Brainfood for the Plastics Industry

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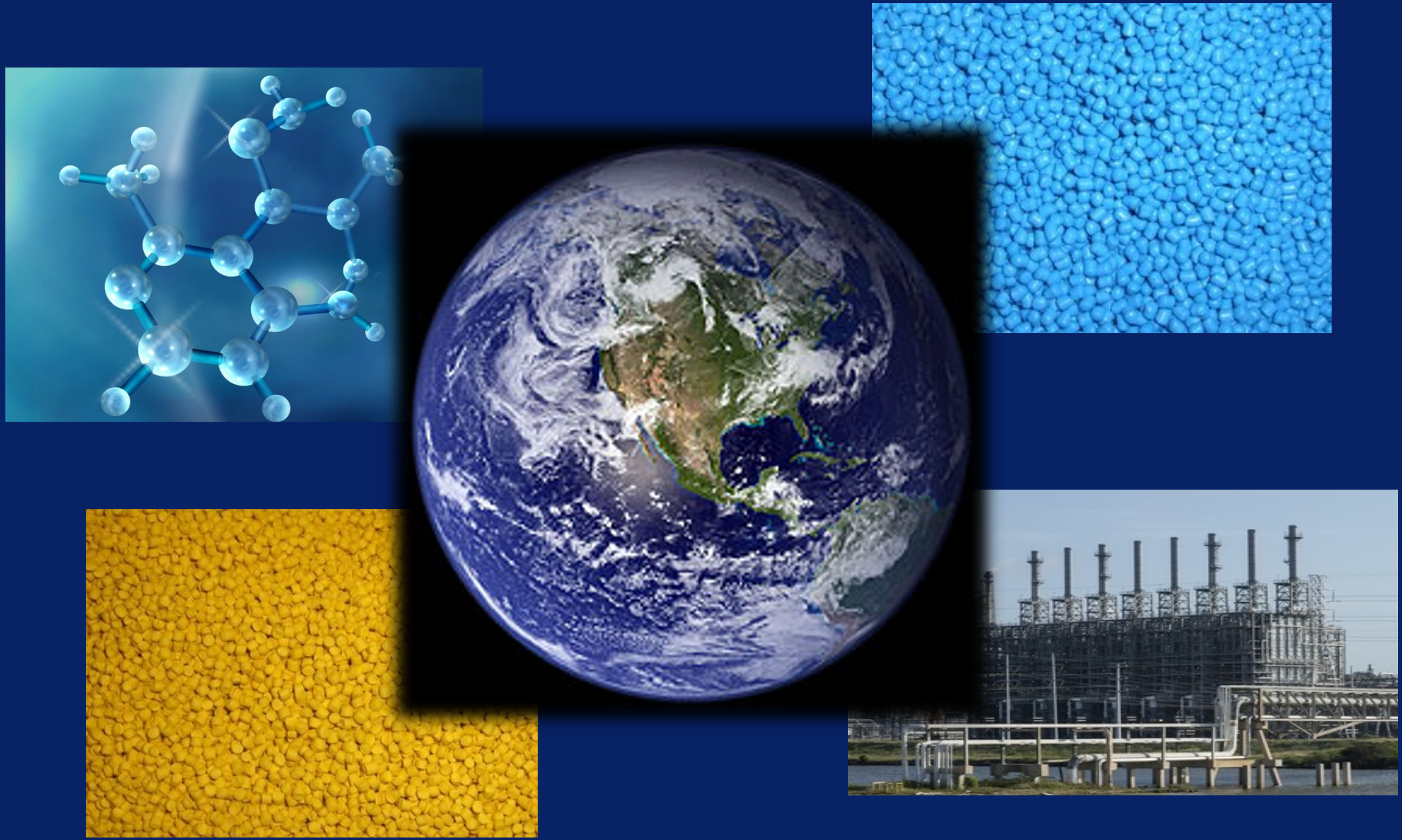

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Market Update

Crude Oil

The crude oil prices, when compared over a two-week period, are about the same; specifically, $84/barrel for WTI and $86/barrel for Brent.

What's interesting is that during the past two weeks crude oil prices initially drifted lower only to rally aggressively the past two days. Conversely physical PGP prices rallied these past two weeks only to fall back down to start this week. Crude and PGP are moving in opposite directions on a short-term basis. We attribute this temporary dip in crude pricing and jump up in PGP pricing to price fluctuations. We remain bullish crude oil prices over the next several months and slightly bearish the PGP market through the end of the year.

Two reasons for crude oil to rally to start the week are: 1) Congress passing a bipartisan infrastructure bill which should boost demand for fuel 2) OPEC and its ally nations will not increase their oil supply into the market from what the have previously announced. These nations are increasing crude oil supply by 400k barrels/day each month but will not increase from this level despite calls to increase from such countries as the USA.

The US government is reviewing options to increase supply into the market by selling off some of their strategic reserves. The US strategic oil reserve was created shortly after the Arab Oil Embargo in the late 1970s out of concern that the USA was too dependent on foreign oil. There is about 612 million barrels currently in reserve, out of an available capacity of 714 million barrels. If President Biden were to release 30 million barrels (the same as what Obama released in 2011) this would be the equivalent of 3 full days of USA production (The USA currently produces a little more than 10 million barrels/day). If this were to happen, we expect pricing to slide lower on the announcement but ultimately to return to its higher price path. We here at BlueClover expect Brent and WTI pricing to reach $100/barrel this winter.

Natural Gas

Natural gas prices down 15% these past two weeks to a spot price of $5/mmbtu.

Prices are lower on some mild weather in the USA but exports remain very strong. Goldman Sachs recently noted that while natural gas prices in Europe have eased a bit, they expect volatility to return and for Europe to return to its record levels of $30/mmbtu.

Given the expected tightness in products like natural gas, crude oil, and propane, this looks to be an expensive winter for heating and driving.

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Plastics Feedstocks (Naphtha, Ethane, and Propane)

- Naphtha pricing (CIF Japan) is down slightly to $765/mt form $790/mt two weeks ago.
- Ethane prices in Mont Belvieu, TX are stable around 42 cents per gallon (cpg) and propane prices are stable around 140 cpg.

Ethylene

- Ethylene prices in the Enterprise system in Mont Belvieu, TX have been stable around 37-38cpp.

Propylene

- As discussed under the crude oil section, physical PGP prices rallied from 62cpp two weeks ago to trade at 70.5cpp on Nov 4. Since Nov 4 prices have retreated to 63cpp, which is almost unchanged from two weeks ago.
- In our last report from October we wrote, *"BlueClover does expect physical PGP pricing to slide into the mid 50s cpp range next month".* We do expect physical PGP to break the 60cpp level this month mainly as a result of continued sluggish derivative demand. BlueClover expects the volatility for PGP to return in the 1st quarter of 2022 as demand for PGP derivatives improves and supply of PGP may be at concerning levels for those that need it as a feedstock.
- Refinery Grade Propylene has remained in the low to mid 20cpp range for many months. Pricing for RGP in pipe is currently 23cpp. Pricing for RGP by truck or rail is at a large premium to the in-pipe price.
- Contract PGP for October settled down 9cpp to a contract price of 75cpp. BlueClover's most recent estimate prior to market settlement was down 10cpp.
- BlueClover is estimating that November contract PGP will be down 7cpp.

Polypropylene

- The fall in PP pricing has subsided mainly due to more customer demand at the lower price levels along with PGP's rally for much of the past two weeks.
- We wrote in our last report that *"widespec HomoPP railcar pricing is in an upper 70s to mid 80s range"*. Our view is that pricing for some of these grades have edged higher by 3 to 5cpp over the past two weeks but we do expect this increase to come back out and pricing to slide an additional 5 to 8cpp in November and December.
- Just like in PGP, we expect volatility in PP to return in the 1st quarter of 2022.
- Monthly production numbers remain about 10% higher than these same months in 2020.

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Feedstock “Spot” Prices:

Product	Location	Price as of Nov 9	Price as of Oct 26	Unit
Brent Crude	North Sea, Europe	84.66	85.86	USD/barrel
WTI Crude	Cushing, OK	84.13	83.64	USD/barrel
Natural Gas	Henry Hub, LA	5.02	5.89	USD/MMBtu
Naphtha	C&F Japan	764	790	USD/mt
Ethane	Mont Belvieu, TX	42.625	42	Cents/Gal
Propane	Mont Belvieu, TX	138.5	140.75	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	37	38	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	63	62	Cents/Lb

* Sources – CME, Bloomberg

Inventory

HERO PRIME™		
Grade	Description	Location
	Sold Out	

HERO FLEX™		
Grade	Description	Location
	Sold Out	

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Trader Toolbox – Crude Rallying Despite China importing less

As you can see from the chart above, China has been reducing how much crude oil they import as prices have increased. When prices were lower China was quick to buy more and add to inventory stockpiles. Crude oil prices have been rallying despite the slowdown in Chinese imports.

However, there is currently strong demand for gasoil, and refiners in China may need to increase their operating rates from levels that are at a five-month low. If Chinese import levels can increase from its October import demand of around 9 mil barrels/day than this may be another tailwind to get crude prices to a reach a higher price level.

Source: https://www.spglobal.com/platts/en/market-insights/blogs/oil/110821-ctracker-europe-gas-prices-gazprom-us-spr-green-hydrogen-china-oil

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<u>Why BlueClover?</u>

BlueClover is the informed sourcing solution– bridging the gap between upstream knowledge, resin procurement and price risk management.

- ❖ Trusting relationship with a professional distribution company that trades polypropylene across a wide range of qualities at a multitude of price points for both spot and contract business.
- ❖ Full access to our Price Risk Management Team.
    - ❖ Work closely with our price risk management team with decades of commodity trading experience to determine when fixed pricing programs make sense for your business.
    - ❖ Access to BlueClover's internal research and analysis along with potential outsourcing to industry experts on commodity markets.

Please visit our website below for more information.

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