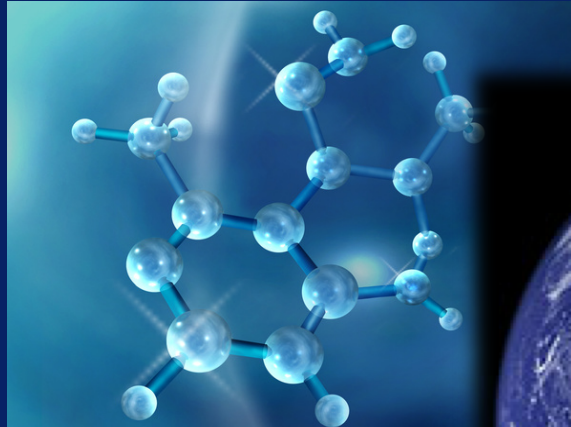


# Brainfood for the Plastics Industry

Issue 22.05 – Mar 2022



## Market Update

### Crude Oil & Natural Gas

Russia finally invades Ukraine and this catapults energy markets to the moon! WTI crude oil prices are up 17% the past two weeks to a spot price of \$108/barrel.

Most of these price gains have occurred over the past two days. WTI prices settled at \$92 on Friday Feb 25 which is where the pricing was on Feb 15. The markets were hopeful for a positive conclusion from the Russia-Ukraine peace talks but when talks broke down on Monday the crude markets started going bonkers. Nations are now imposing harsher penalties against Russia. The market prices for Russian crude oil is plummeting however this is making the limited supply of other types of crude oil (such as WTI and Brent) in more demand with the Russian supply removed from the market.

Another bullish signal to the markets is the recent announcement by the IEA (International Energy Agency) to release of 60 mil barrels, with 30 mil barrels coming from the USA. This amount is less than one day's worth of global demand and does not make a significant impact on available supply. To put in perspective, Russia is the 3<sup>rd</sup> largest oil producer in the world, responsible for about 10% of global supply.

According to JP Morgan data, global spare oil capacity is currently around 2.8 million barrels/day which is significantly lower than the estimated 5 million barrel/day that would be sufficient for the market in more balanced times. The concern is that the spare capacity will continue to dwindle.

As developed economies such as the USA battle already high inflation, they are in a precarious situation with Russia. If the world says you can stuff it to Russia's energy, yes it will hurt the Russian economy, but these nations need to get ready for even higher priced crude oil, refined products, and natural gas. Some economists think that a sustained period (more than a few months) of crude oil pricing in the \$125/barrel range will stall growth and lead to rising unemployment in the USA.

So clearly the global supply of crude oil is in a dire situation and the market prices are adjusting accordingly. However there is a demand side to this equation. At what point does demand destruction start to occur for consumers? Will consumers change certain behaviors when the gasoline prices at the pump go north of \$4/gallon; the current national average is \$3.62/gallon. As usually goes in commodity markets, perhaps consumer behaviors change simultaneous to more crude oil producers ramping up capacity to meet demand.

While the crude oil prices may continue to rally in March and April, we at BlueClover do not believe crude pricing will average north of \$100/barrel for the full 2022 year. We expect pricing to begin to slide as more crude oil comes to the market and consumers alter their behavior as a result of the much higher pricing.

Natural Gas prices are up 8% to \$4.55/mmbtu.

## Market Update

### Plastics Feedstocks (Naphtha, Ethane, and Propane)

- As a result of the higher crude oil and natural gas pricing, all plastic global feedstock prices are higher.
- Naphtha prices (CIF Japan) increased 14% since our last report to \$978/mt
- Ethane prices are up about 4.5 cents per gallon (cpg) to 41.375cpg.
- Propane prices are up 16% over the two weeks to a spot physical price of 146.75 cpg in Mont Belvieu, TX.

### Ethylene

- Ethylene prices in the Enterprise system in Mont Belvieu, TX are actually unchanged right around 37cpp from two weeks ago.

### Propylene

- Physical PGP prices in Enterprise's system in Mont Belvieu, TX have increased 16% from a spot price of 62cpp two weeks ago to a spot price of 72cpp. Physical PGP prices were 58cpp at the beginning of February.
- The February calendar average for physical PGP in Mont Belvieu, TX was approx. 63cpp according to the PetroChem Wire.
- BlueClover's recent forecast for contract PGP for February was up 7cpp. We were off by 1cpp as the Feb contract PGP price increased by 6cpp to a settlement price of 62cpp.
- BlueClover estimates contract PGP will be up 10cpp in March 2022.
- In our last report BlueClover revised out 1<sup>st</sup> quarter estimate for the average physical PGP prices from 55cpp to 60cpp. With Jan average PGP price settled at 54.5cpp and Feb at 63cpp, the March average would need to be around 64cpp to make the 1<sup>st</sup> quarter average 60cpp. We think March physical PGP will end up averaging more than 64cpp as you can tell from our estimate of contract PGP to go up 10cpp. So in this case our 1Q estimate appears to be too low for now.
- We have been stating for several months that the need for PGP will keep gross PDH margins north of 20cpp this year. As propane rallies with crude oil, its pushing the price of PGP higher because the cost of production for PDH feedstocks continue to go up.
- Over the past couple of months, refinery grade propylene (pipeline delivery) prices have increased slightly from 23cpp to 28cpp. Even with this 22% increase to 28cpp, RGP (by pipeline delivery) remains very cheap relative to crude oil (see trader toolbox)

### Polypropylene

- Polypropylene prices are higher across the board for widespec and prime and all types of polypropylene. One proxy is widespec HomoPP which was trading between 72cpp and 75cpp two weeks ago is probably 8 to 10cpp higher today, so between 80 and 85cpp. Product is also becoming more difficult to find as producers are running very tight on prime and widespec material now.

## Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Mar 1</u>	<u>Price as of Feb 15</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	109.3	93.38	USD/barrel
WTI Crude	Cushing, OK	107.95	92.07	USD/barrel
Natural Gas	Henry Hub, LA	4.55	4.23	USD/MMBtu
Naphtha	C&F Japan	978	856	USD/mt
Ethane	Mont Belvieu, TX	41.375	37	Cents/Gal
Propane	Mont Belvieu, TX	146.75	126.5	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	37.5	38.375	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	72	62	Cents/Lb

\* Sources – CME, Bloomberg

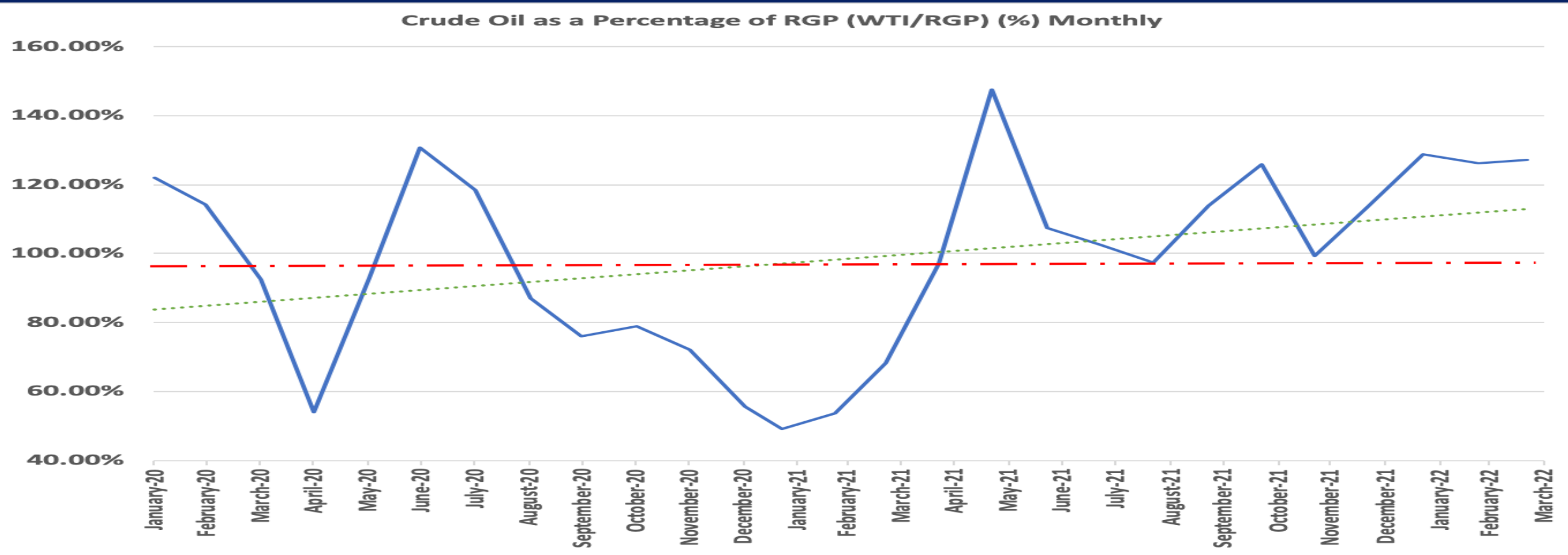
## Inventory



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

HERO FLEX™		
Grade	Description	Location
HG3040	30-40 melt Grey PCR CopolymerPP	Midwest

# Trader Toolbox – RGP by pipeline remains inexpensive versus crude this time around



The above chart displays the % relationship between RGP (pipeline delivery) and crude oil since Jan 2020. When RGP pricing is expensive relative to crude, the % sits below 80%; when RGP pricing is very cheap relative to crude oil, the % sits above 100.

Since the 2<sup>nd</sup> quarter of 2021, crude prices have continued to rally but RGP prices have remained cheap (the % is higher than 100 since April 2021) You can see the trend line over the past 2.25 years going from the lower left to the upper right (green dotted line). The average % over this time period is about 98% as shown in the dotted red line. So RGP prices today at 28cpp, remain extremely cheap relative to crude oil pricing north of \$100/barrel.

I would imagine there are several firms that are short physical PGP and have been evaluating if they could put in an RGP to PGP splitter and get consistent supply of RGP by pipe. It's this last part of getting RGP by pipe that makes the process difficult.



## 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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