PE/PP spreads lower but markets buoyant in 2017
European polyethylene (PE) sellers are confident about the first half of 2017, but the situation is not so clear for the second part of the year.

A series of cracker turnarounds in the first half – albeit planned – is expected to keep the market from any hint of oversupply.

European PE prices are low in global terms and this is expected to have an effect on the volume of material coming into Europe, particularly in the first half.

The second half of the year, however, is not so clear.

“Sentiment is changing,” said a large buyer. “I’m noticing lots of producers wanting to lock in contract volumes for 2017.”

In the associated polypropylene (PP) market, propylene tightness was expected to support PP sellers in 2017, and PP sellers were generally more confident than buyers.

The fly in the ointment for PE sellers was the swathe of ethane and PE supply due on stream in the US during the second half of 2017.

Not only was there supply coming up in North America, but also in China. It was the North American capacities that would exert most pressure on markets, however.

One theory is that these expansions are being delayed, and Europe will not see an increase in imports from North America in 2017. Volumes from North America were available throughout much of 2016, but by the end of the year, fresh offers were too high to work in Europe as European prices were low.

Imports from North America were a feature of 2016, with low prices at the end of the year leading to offers that were too high to work, or material moving towards regions with better netbacks.

“It’s [American product] been there on and off in 2016,” said the buyer. “I can’t see much changing in the first six months [of 2017].”

“Delays to US start-ups do, however, seem highly likely. History suggests that commissioning capacity on this scale always takes longer than expected,” noted ICIS consultant and blogger John Richardson.

If these plants are delayed, 2017 could be a simple rerun of 2016, as many sources expect, but 2018 will be another matter.

As for the shorter-term outlook, January prices rose in line with the €45/tonne increase in the ethylene monomer contract, and buyers are under strong pressure to accept hikes of more than €35/tonne, the amount by which the February ethylene contract increased.

The spread between ethylene and PE has been falling steadily since June – when it saw its strongest spread in 2016. Buyers have bought some stock as it became clear that the market had bottomed out, and sellers have been unable to rebuild margin in January.

The chart below shows the delta between the ICIS low-end low density polyethylene (LDPE) FD (free delivered) EU gross prices compared to the prevailing ethylene price.
Imports were no longer possible as stronger netbacks elsewhere led to trades moving to regions with better netbacks than Europe, where prices are low in global terms.

The chart on the right shows the ICIS mid-point Asian high density polyethylene (HDPE) blow-moulding CFR (cost and freight) price compared to European spot price minus €50/tonne for costs and 6.5% import duty.

With imports limited and planned shutdowns maintaining a balance, sources said the main disturbance could come from imports from North America, while admitting these are likely to be delayed.

POLYPROPYLENE (PP)
EUROPE PP BUYERS FIGHTING BACK AGAINST TOUGHER PAYMENT TERMS

By Linda Naylor

Polypropylene (PP) prices moved within a relatively narrow band throughout 2016, and were little affected by imports.

Buyers accepted tougher payment terms for new 2016 linked contracts - particularly those with a link to monthly propylene contracts - following shortages in 2015 that left them in a vulnerable position.

As 2016 progressed, and supply shortages such as the ones seen in 2015 did not emerge, the spread between propylene and PP at freely negotiated accounts narrowed, causing producers to lose margins.

In 2017, buyers are again finding it hard as producers are pushing to secure even bigger deltas between propylene and PP prices for propylene-linked deals.

Even at the end of December, buyers and sellers were still discussing pricing for 2017 in many cases, and in some cases agreed to disagree and abandoned linked deals altogether.

Others are still talking, but finding agreements very difficult to reach with some suppliers.

Conflict arose particularly when it came to propylene-linked deals for 2017.

New contracts, giving producers a better deal than in 2015, were instated in 2016, and sellers were looking for more of the same in 2017.

Memories of 2015 supply shortages were still raw, and buyers admitted they would be taking a risk by not having contracts in place.

“There is nothing [now] to support higher prices,” said a buyer.

“Anything more than a €20/tonne increase in 2017 and I wouldn’t link [my contracts],” said another.

“We have not been able to come to an agreement with one of our suppliers and have switched to monthly negotiations,” said a third buyer.

New contracts settled for 2016 were said by buyers to be closer to the propylene contract plus €250-300/tonne, and it was on this basis that buyers said they were being asked to add another increase.

One producer was said to be asking for the propylene contract plus €400/tonne for some grades.
Some buyers were ready to take the risk and move to freely negotiated monthly pricing, which could mean sharp hikes if product becomes tight.

Some buyers were already buying spot material to guard against potential shortages, but the weakness of the euro against the dollar also put this supply potentially at risk, said producers.

“Propylene has the potential to be tight in Europe… [in 2017] but propylene globally should be long,” said a market observer.

“We have a very positive outlook on 2017,” said a producer.

“It will be a good year. If you look at the global situation, imports will be reduced. There are a couple of turnarounds [in Europe] – some in line with polypropylene turnarounds – in March and April in particular.”

“The critical month will be April,” said the producer. “Many parties won’t be covered [for propylene].”

Some PP imports that had been expected to affect the European PP market did not appear in 2016, such as those from the new Borouge 3 plant in Abu Dhabi, with the capacity to produce 1m tonnes/year of PP.

European prices remain low in global terms, however, and exporters are finding better margins in other regions.

The above graph shows southeast Asian homopolymer injection CFR (cost and freight) prices in US dollars compared with European ICIS FD (free delivered) NWE (northwest Europe) spot prices, minus costs and a duty of 6.5%.

New PP capacity in China in 2017 and from 2016 is expected to be absorbed by local consumption, said sources, but it would also mean fewer imports from Europe and elsewhere. Little fresh material is expected from the US.

Many sources canvassed expected 2017 to be a rerun of 2016, so buyers were not overly concerned with supply issues.

They saw no reason to accept tougher payment terms, and would risk not being able to get product if unforeseen circumstances arose, they said.

On the whole, however, sellers are more relaxed than buyers for 2017; whether rightly or wrongly, time will tell.
Polyethylene (PE) buyers and sellers in Europe are approaching the year with ideas of price hikes in mind. Crude and naphtha are still strong and a series of planned cracker outages are expected to keep things balanced. The fly in the ointment is the new capacity due on stream in North America, but most sellers are confident for the first half of the year.

Polypropylene (PP) demand has started the year strong, and spot and contracted prices are on the rise. A series of planned cracker outages in Europe is expected to keep propylene balanced to tight, in April in particular. Low spot prices in global terms are keeping Europe clear of an influx of imports, as sellers seek better netbacks in other regions. Sellers are relaxed for the first half of 2017.
The spread between monomer and polymer has fallen back in the second half of 2016, but is still well above what it was before the supply issues of 2015.

**NEW CAPACITY - NORTH AMERICA**
Most significant additional capacity is due from North America. Many sources expect it only to hit Europe by the end of 2017.
You can rely on ICIS for all your market intelligence needs.

**SUPPLY AND DEMAND DATA**

Receive an end-to-end perspective across the global petrochemical supply chain, enabling you to grasp the local or regional scenario in a global context. Data includes import and export volumes, consumption, plant capacities, production and product trade flows – from 1978 up to 2030.

**DIGITAL CHEMICAL BUSINESS MAGAZINE**

ICIS Chemical Business (ICB) e-magazine is the No.1 source of market intelligence and analysis of the global chemical markets. It is the essential reading for global chemical industry players, providing decision support for executives making current transactions, as well as short term and long term planning.

**PRICING INFORMATION**

ICIS is the benchmark for independent and reliable price assessments on more than 180 commodities traded in regions such as Asia, Europe and the Americas. Our reports also provide price histories and expert commentary to help you understand the key price drivers and market conditions and settle your contract prices confidently with access to time-sensitive offers, bids and price movements.

**NEWS INFORMATION**

Be the first to find out about breaking news and analysis across the global petrochemical markets. Our market-moving news articles cover production updates, plant capacities, output and shutdowns, plus so much more.

**FORECAST REPORTS**

ICIS publishes monthly forecast reports for polyethylene and polypropylene in Asia, Europe and the US showing a 12-month rolling price forecast as well as details of supply and demand, trade balances, capacity and margins. It is a valuable tool to identify commercial opportunities in the short to mid-term.


You may also be interested in:

- Request your free sample report
- Enquire about our supply and demand data
- Request a free trial of ICIS news
- Enquire about the price forecast reports
- Download a free sample now