort of agreement with the hold-out creditors.

Even if Macri wins the support for his policies, executing them successfully will be tricky.

He will be removing the country’s popular energy caps and subsidies at a time when GDP is expected to shrink.

The loosening of foreign-exchange controls could lead to a precipitous decline of the Argentine peso (Ps).

Already, the official exchange rate stands near Ps9.75 versus a black-market rate of 14.74.

A discrepancy that large increases the chance that a devaluation could create its own momentum, threatening a collapse of the peso.

Even a controlled devaluation could be problematic since Argentina’s inflation is running at 25%. A weaker peso could further increase inflation.

However, if Macri is successful, it could unleash a wave of investment into the country.

Among South America’s smaller economies, Colombia, Chile and Peru will continue growing, although at much slower rates.

Venezuela should grow by 2.5% in 2015 and 2.8% in 2016. In 2013, it grew by 4.7%, according to the IMF.

Likewise, Chile is 2.3% in 2015 and 2.5% in 2016, versus 4.2% in 2013. Peru is 2.4% in 2015 and 3.3% in 2016, versus 5.8% in 2016.

All three countries raised interest rates in 2015 to bring inflation under control, Fitch said. They could be forced to raise interest rates again in 2016 if the US continues to raise its rates as expected.

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<tr>
<th>Economy</th>
<th>(US dollars)</th>
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<td>China</td>
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<td>Japan</td>
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<td>Argentina</td>
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<tr>
<td>Colombia</td>
<td>377,740</td>
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<tr>
<td>Chile</td>
<td>258,062</td>
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<tr>
<td>Peru</td>
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Meanwhile, Venezuela’s GDP will likely shrink by 10% this year, the worst in the Western Hemisphere, according to the IMF. It will contract by another 6.0% in 2016.

Inflation stands at about 200%, according to Francisco Monaldi, a fellow in Latin American energy policy at Rice University’s Baker Institute for Public Policy. He made his comments during a panel about the Venezuelan elections, hosted by the World Affairs Council of Houston.

Recently, opposition candidates had won a large majority during recent elections for the Venezuelan Congress, opening the prospects for economic reform in the statist country.

New policies could remove the onerous and complex system of currency controls have starved petrochemical producers and plastics processors the imports they need to run their businesses.

However, Monaldi and other panellists warned that the polarised country could suffer from political paralysis as Congress struggles against the president, Nicolas Maduro. Maduro’s party still controls the courts, the military and the nation’s oil.

The following table from the World Bank lists the GDPs of the largest economies in Latin America in millions of US dollars.

For comparison, those for the world’s top five are included.

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**Embattled Brazil President Dilma Rousseff speaks during an event 22 December 2015. (Source: ddp USA/REX Shutterstock)**

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FIRMS SET FOR US EXPANSIONS

30 December 2015

HOUSTON (ICIS)--Companies will continue to start up expansion projects in 2016, along with completing new export terminals.

LyondellBasell is adding 800m lb/year (363,000 tonnes/year) of capacity to its existing cracker in Corpus Christi, Texas.

The company’s current operations in Corpus Christi have an ethylene capacity of 771,000 tonnes/year and a propylene capacity of 285,000 tonnes/year, according to ICIS plants and projects.

The big year for new ethane crackers is not scheduled to start until 2017. Chevron Phillips Chemical, ExxonMobil, Dow Chemical and Formosa Plastics are all scheduled to start up their ethylene plants – along with a joint venture made up of Occidental Chemical and Mexichem.

In Mexico, the start-up of the Ethylene XXI project in Coatzacoalcos is imminent, with production expected to begin in December or January.

The project will comprise a 1.05m tonne/year ethane cracker, two high density polyethylene (HDPE) units totalling 750,000 tonnes/year, and one low density PE (LDPE) unit of 300,000 tonnes/year.

On 30 December, Canada-based methanol major Methanex confirmed that it started up its 1m tonne/year Geismar 2 methanol plant in Louisiana – about three months ahead of schedule.

It is the company’s second facility relocated from Chile to Louisiana.

Dow’s propane dehydrogenation (PDH) plant is already mechanically completed, and start-up is imminent. The plant is in Freeport, Texas, and it has a capacity of 750,000 tonnes/year.

Enterprise expects to complete its 750,000 tonne/year PDH plant in the fourth quarter of 2016 in Mont Belvieu, Texas.

It will be the second in the wave of new PDH plants starting up in North America. After Enterprise, Formosa Plastics could be next with its 725,000 ton/year (660,000 tonnes/year) PDH unit.

In mid-2016, Chemours expects to start up its 200,000 tonne/year titanium dioxide (TiO2) plant in Altamira, Mexico.

The start-up could occur while pigment prices are still depressed, further aggravating an oversupply. However, Chemours has said that it has the lowest cost position and it will continue to hold that position going forward.

Regarding export terminals, Enterprise expects to complete its ethane terminal in Morgan’s Point, Texas, in the third quarter of 2016. It will have a
capacity of 200,000 bbl/day.

Sunoco Logistics was preparing to begin ethane shipments through its Mariner East pipeline, which will deliver the natural gas liquid to its export terminal in Marcus Hook, Pennsylvania.

Commercial operations on the pipeline should start by the end of 2015, with ramp up continuing in 2016, Sunoco said.

With the ethane portion completed, Mariner East will deliver 70,000 bbl/day of propane and ethane to Marcus Hook.

Phillips 66 plans to start up its liquefied petroleum gas (LPG) export terminal in the second half of 2016 in Freeport, Texas. It will have a capacity of 150,000 bbl/day.

Other projects starting up include Huntsman’s ethylene oxide (EO) expansion, which should be completed in the first quarter of 2016.

Meanwhile, companies could reach decisions this year regarding whether they will pursue projects in the US.

PTT Global Chemical may make a final investment decision (FID) in 2016 or 2017 on whether it will build a shale-based petrochemical complex in Ohio.

PTT is developing the project with Marubeni. Likewise, Celanese may also decide in 2016 whether it will build a second methanol plant in the US.

The company started its joint-venture methanol plant in Clear Lake, Texas, with Mitsui in 2015.

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US CHEM STOCKS FINISH A MIXED YEAR
28 December 2015

HOUSTON (ICIS)--US petrochemical producers and refiners will start 2016 following a mixed 2015, when some company approached all-time highs while others fell sharply.

US chemical producers had to contend with several challenges.

Oil prices declined, causing US producers to lose a portion of their cost advantage against much of the world, which relies on oil-based naphtha as a feedstock.

US producers maintained their margins, but they were not near the levels reached in previous years.

In addition, the stronger dollar hurt companies by both lowering the value of foreign earnings and by making exports less competitive.

The slowdown in China caused several problems for chemical companies.

It lowered demand outright for US exports. In addition, domestic producers in China cut their prices to make their exports more competitive. The result pressured chemical prices around the world, including in the US.

The slowdown in China also hurt several emerging markets, which supply commodities to fuel the nation’s years-long boom. Once Chinese demand for commodities fell, growth in several emerging economies also declined – particularly in Latin America.

These challenges all played out in the stock markets later in 2015, when the US had a correction. All three major indices fell by at least 10%. Meanwhile, the Dow Jones US Chemicals Index still has not recovered after reaching an all-time high of nearly 566 near the beginning of the year. It closed on 28 December at 495.37. Among chemical producers, some sectors suffered more than others.

Stocks for the three US-based titanium dioxide (TiO2) producers are all trading below $10 as the sector continues to struggle through a multi-year supply glut. Tronox closed on 28 December at $4.42, down from a 52-week high of $24.44. Kronos closed at $5.68, down from its 52-week high of $13.85. Chemours was $5.39, down from $22.25.

Fertilizer producers were also laggards, reflecting worsening farm economics in the US.

Season-average farm prices for corn should be $3.35-3.95/bushel, according to the US Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) in November 2015. In the November 2013 report, they were $4.10-4.90/bushel.

Stock for Dow Chemical and DuPont approached all-time highs following reports of their proposed merger. Dow reached a high of $57.10. DuPont broke $75.30, near its 52-week high of $80.65.

Companies that make paints and coatings benefitted from the continual recovery in the US residential markets and automobile production.

PPG Industries closed on 28 December at $99.85, versus its 52-week high of $118.95. Sherwin-Williams closed at $264.16, down from its 52-week high of $294.35. Valspar closed at $83.78, down from $90.91.

US refiners also had a relatively good year. Under some measures, it was among their best years ever, said John Auers,
executive vice president of Turner, Mason & Co, a consulting firm for the petroleum and petrochemical industries.

Product prices usually lag behind crude prices, providing a temporary boost in margins, he said.

When fuel prices began following oil, US motorists took advantage of the decline by driving the most ever, Auers said. In terms of absolute volume, demand growth for gasoline was at record highs.

This is significant because in previous years, demand had actually been falling, the result of stricter fuel efficiency standards and sluggish economic growth.

Low prices proved to be a powerful stimulus for gasoline demand.

In regards to exports, the US still maintained its cost advantage against refiners in much of the world. US prices remained low for natural gas, which refiners use as both a fuel and a feedstock for producing hydrogen gas.

US crude prices also maintained their discount against Brent, the global benchmark.

These cost advantages helped turn the US from a net importer of oil products to the world’s largest exporter, Auers said.

US refiners ran at incredibly high levels – exceeding 95%. As a result, the US has never processed as much crude or produced as much product.

Growing demand, high utilisation rates and cost advantages all contributed to a relatively good year for US refiner stocks.

Valero Energy closed on 28 December at $70.66, versus its 52-week high of $73.88. Phillips 66 closed at $82.45, versus its 52-week high of $94.12.

In 2016, Auers said products demand should still increase, but not to the extent of 2015. Diesel could also face challenges because of the Volkswagen scandal and because of capacity additions.

The gap between US and international prices for oil and natural gas has also narrowed, eroding the nation’s cost advantage, Auers said.

All of this could pressure profit margins in 2016, but they will likely remain strong, he said.
HOUSTON (ICIS)--The US chemical industry is anticipating robust growth in 2016 and beyond, but the same cannot be said for the overall US economy, where gross domestic product (GDP) is likely to perform below the ideal growth rate, a senior economist says.

According to the American Chemistry Council’s Year-End 2015 Chemical Industry Situation and Outlook report, chemical production rose 3.6% in 2015. Production is expected to rise 2.9% in 2016, and will continue rising through to 2020.

The ACC also predicts that the chemical sector will grow faster than the overall US economy in the long-term, with future gains ahead in employment, capital spending and research and development.

Conversely, forecasts for US GDP in 2016 place growth around 2.5-2.6%, sitting below the ideal benchmark of 3% annual growth.

Tim Quinlan, vice president and economist with Wells Fargo Securities, told ICIS that for a typical expansion in the US, 2.5% is “a little bit disappointing”.

However, he noted that compared with the rest of the global economy, the US was in a reasonably good position. “I can’t imagine any other that I’d rather trade places with,” Quinlan said.

Despite the slowing economy, the US dollar has appreciated throughout 2015, and all the signs point to a continuation of this trend in 2016, Quinlan said.

He identified several potential factors, including volatility introduced into the global financial system in 2014 with Russia’s bid to move into Ukraine, the Syrian regional conflict developing into outright civil war and continued worries about the outlook for the Eurozone.

Quinlan said that none of these issues had abated in 2015, and the recent Paris attacks showed that there continued to be “no shortage of volatility” in the world.

Amid global uncertainty stemming from geo-political conflicts, Quinlan says an increasing number of central banks have chosen to place their reserve assets into US dollar-nominated treasuries, which has contributed to its ongoing strength.

Then on 16 December, the Federal Reserve raised interest rates for the first time in more than seven years.

In a speech to the Economic Club in Washington DC in early December, Fed chair Janet Yellen said that continuing GDP growth would lead to additional increases in employment, further reductions in the margins of labour-market slack and a rise in inflation to the Fed’s 2% objective.

In 2015, household spending, business fixed investment and residential investment increased by an annual rate of 3%, much faster than the economy, Yellen said.

Interest rates have remained low, while both house values and stock markets have risen, which in turn has increased the net worth of households, Yellen added.

Yellen noted that for overall GDP growth, the factors that have held it down should dissipate in the upcoming months.

Quinlan said that “warts and all” the US economy is still one of the relative bright spots, as the Bank of England is the only other major foreign central bank considering an interest rate hike.

“[I] wouldn’t be too quick to describe the growth prospects of the US as negative, especially if you’re grading on a curve – grade in the relative context of what growth looks like compared to the rest of the global economy,” Quinlan said.

The US economy added 211,000 jobs in November and an additional 35,000 with revised numbers for September and October, the Department of Labor said earlier in December.

Heading into 2016, the oil market faces uncertainty on several fronts.
In its November Short-Term Energy Outlook report, the Energy Information Administration (EIA) predicted that Brent crude oil prices will average $54/bbl in 2015 and $56/bbl in 2016, while WTI crude oil are forecast to average $4/bbl lower than the Brent price in 2015 and $5/bbl lower in 2016.

Factors such as the pace and volume at which Iranian oil re-enters the market, the strength of oil consumption growth and the responsiveness of non-OPEC production to low oil costs have all contributed to the volatility of the oil market.

Overall, the EIA predicts that WTI prices could range anywhere between $35/bbl to $66/bbl in February 2016.

In addition, construction and automobiles have demonstrated a mixed performance in 2015.

According to the Department of Commerce, housing starts in October marked a seven-month low, dropping 11.0% below the revised September estimate.

The report also showed a 1.8% drop below the October 2014 rate of 1.079m. The housing market is a key downstream consumer sector for the chemicals industry, involving approximately $15,000 of chemistry per start, and drives demand for a wide variety of chemicals, resins and derivative products.

According to the ACC, gains are projected in 2016 and 2017, with housing starts expected to approach the long-term underlying demand of 1.5m units per year based on population growth and replacement rates for older properties.

The US Commerce Department also noted that between January and October 2015, construction spending amounted to $888.1bn, marking a 10.7% increase compared with the same period in 2014.

Along with the housing sector, the construction industry is a key downstream consumer of chemicals and derivative products. Every $1,000 spent on non-residential construction generates $160-$230 worth of consumable chemicals and derivatives, according to the ACC.

Light automobiles are an important end-market for the chemical sector, as they represent nearly $3,500 worth of chemistry per vehicle. According to US-based auto research firm AutoData, US sales of new vehicles in November rose by 1.4% from the same month last year, with year-on-year gains in light trucks more than offsetting losses in passenger vehicles.

Light truck sales remained strong with a 9.7% increase in November from the same month last year. However, sales of passenger vehicles ended their two-month streak of year-on-year gains, with an 8.5% drop in November from the same month last year.

Outside of construction and light vehicles, the US manufacturing sector slowed in 2015. The Institute for Supply Management (ISM) found that the sector contracted in November for the first time in 36 months.

The International Monetary Fund (IMF) released an updated World Economic Outlook report in October, which projects global growth for 2015 at 3.1%, which is 0.3 percentage points lower than in 2014, and 0.2 percentage points below the forecasts in the July update.

The IMF report is projecting the global economy to grow 3.6% in 2016.

According to the IMF, prospects across the main countries and regions remain uneven.

Compared with 2014, the recovery in advanced economies is expected to pick up slightly, while activity in emerging markets and developing economies is expected to slow for the fifth year in a row.

This is a reflection of weaker prospects for some large emerging market economies and oil-exporting countries, the IMF said.

"In an environment of declining commodity prices, reduced capital flows to emerging markets and pressure on their currencies, and increasing financial market volatility, downside risks to the outlook have risen, particularly for emerging market and developing economies," the report said.

The outlook for emerging markets and development economies is also projected to improve, such as in countries that experienced economic distress in 2015, including Brazil, Russia and some countries in Latin America and the Middle East.

This is expected to offset the projected slowdown in China.

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US CHEM SECTOR SET FOR GROWTH
31 December 2015

HOUSTON (ICIS)–The US chemical sector is well positioned to achieve growth in 2016, which is expected to carry through to 2020, the American Chemistry Council (ACC) believes.

The ACC’s Year-End 2015 Chemical Industry Situation and Outlook report, released mid-December, projects continued expansion and growth for the industry next year, with expected future increases in chemical output, employment opportunities, capital spending and R&D.

In the long term, ACC predicts that the chemical industry will grow faster than the overall US economy.

“As we enter 2016, the business of chemistry is building momentum,” the report said.

Globally, the chemical industry entered a soft period in 2015, amid heightened geo-political uncertainty and recessions in Brazil, Russia, Japan and other nations.

According to the report, US chemical output rose 3.6% in 2015, including pharmaceuticals. Output is expected to rise 2.9% in 2016, and reach 4.4% in 2017.

This output growth can be linked to several new chemical production facilities that are due to come online in 2017 and 2018, which in turn are expected to contribute to an increase in employment opportunities within the sector.

The report noted that employment likely grew by 1.2% in 2015.

In relation to capital spending, the ACC estimated a surge to 18.4% in 2015. It is projected to increase more than 7% each year on average through 2018, with only a minor slowdown in growth after that.

By 2020, it is expected that capital spending in the US in the chemical industry will reach $55.3bn.

R&D spending grew 2.5% in 2015, and is expected to increase by 3.3% in 2016. By 2020, R&D spending will amount to a total of $72.9bn.

Overall, chemical industry revenues are expected to reach $1 trillion by 2020, the report said.

Martha Moore, senior director of Economics and Policy Analysis at the ACC, is one of the lead authors of the report. She told ICIS that over the past year, the chemical sector did better than most manufacturing industries.

“Generally, we’re positive on 2016, and I think we’re just going to see some improvement in some of our trading partners’ performance, and that will help growth, not only for the chemical industry but also to industries that we sell to that are in the export market,” Moore said.

Moore pointed to new chemical capacity due to come online in 2017 and 2018, which could lead to a rebound in bulk petrochemicals and organics, plastic resins, synthetic rubber and the specialties market.

While the projections in the report are not new, Moore believes that the industry is looking at a slower growth trajectory in emerging markets and the global economy as a whole, which she called “a departure from previous forecasts”.

“A lot of our export markets were considerably diminished in 2015. It was the lowest level of world trade since the recession. So it’s been a tough year for export markets, not just for the chemical industry but for the industries that we sell into,” Moore said.

In 2015, US chemical exports fell to $185.9bn, down from $191.3bn the previous year.

Phillips 66 plans to start up its liquefied petroleum gas (LPG) export terminal in the second half of 2016 in Freeport, Texas. It will have a capacity of 150,000 bbl/day.

Tugboat and container ship in the Port of Long Beach, California. The American Chemistry Council sees a significant recovery ahead with expansion projects, rising output, more exports and job opportunities. (Blend Images/REX Shutterstock)
However, the ACC sees a significant recovery ahead, with exports predicted to reach $195.9bn in 2016, and eventually rising to $248.9bn in 2020. Imports are also expected to steadily increase, jumping from $206.6bn in 2015 to $217bn in 2016.

The report noted an expectation of above-trend growth in basic chemicals over the forecast horizon, in addition to demand in other segments.

“A recovery in end-use markets, continued favourable competitiveness, and the eventual return of global economic growth will lift demand for American chemistry over the next several years,” the report said.

Despite the decline in oil prices, Moore said that feedstock prices have decreased as well, allowing the US to enjoy a strong competitive advantage globally, which is expected to continue.

Gains in key end-use markets were largely driven by demand from the housing and vehicle sectors, which both represent important markets for chemistry, the report said.

Chemical sector growth is widely expected, despite a projected slowdown of US GDP, which has been projected at 2.6% in 2016 – below the average ideal growth of about 3% annually.

The ACC’s Chemical Activity Barometer (CAB) for December showed that year on year, the barometer was up 1.5% from December 2014, accounting for adjustments.

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SOME US CHEM SHIPPERS REMAIN BULLISH

05 January 2016

HOUSTON (ICIS)--The outlook for the overall shipping market during the coming year is cloudy at best, but some chemical shippers and brokers appear upbeat about their prospects.

Analysts at Clarksons Platou Securities grew optimistic after seeing fleet growth of 2.4% in the first seven months and demand growth of 3%.

Those gains lifted utilisation of the global chemical fleet to 88%. The Clarksons analysts estimated their company’s spot earnings to be up 10% year on year and projected that gain extending not only through next year but into 2017.

“We expect the market to gradually trend higher over the next two years with rate improvements of approximately 5% per year,” the analysts said.

Navig8 Chemical Tankers also is counting on better times ahead, noting in its latest quarterly earnings report that the shipper has taken delivery of 18 of the 36 newbuild vessels under contract. CEO Nicolas Busch said the shipper plans to capitalise on the wave of new chemical plants being built in the US because of the American shale gas advantage.

“We remain bullish on our outlook for increasing long-haul trades as additional chemical manufacturing capacity comes online in the US and Middle East,” Busch said.

Navig8 Chemical Tankers was formed in 2013 as a joint venture between the Navig8 Group and Oaktree Capital Management.

However, the chemical shipping industry has been waiting for a turnaround for at least three years, and 2015 ended on the downbeat, according to a few sources.

Netco noted in its November monthly report that no year-end rally appeared to be on the horizon and trading activity started to fade in October and did not really improve much in November.

“The fact that activity is declining in a period where it should normally be increasing is quite concerning,” the Netco report said. “On top of that, China’s slowdown is still looming over the market and the Clean Petroleum Products (CPP) Markets are in the dumps.”

Giant chemical shipper Stolt Nielsen reported an operating profit of $37.5m in its third quarter for a 23% year-on-year gain, which CEO Neils G. Stolt-Nielsen attributed it to lower bunker costs and a stronger US dollar but also to a supportive spot market.

Stolt-Nielsen said the company’s tanker division might extend its Q3 momentum through the end of the year, but he sounded wary about prospects in 2016 and 2017, Stolt-Nielsen said. “The relatively healthy product spot market may come under pressure again once the large order book in the product tanker segment starts entering service, pushing swing tonnage into the fringes of our market.”

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M&A MARKET POISED FOR BIG SHIFTS
22 December 2015 18:27

NEW YORK (ICIS)--Can the good times last for global chemical industry mergers and acquisitions (M&A)? Winds are shifting rapidly, prompting action in some sectors and slowing in others.

With buyer interest strong, valuations still historically high but coming off the peak, and the Dow/DuPont deal of the ages, 2016 could see more deals coming together.

In 2015, an estimated $50bn-$60bn in chemical deals over $25m in size could be completed versus $49bn in 2014.

However, the number of transactions of this size is likely to be around 95, falling short of the 108 deals in 2014, according to investment bank Young & Partners.

"Demand for growth and the build-up of cash will continue to be drivers of deal activity by strategic buyers," said Peter Young, president of Young & Partners.

"If one or more major ag consolidation deals such as ChemChina’s $44bn offer for Syngenta, or the transformational/ shareholder activist deals, such as Air Liquide/Airgas or Dow/DuPont are completed in 2016, it could be a record year in dollar terms. However, if some or all of these deals fall through or are delayed due to antitrust reviews, 2016 could see only a moderate increase over 2015," he added.

"These are very interesting times, with markets shifting quickly. Financing is getting tighter and valuation multiples have come down," said Mario Toukan, managing director and head of chemicals investment banking at KeyBanc Capital Markets.

"Some may see this as negative, but our view is the opposite. This changes the landscape and allows for more creative M&A transactions," he added.

Creative deals include mergers of equals, as seen in the planned Dow/DuPont mega merger, as well as tax advantaged Reverse Morris Trust (RMT) transactions, leveraged buyouts (LBOs) and “combo deals” – complementary deals that boost exposure to similar end markets.

Some examples of these deals in 2015 include Kraton Performance Polymers/ Arizona Chemical, Pinova/Synmira, Superior Plus/Canexus, Solvay/Cytec Industries, Olin/Dow’s chlor-alkali business (RMT), and New Mountain Capital/Zep (LBO), as well as Dow/ DuPont, he noted.

And as transaction valuations come off the peak, this narrows the expectations gap between buyers and sellers, making deals more likely, said the banker.

"In the last couple of years, we’ve had peak markets and many sellers would just hire a banker to run an auction to get the highest price. Today you’ll still see auctions, but also a lot more ‘rifle shot’, negotiated deals,” Toukan said.

LOW GROWTH = MORE M&A
The low growth macroeconomic outlook could also be a driver for deals.

Many have argued that the $120bn Dow/ DuPont merger announced in December 2015 highlighted the need to become more competitive in such an environment. “Even before Dow/DuPont, many corporations were under a lot of pressure to do something big - transformational. The reason is, the space is simply not growing. There are some pockets of growth, but the group overall is not growing much,” Toukan pointed out.

"If you’re not growing much, you have to bring out some synergies to improve margins. A low growth environment spurs M&A,” he added.

In such an environment, the appetite for high quality assets will only increase, noted John Beagle, CEO of investment bank Grace Matthews.

“The internal low hanging fruit has already been picked, and the incremental profit from acquisitions is high. No one’s overly optimistic about economic growth now,” said Beagle.

M&A AS % OF MARKET CAPITALISATION
While the current level of M&A is generally considered high, as a percentage of overall chemical market capitalisation, it is actually just below the average for the past 15 years of around 4.9% for announced deals, excluding Dow/DuPont, noted Telly Zachariades, partner at investment bank The Valence Group.

"Public market value has increased faster than M&A volume. From that perspective, there’s nothing particularly unusual about the volume in this current M&A market, excluding Dow/DuPont,” said Zachariades.

That said, the banker expects the healthy absolute level of M&A activity to continue into 2016 as the underlying drivers, including the need to achieve growth, remain the same.

ACTIVIST INVESTORS
And who has put more pressure on management to act than activist investors? Both Dow and DuPont were targeted by high profile activists – Dan...
Loeb’s Third Point and Nelson Peltz’s Trian, respectively.

Other targets have included Air Products, Ashland, Axiall, Calgon Carbon, Ferro, LSB Industries, MeadWestvaco and OMNOVA Solutions. Assets have been sold off, and there’s little doubt that more will be made available.

“Activists have left their mark on this industry. And in 2016, watch this space,” said Leland Harrs, managing director and head of chemicals at investment bank Houlihan Lokey.

Air Products is seeking to spin off its chemicals and electronic gases businesses as Versum Materials, Ashland is separating its Valvoline lubricants business, while Axiall is exploring options for its vinyl building products unit.

WestRock, the merged paper products firm from Rock-Tenn and MeadWestvaco, plans to spin off its specialty chemicals unit as Ingevity.

WestRock is sub-critical in size and focused on eastern Europe and Russia/CIS. Given the current status of these regions, it’s a dangerous business model, and the company could incur offers,” said Schneider.

The Dow/DuPont deal could also spur more M&A activity in the middle market. “Consolidation at that level will spur atomization. Companies combine, and then spin out smaller companies,” said Houlihan Lokey’s Harrs.

Even the world’s largest chemical company, Germany-based BASF, could come under pressure from activists as well as regular shareholders, noted Bernd Schneider, managing director and head of chemicals at investment bank N+1.

“BASF is a very diversified global market leader whose business might face pressure when competitors are increasingly active in restructuring and streamlining their diverse portfolios,” said Schneider.

DOW/DUPONT FACTOR

The pending Dow/DuPont mega merger and planned break-up into three separate companies could put additional pressure on companies to do bigger deals to achieve cost and revenue synergies to compete.

“This puts pressure on larger firms such as BASF. If Dow and DuPont are improving their market position in areas where BASF competes such as automotive and construction, they may have to think about achieving an enhanced position in certain end markets,” said Alex Khutorsky, managing director at The Valence Group.

The Dow/DuPont announcement also could have a psychological impact on players seeking major M&A. “If it remains well received by the market, it can give other CEOs the confidence and comfort to act,” Zachariades noted. With "a new hype with respect to larger deals" from the initial positive reaction in Dow and DuPont’s stock prices, “it may now be easier for acquirers to convince shareholders of other companies to be acquired. It is getting harder to justify being better as a standalone company,” said N+1’s Schneider.

Switzerland’s Clariant has been the subject of takeover rumours for years. In July 2015, it announced plans to separate its plastics and coatings business comprised of masterbatches, additives and pigments into a separate subsidiary to “fully leverage their value creation potential for the company”. However, CEO Hariolf Kottmann said the entity would remain part of Clariant.

Finland-based coatings firm Tikkurila could also be targeted for a takeover. “Tikkurila is sub-critical in size and focused on eastern Europe and Russia/CIS. Given the current status of these regions, it’s a dangerous business model, and the company could incur offers,” said Schneider.

In addition, even as Dow/DuPont separates into three companies, there could still be orphan businesses available.

“When you put two big groups together and review what stays and what goes, rarely do you get a clean split of businesses – there tends to be some things that just don’t fit,” said Karl Bartholomew, vice president, Americas at ICIS Consulting.

It’s a chance to strategically make sure businesses and groups are aligned, and sometimes you can’t see what doesn’t fit at first glimpse,” he added.

“A deal of this size creates both threats and opportunities. For the middle market, there are opportunities for others to come in and pick up orphan businesses,” said Grace Matthews’ Beagle. “A $120bn deal...
in chemicals is seismic – it impacts many companies up and down the value chain.”

NEW PLAYER IN TOWN
There’s a new player in town on the hunt. Saudi Arabia’s national oil company Aramco has made its ambitions known with the formation of its 50/50 synthetic rubber joint venture with Germany’s LANEXESS.

Aramco is paying €1.2bn for a 50% stake in the business, set to close in mid-2016, and has options to buy out LANEXESS’ stake after three years. Aramco’s strategic intent is to become “the world’s leading integrated energy and chemicals company by the end of the decade”, it stated in its 2014 annual report.

“You’ll see Aramco in many auctions as potential buyers,” said Schneider.

DEAL VALUATIONS OFF THE PEAK
Chemical M&A multiples remain relatively high, but are starting to come off the peak while specialty assets continue to command a premium.

“Commodity chemical valuations are already well past the peak, while specialty multiples are still close to the peak but starting to come down. If you’re thinking about selling a specialty chemical business, now is the time,” said Young of Young & Partners.

“We are off the top tick in terms of valuations and leverage multiples, but not that much.

There’s still a strong bid out there, and a short supply of quality assets,” said Houlihan Lokey’s Harrs.

These quality coveted assets are in the agricultural chemicals, water treatment, construction materials, food and personal care ingredients, and coatings space, according to bankers.

Chemical distribution businesses are also in high demand, said Allan Benton, vice chairman and the head of the chemical practice at investment bank Scott-Macon.


“Combining leverage with cyclical volatility can lead to trouble. A capital restructure is not necessarily M&A but if an investor buys up a large amount of distressed debt of a company, it can wind up owning much of the equity, becoming an ’unnatural holder’, ” said Houlihan Lokey’s Harrs. Outright sales can also occur for companies in bankruptcy or nearing insolvency. US-based bankrupt phenol/acetone producer Haverhill Chemicals sold its sole production plant to chemical producer Altivia for $3m in November 2015.

“What drove the Haverhill bankruptcy and sale was a very competitive phenol market because of capacity building in Asia,” said Balmoral’s Cerimele, who advised Haverhill on the deal.

The fact that such as distressed asset was sold is a “testament to the strength of the M&A market. Everyone thought that capacity would be taken out of the market,” Cerimele said.

PRIVATE EQUITY OUTLOOK
Somewhat lost in the M&A shuffle has been private equity, as the high yield financing market has become more difficult and competition from strategic buyers is elevated.

Financial buyers accounted for 13% of the total number of deals completed through the first three quarters of 2015. However, they represented 23% on a dollar volume basis, according to Young & Partners.

“The recent increases in borrowing costs and limits on total borrowing have taken some of the ammunition away from financial buyers. High yield interest rates have increased for many borrowers, regardless of their size,” said Young.

“In addition, the still high valuations of specialty chemical companies, favored by private equity buyers, and the shift in M&A activity to Asia where private equity firms are less comfortable investing has further handicapped private equity buyers.”

“Private equity is interested but there’s a shortage of deal flow to satisfy demand. Corporate competition is fierce for quality assets,” said Houlihan Lokey’s Harrs. Yet there could be more opportunities for private equity from carve-outs from larger companies, he noted.

And financial buyers have plenty of buying power, having “raised piles of cash in the past 12-18 months,” said Schneider from N+1.

They’ll have a good chance to use it in 2016, especially in Europe, with
companies such as BASF, Solvay, Huntsman, Arkema and Repsol potentially divesting assets, he noted. Non-core, orphan businesses often find a home with private equity.

Spain’s oil and gas company Repsol in October 2015 unveiled its 2016-2020 strategic plan, which features €6.2bn in divestments, including unspecified assets downstream.

Also in October, US-based Huntsman which has major TiO2 operations in Europe as well as the US, hinted at a potential deal.

“We have narrowed our options to just two – one comprises a TiO2 spin to our shareholders and the other option constitutes a more strategic move,” said CEO Peter Huntsman.

More deals will be coming in 2016. Companies must prepare and decide. Will they be protagonists in the M&A drama, on the sidelines, or targeted for takeover?

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US SODA ASH MARKET ENJOYS STRONG DEMAND
06 January 2016 17:17

HOUSTON (ICIS)--The US soda ash market has enjoyed strong demand the past two years, following several years of negative demand, and the demand outlook for 2016 remains positive.

Soda ash prices for 2016 contracts will be higher than 2015 due to improved demand and low inventories. Annual contract negotiations were largely finished by early December, and most reflected a gain of about $5/ton for medium-to-large buyers.

Most US soda ash contracts are multi-year contracts, with two to three years being most typical. The pricing terms of the contracts are negotiated annually.

Soda ash inventories at the end of September stood at 277,000 tonnes, down by 21% year on year, and were at the lowest point since December 2014.

Similarly, production in September at 915,000 tonnes hit the lowest level of 2015 – and the lowest since May 2014, according to the US Geological Survey (USGS).

As a result, inventories and production will be watched carefully in 2016.

The US is a net exporter of soda ash, and exports to date through August 2015 at 4.37m tonnes were down by 2% year on
year. The top destinations for exports in 2016 will be Brazil, Mexico and Indonesia.

China’s exports of soda ash have recently climbed, which is largely attributed to the drop in ammonium chloride prices, where significant volumes of soda ash are sold. The result is that Chinese soda ash is now showing up in markets where it has not been seen before.

However, US market participants do not see any increased threat from Chinese exports to the US due to the significant production cost advantage for US producers. Another reason for higher soda ash prices in 2016 is that domestic rail costs have increased.

A US producer said rail freight rates have risen 40% in the last six years, while soda ash prices have risen 10%.

North American soda ash producers include Industria del Alcali, Searles Valley Minerals, Ciner Resources, Solvay Chemicals, Tata Chemicals and Tronox.

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US TiO2 GROWTH LIKELY ON PACE WITH GDP
29 December 2015

HOUSTON (ICIS)--US titanium dioxide (TiO2) contract prices could dip a bit lower in the first quarter on downward pressure that some sources believe will persist through most of 2016, but then are expected to stabilize on improved demand and margin-protection efforts. Buyers said they expect oversupply to continue through the first half of the year, based mostly on global oversupply of the product, economic slowdowns and competition from imports to North America, where prices continue to be the highest globally.

Although demand for the white pigment, valued for its brightness and high refractivity, is expected to improve from year-ago levels during the peak US spring paint and coatings season, full-year demand will probably track US GDP growth recently forecast at 2.6%, some sources have suggested. However, weak energy values during 2015 are expected to persist, also keeping a lid on demand.

Several sources on both sides of the market have suggested producers will not have pricing strength until 2017. The market is placing much of its hope on seasonal spring demand. Architectural paint makers, the largest downstream market for TiO2 pigment, will begin to take larger pigment volumes early in 2016 as they prepare to blend paint for contractors and the do-it-yourself market.

Spring 2015 demand was severely dampened by rain and otherwise inclement weather, although latent demand kept buying interest active until early in Q4. There may still be some pent-up demand ahead, stemming from the previous spring and summer. Buyers appear not to expect prices to fall much further in Q1, if at all, saying most producers are at break-even pricing or potentially at negative margins and will fight any further downward pressure. “The exception is some producers who are sitting on very large inventories that they want to liquidate at nearly any price,” a buyer said, “but once it is gone, prices will be back to normal.” Imports that saturated the market in 2015 will also continue to be offered at competitive prices. No Q1 price-hike efforts have surfaced so far, but one buyer suggested producers might announce increases in early January in hopes of achieving some price gains in April. There has been some capacity rationalization in 2015 and some planned for 2016, including a plan by Tronox to achieve $180m in operating cost reductions in its TiO2 business by the end of 2017. That plan includes an annual global workforce cost reduction of $45m to be completed in the first half of 2016. Still, some observers contend that nothing short of further production cuts or plant closures is likely to speed up a return to near-term market balance and profitability, especially with so much capacity overhang. US TiO2 producers include Tronox, Chemours, Huntsman, Kronos and Cristal.
HOUSTON (ICIS)--The Americas base oil market will continue to be challenged by regulatory and shifting supply issues moving into 2016.

These issues dominated the second half of 2015 and are unlikely to fade in 2016 because of the strength and reach of the regulatory side.

Regulatory stipulations are largely coming from environmental initiatives put forth by the US Environmental Protection Agency (EPA), forming the primary hammer driving base oil changes in the Americas.

Ranging from emission control to longer drain intervals for motor oil changes to improved mileage performance for vehicles, the array of regulatory directives is reshaping the automotive industry and pulling the base oil market along with it.

Changes in passenger car motor oil (PCMO) formulations, the largest end-use for base oils, must be made in order to meet the demands of the new engine technologies that will allow vehicles to meet the new regulatory standards.

Although most of the standards become effective in 2017, the automotive and motor oil industries began working on new technologies several years ago.

The work will continue in 2016, but the imminent entry of standards for active use in 2017 is applying increased pressure to get the oils to meet the required performance criteria.

In moving toward these regulatory goals, US base oil producers have increased output of the premium lighter viscosity tiers, especially Group II, and also II+ and III.

The following chart shows an approximate production capacity percentage by base oil group type.

Since the vast bulk of Americas production is in the US, Mexico and South American countries are also encompassing the lighter grades and buying more Group II, II+ and III from the US.

Mexico and South America are significant net-importers of base oils as shown by the numbers where the US produces about 235,000 bbl/day of base oils compared with all of South America at about 31,000 bbl/day of base stock output.

The move to meet the environmental and performance regulations meant more use of Group II base oils, along with Group II+ and Group III. Although Group I remains a large part of the base oil market, it has retreated from about 53% of the market to about 43%, or less.

But the jump into different motor oils is coming at the same time crude oil prices are hitting benchmark lows and demand factors are shifting – mostly down.

These factors adding to the use of the lighter grades of crude oil that come from US shale and tight oil production have tilted global supply to a long position that is unlikely to change in 2016.
Americas base oil prices tumbled in the second half of 2015, falling several times in the fourth quarter alone, with the following graph showing the posted price trend for the year.

With the regulatory issues steering the wheel for the motor oil industry, the Americas base oil market is expected to go along on this ride throughout 2016.

However, every base oil decision is made at the refinery level. With the low prices that base oils are now getting, unless crude oil prices rebound or base oil margins become more attractive than fuel options, US refiners may at some point reconsider the structure of the base oil sector.

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HOUSTON (ICIS)--The dawn of 2016 sees most integrated chlor-alkali producers in the US seeking price increases on both sides of the electrochemical process that manufactures both chlorine and caustic soda.

Most of the largest players are separately seeking price increases of $40/dry short ton (dst) for caustic soda and 2 cents/lb for polyvinyl chloride (PVC), the most significant consumer of chlorine, caustic soda’s co-product in the chlor-alkali production process.

But these price initiatives come as several global and domestic market factors point to weakening demand, lower production costs and expanding supply.

Crude oil prices are lowering costs for PVC feedstock naphtha in Europe and Asia, as China suffers an economic slowdown and new chlor-alkali production capacity is set to begin adding to US supply of both PVC and caustic soda, expected as early as the first quarter.

Additionally, global alumina producers and US pulp and paper producers are consolidating and curtailing production on global oversupply of aluminium and a decline for demand of paper in an increasingly digital world.

Some of the US producers seeking increases are citing tight supply of both caustic and PVC after a heavy period of chlor-alkali and vinyls plant maintenances during October and the need to regain margin.

But buyers and other market participants consider the current sentiment of tight supply a temporary situation likely to be solved by January.

They view the price moves as primarily defensive action in the face of declining values and new production of Shintech’s $500m expansion of its Plaquemine and Addis plants in Louisiana.

When fully operational, the expansions are expected to add about 300,000 tonnes/year of PVC, 300,000 tonnes/year of vinyl chloride monomer (VCM) and 200,000 dry metric tons (dmt)/year of liquid caustic soda.

About half of the production is expected to launch soon, with full production later in the year, according to sources familiar with the operation.

The market has been disappointing this year, following optimism for a construction activity rebound that has failed to materialize during the recent economic recovery from the Great Recession of 2008-2009.

But US construction activity, the prime demand sector for US chlorine and PVC, has centered on multifamily projects that use less PVC for wiring, window and door profiles, railing and flooring than single-family homes. That lack of cyclical demand from construction activity expansion has kept PVC demand lacklustre in the US.

Prices for both caustic soda and PVC have been soft over the third and fourth quarters, though caustic soda contract prices rose by $40/dst over November on separate producer efforts to gain $65/tonne as the planned maintenances constricted supply most sharply.

Outlook is for sinking ethylene costs to provide further room for PVC prices to decline in domestic markets, especially when coupled with new production capacity adding to supply.

Domestic PVC demand will likely grow at slightly better than macroeconomic expansion in the US.

Outlook for caustic soda is for prices to continue soft prices on steady demand, new capacity and growth slightly slower than macroeconomic expansion.

That will likely continue until Olin makes good on its plan to curtail production at older, less efficient plants after its acquisition of Dow chemical’s US chlor-alkali capacity and other assets.

The production curtailments, from 250,000 dst/year to 450,000 dst/year, the company said, are not likely to happen until the second half of 2016.

US caustic exports will likely grow on low prices to global alumina producers as US producers seek to move additional material to foreign markets.

US PVC export growth is expected to stall as unfavorable currency exchange rates to several Latin America markets, slow economic growth in China and anti-dumping duties against US material in India and Turkey thwart US exports.
to those expanding markets. Turkey additionally suffers from an exceptional number of business failures and traders there are working on a cash-only basis.

In the unlikely event of severe flattening of PVC demand, prices for PVC would likely continue under downward pressure and prices for caustic soda would likely be under upward pressure on lower production and supply of chlorine and caustic.

Major US chlor-alkali producers include Axiall, Bayer, Formosa Plastics, Occidental Chemical, Olin, Shintech and Westlake Chemical.
EXPORTS TO BOOST US ETHANE
04 January 2016

HOUSTON (ICIS)--US ethane spot prices fell to historic lows in December on rising ethane rejection and falling natural gas futures.

The unseasonably warm weather has eroded demand for natural gas, which continues to heavily influence ethane prices. Ethylene production, the only other demand outlet for ethane, looks to be steady for much of 2016. Prices hit an all-time low of 13.25 cents/gal in December. Before December, the previous low came at this time last year, when prices fell to 15.50 cents/gal.

According to the latest statistics from the US Energy Information Administration (EIA), ethane production has averaged 32.7m bbl/month through September, or 1.1m bbl/day. Analysts estimate ethane rejection has risen to 650,000 bbl/day, accounting for 59.1% of daily production. Oversupply and unseasonably weak demand have weighed heavily on natural gas futures. Under the current market conditions, ethane is more valuable as fuel than as an ethylene feedstock – its only other demand outlet in the US. Ethane’s fuel value on 18 December was $1.981/MMBtu, 21.5 cents stronger than the day’s natural gas settlement.

This premium has declined by 62.1% since 20 November, when it was 56.7 cents, as natural gas prices fell to historic lows. Ethane rejection is a process where ethane is left in the natural gas stream and sold as fuel for electricity, heating and cooling. The prospect of ethane exports could provide some price support late in 2016.

In 2015, Sunoco began exporting ethane from its Marcus Hook facility in Pennsylvania to INEOS’s gas cracker in Rafnes, Norway. By the third quarter of 2016, Enterprise Products plans to complete an ethane terminal at its Morgan’s Point facility on the Houston Ship Channel. It will be able to load ethane at a rate of about 10,000 bbl/hour. Enterprise is also considering an expansion of its Gulf Coast ethane exporting capacity. The company has not confirmed that the project will go forward, nor has it disclosed a possible capacity.

You can rely on ICIS for all your Ethane market intelligence needs

Sunoco was to begin exporting ethane last year from Marcus Hook, Pennsylvania, to the INEOS cracker in Norway. (Source: Benjamin Chun / Flickr/Wikimedia)

Sunoco is shipping ethane to Norway from Marcus Hook, Pennsylvania, and Enterprise Products has big plans on the Gulf Coast. (Geoff Moore/REX Shutterstock)
HOUSTON (ICIS)–The price of refined products in 2016 will largely depend on what crude oil does throughout the year, but seasonal trends will remain consistent.

The Energy Information Administration (EIA) expects oil prices to rise through at least the middle of 2016.

Refined products prices follow closely crude oil prices because oil influences reformulated blendstock for oxygenate blending (RBOB) gasoline futures and heating oil futures.

The EIA predicts that motor gasoline use will wane. This comes after record demand during 2015 and retail prices below $2.00/gal.

The use of electric and fuel-flex vehicles, as well as improving fuel efficiency, could contribute to lower use of retail gasoline in 2016. Retail gasoline will continue historical patterns of higher use in summer. Gasoline demand could be slightly dampened, down 0.1% or 10,000 bbl/day. The EIA is expecting US retail gasoline to average $2.36/gal in 2016.

Wholesale US Gulf regular unleaded gasoline fell dramatically through the year as RBOB futures plunged downward, hitting lows not seen since 2009.

Jet fuel prices will depend heavily on heating oil futures, which plummeted in 2015 to 11-year lows. Mid-December, prices hit 104.00-104.25 cents/gal. Last time prices were that low was June of 2004.

Also contributing to the 2016 jet fuel market will be strides made in fuel efficiency and greener fuels, such as the continuing partnership between Fulcrum Bioenergy and United Airlines.

United invested $30m in Fulcrum, which is working on waste-to-fuel projects.

Demand for heating oil was lower at the end of 2015 due to winter weather that was warmer than usual, pushing prices down.

If temperatures cool, demand will pick back up. The EIA expects heating oil and diesel prices to rise due to higher production and exports.

US No 6 fuel oil, a heavy, bottom-of-the-barrel product that is commonly used to power marine vessels, has followed crude oil’s plunge and spent the last portion of 2015 below $1.00/gal. Demand for the product has been declining for years and will continue in 2016 as new regulations have severely limited its allowed use in certain areas.

Following a particularly heavy maintenance season in 2015 due to record-high refinery utilisation during the summer, it is expected that 2016 will be lighter in this regard.
You can rely on ICIS for all your Refined product market intelligence needs

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