EUROPE MEG – AN ATYPICAL START TO 2017

By Melissa Bartlett  MARCH 2017

In the first two months of 2017, the European monoethylene glycol (MEG) market saw two consecutive triple-digit increases in the monthly contract price, and spot prices reached their highest level since June 2015.

The beginning of the year is not typically a strong period for MEG.

In January 2016, MEG CIF (cost, insurance & freight) NWE (northwest Europe) prices fell €110/tonne, and in January 2015, they fell €46/tonne.

At the start of 2017, and despite the price gains seen, players maintained that European demand performed in line with expectations, with some even describing demand as lacklustre.

So, what were the factors driving the bullish start to the year?

Early in the fourth quarter of 2016, MEG buyers in Europe resisted price rises which mimicked a strong uptrend seen in the Asian market. This saw European prices lag behind other global markets, particularly Asia.

Asian MEG prices had risen throughout the quarter. At the end of September, average weekly MEG spot prices were at $622/tonne CFR (cost & freight) CMP (China Main Port), and by late December they had risen to $848.5/tonne CFR CMP, according to ICIS data.

The gains were largely attributed to a better than expected macroeconomic performance, particularly in China. Polyester production rates and sales were relatively strong even though December is typically a quiet month. This boosted market sentiment and in turn led to higher MEG values.

As prices in the European market lagged behind those of their global counterparts, arbitrage between the regions shifted and the flow of product into the European market was curbed.

Data from Eurostat, the European statistics agency, shows that year-on-year imports of ethylene glycol into the EU fell significantly in the final three months of the year. The combined import values for the final quarter of 2016 fell by over 46% when compared to the same period in the previous year.

Europe is a net importer of ethylene glycols, and while some production takes place in Europe, both the European spot and contract markets are reliant on imports. In order to bring volumes into the market, prices typically command a premium over prices in other regions, particularly Asia.

From the beginning of October 2016, the gap between European and Asian spot prices narrowed. And by late October CFR China prices had overtaken CIF NWE prices. Although prices in Europe did eventually head higher, the average delta between the regions during December was €128/tonne. The graph below shows the relationship between MEG CFR China and CIF NWE between January and December 2016.
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In addition, exports from the EU, which in normal market conditions are limited, more than doubled over the same period.

Year-on-year exports of ethylene glycols in the fourth quarter grew 124.44% between 2015 and 2016. It is worth noting that, due to the smaller amount of volume exported from the region, percentage changes are more exaggerated than those seen in imported volumes – nevertheless, it still represented an increase of 14,715 tonnes.

On December 1st, the initial Europe MEG contract price was settled at a rollover from November, following an initial agreement for the December ethylene contract price. The following day, however, another December ethylene contract price agreement emerged at a higher level and found support.

In light of the trends discussed above, players had expected producers to target an increase in December. When an initial settlement at levels rolled over from November was agreed, players on the sell side argued strongly that the agreement was unrepresentative of market levels.

One source described the rollover as “ridiculous”, while a second commented: “For me this is not a regular settlement as it was done prior to the [ethylene] settlement and at a level which does not reflect the Asia market and exchange rate adequately.”

This resulted in the MEG Europe contract price going unconfirmed throughout December. In the meantime, European spot prices continued to firm amid increasingly tight conditions caused by a lack of imports into the region – and this set the scene for an unusual start to 2017.

In global terms, MEG prices continued their ascent at the turn of the year, a trend that was reflected in the European market, and came despite persistent reports of lacklustre demand.

Asia MEG prices continued to surge, and reached an average weekly price of $953.5/tonne CFR CMP by the end of January – the highest price seen since mid-June 2015. The rapid gain in prices was identified by several market participants as a combination of three main factors.

The first was a heavier turnaround schedule for MEG plants in the first quarter of this year. This led to expectations that supply would be tighter and therefore prices would generally be higher.

The second was news, which came in late 2016, that China’s Dalian Commodities Exchange (DCE) had initial approval to add an MEG futures contract on its exchange. Market participants believed that the product was likely to be launched in 2017.

The third and final factor was seasonality of demand. The Lunar New Year holiday in China ran from 27 January to 3 February. Typically, restocking activity takes place either before or after the holiday period.

This year, stock building before the holidays appeared to be stronger than usual. End users and traders were looking to build up cargoes in anticipation of further price gains in February and March.

It can be argued that these factors had to be in place at the same time to prompt such rapid price gains.

In the US, MEG prices increased from December as US exports to Asia rose due to the higher prices there – which tightened domestic supply.

The strong export demand opened up an arbitrage opportunity, and made domestic spot material harder to come by. This was evident in the surge of US MEG fixtures to Asia that were reported from mid-November to mid-February.

In Europe, a widely expected dual settlement of the contract price – which included confirmation of the initial rollover levels agreed for December alongside a significant increase for January levels – emerged early in the month.

One source involved described the January settlement, which was agreed at a €150/tonne increase over December levels, as: “very fair… reflecting the MEG spot price moves both in Europe and Asia, as well as the increase in raw material cost”.

Other sources agreed the increase for January reflected trends in the global market landscape.
The January settlement proved to be far less contentious than the one seen in December and was swiftly confirmed by further market participants, despite the magnitude of the increase.

With global spot prices continuing their upward march through January, the European contract price once again saw a notable increase in February, gaining €119/tonne over January levels, at €1,034/tonne FD (free delivered) NWE.

MEG FD NWE vs Ethylene FD NWE

Ahead of the initial agreement, sources on the buy and sell side said they were anticipating the February settlement to reach four digits.

“We are quite bullish as the MEG prices moved up significantly both in Europe as well as in Asia during January,” said a producer source.

Once again, although the price movement was a significant increase over previous levels, it was swiftly accepted by the market.

A seller involved in the February settlement commented: “I think this settlement is in line with what we see in the markets.”

That being said, others in the downstream polyethylene terephthalate (PET) market were somewhat surprised by the February settlement, with one PET supplier increasing its offers to customers by €50/tonne after hearing the final contract price for the raw material.

“Last month raw materials went up pretty sharply and glycol went up pretty sharp and probably there will be no relief for us,” remarked a PET buyer in February. “We have to transfer it to our customers. If they don’t like it, we say, what can we do?”

After this persistent bullish sentiment across the global market place from late 2016 to early 2017, February began to see some changes in the MEG landscape. Against expectations held by the majority of industry participants, MEG values in Asia started on a downtrend, and quickly declined to $865/tonne CFR CMP by late February. One major reason for this, was news that the Dalian Commodities Exchange may not be able to launch the MEG futures contract in time in 2017, according to market players.

In addition, large volume cargoes were beginning to arrive in China following stock building activities which began in December and gained traction in January. Data from ICIS China shows that inventory levels of MEG at China’s main ports stood at 550,000 tonnes on 24 February, compared with 478,000 tonnes on 26 January – up 15.1%.

Alongside this trend in global price levels and the growing alignment between global prices, demand in the European market continued to be unremarkable.

Appetite for spot MEG volumes from the anti-freeze sector was muted, and it was a little too early for the expected seasonal uptick in demand for PET production. As a result, European spot market values began to stabilise through February.

Heading into March, players have commented that they expect to see a far more moderate market climate in Europe. One source said its expectation for March was for little to no movement compared to the intensity of the last few months.

That being said, however, some planned European turnarounds are upcoming and the expected seasonal uptick in demand from PET is poised to impact the market’s balance. Europe could be in for more unusual times.

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