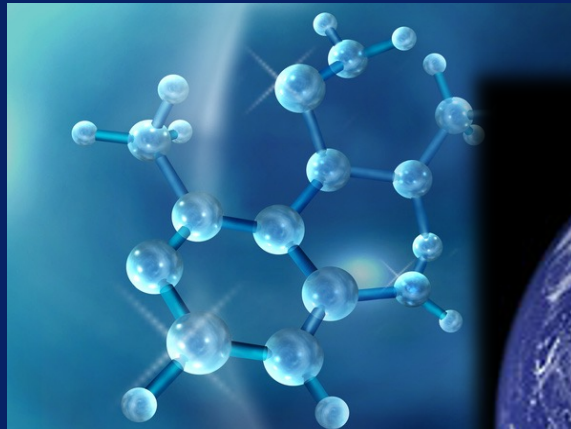


Brainfood for the Plastics Industry

Issue 22.04 – Feb 2022



Market Update

Crude Oil

WTI crude oil prices are up about 4.5% the past two weeks to a spot price of \$92.07/barrel. Brent crude oil is higher as well with pricing up about 5% to a spot price of \$93.38/barrel.

Crude oil prices have been very close to cracking the symbolic \$100/barrel price point. On Monday Feb 14, WTI closed at \$95.46/barrel and Brent closed at \$96.48/barrel.

For many months we have presented the bull case as BlueClover stands with the consensus among commodity analysts that crude oil remains in a bull market. As a quick recap, reasons include foreign nations not producing enough to reach their new supply targets, a return pre-pandemic global demand, discipline among USA shale producers to not increase production too quickly and a potential war between Russia and Ukraine.

What's interesting is that anecdotally it seems that the overwhelming majority of banks and commodity analysts are calling for commodity prices to continue to rally. For example, Goldman Sachs' head of commodity research, Jeff Currie, recently stated, "This is a molecule crisis. We're out of everything, I don't care if it's oil, gas, coal, copper, aluminum, you name it, we're out of it". While BlueClover currently stands with the consensus, it's always good to research the opposing position.

It seems that there are a few lone wolves calling for crude prices to drop. Ed Morse of Citigroup is calling for crude oil prices to average \$65/barrel this year. Ed believes supply will finally outstrip demand as soon as the 2nd quarter of 2022. Ed points out that while many analysts are focusing on the financial discipline of USA shale producers, some are underestimating that production rates in the USA are indeed going up. In total oil rig counts in the USA sit around 500 units, up from 309 rigs in February 2021. Many start up oil rigs are in the Permian Basin and the Eagle Ford Basin, two significant oil producing shale fields in the country.

Others are looking at the expected production in these regions as well. Ryan Lance, CEO of Conoco Phillips (a huge player in oil exploration and production), recently stated that the Permian might add 900k barrels/per day in 2022 which is a significant number that everyone should be paying attention to.

[See Trader Toolbox on Page 5 for a chart on the increasing oil rig counts]

So as supplies undoubtedly increase, and major central banks are forced to raise interest rates to combat real inflation, it may mean the crude rally only has a few more times around the merry go round.

Natural Gas

Natural Gas prices are down about 10% to \$4.23/mmbtu.

Market Update

Plastics Feedstocks (Naphtha, Ethane, and Propane)

- A mixed bag in plastics feedstocks as naphtha continued its price rally but ethane and propane prices slid lower
- Naphtha prices (CIF Japan) increased 6% since our last report to \$856/mt
- Ethane prices are down about 6 cents per gallon (cpg) to 37cpg.
- Propane prices are only off by about 3% to a spot physical price of 126.5 cpg in Mont Belvieu, TX.

Ethylene

- On the heels of lower ethane pricing, ethylene prices in the Enterprise system in Mont Belvieu, TX decreased by 4cpp to a spot price of 37cpp.

Propylene

- Physical PGP prices in Enterprise's system in Mont Belvieu, TX have increased 7% from a spot price of 58cpp to a spot price of 62cpp. Physical PGP prices were 54cpp in mid January.
- The February month to date calendar average for PGP in Mont Belvieu, TX as reported by PetroChem Wire is about 59.8cpp. If physical PGP prices were to remain at 62cpp for the balance of this month, the Feb monthly average would equal 60.8cpp.
- As a result of the PGP strength in February so far, BlueClover is revising its forecast for Feb contract PGP from up 5cpp to up 7cpp. If contract PGP goes up 7cpp, this would put Feb contract PGP at 63cpp.
- BlueClover is revising its 1st quarter estimated physical PGP average from 55cpp to 60cpp. BlueClover estimates contract PGP will be up again in March 2022.
- As a reminder there is typically a price spread of about 2 to 3cpp between physical PGP prices and contract PGP on average over time. The contract PGP price is typically the higher priced product, again on average over time as this spread is not fixed and varies on a monthly basis.
- From the supply side, there are large steam crackers out in Texas, specifically Formosa and Equistar Chemicals. The Texas steam cracker operating rate so far in Feb is about 85% while this number was above 90% in January according to the PetroChem Wire.

Polypropylene

- Widespec Homopolymer prices continue to trade in the low to mid 70s in railcar. This is up about 5 to 8cpp from the Dec and Jan lows. Notice the widespec PP is not up as much as PGP over the same time period which increased by price by 10 to 14cpp.
- According to the American Chemistry Council, inventories by PP producers rose from February 2021 through Nov 2021. The days of supply was incredibly low back in Feb and producers knew they needed to restock inventories even in a rising price market. What's interesting is that when prices dipped in December, producers used the opportunity to offload some excess inventories; thus creating a more balanced market entering the 1st quarter 2022.

Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Feb 15</u>	<u>Price as of Feb 1</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	93.38	89.06	USD/barrel
WTI Crude	Cushing, OK	92.07	88.10	USD/barrel
Natural Gas	Henry Hub, LA	4.23	4.68	USD/MMBtu
Naphtha	C&F Japan	856	806	USD/mt
Ethane	Mont Belvieu, TX	37	41	Cents/Gal
Propane	Mont Belvieu, TX	126.5	130.375	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	38.375	41	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	62	58	Cents/Lb

* Sources – CME, Bloomberg

Inventory



HERO PRIME™		
Grade	Description	Location
HP12	12 melt Barefoot HoPP	Midwest

HERO FLEX™		
Grade	Description	Location
HG3040	30-40 melt Grey PCR CopolymerPP	Midwest
H0810	9-10 melt Homopolymer Barefoot	Midwest

Pace of Rebound in U.S. Drilling Activity Resembles 2016–2017 Recovery

(Fig. 2) Change in U.S. oil-directed rig count (Index 100)



Source: Baker Hughes via data provided by FactSet Research Systems, Inc. All rights reserved. Data analysis by T. Rowe Price.

In Feb 2016, WTI crude oil prices averaged \$32/barrel, prompting significant shutdowns in capacity. The oil producing rig count reached a low in May (about 3 months after the low price point). In April 2020, WTI crude oil prices averaged \$20/barrel, again prompting significant shutdowns in capacity. The oil producing rig count reached a low in Aug 2020 (about 4 months after the low price point).

The above chart is a look at how much the oil rig count increased over these two time periods from their respective low points, with both starting oil rig counts indexed to 100. What's important to note is that the increase in oil rigs through mid October 2021 is very similar to the outright increase in oil rigs compared to the prior years data set.

While crude oil prices did rally from mid 2016 through mid 2018, prices fell hard in the 4th quarter of 2018 from \$73/barrel to \$45/barrel. If history repeats itself the current crude rally may last until the middle of this year, but a correction may be in order later this year.



Why BlueClover?

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 on pricing and industry economics.

Please visit our website below for more information.



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