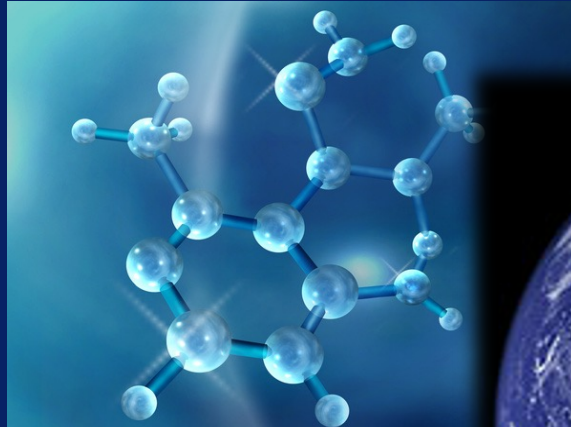


Brainfood for the Plastics Industry

Issue 22.11 – May 2022



Market Update

Crude Oil

Crude oil has rallied almost 10% the past two weeks to a spot price of \$110/barrel for West Texas Intermediate oil. BlueClover has been bullish crude oil this whole year so far. At the current pricing of \$110/barrel, WTI is on the upper end of its \$95-\$115/barrel range. This range has held in place for 3 months since early March.

BlueClover is changing its view on crude oil from bullish to neutral/bearish. We think pricing will head towards the \$85 - \$95/barrel range for the 2nd half of this year (see trader toolbox on page 5). Lately, there has been too much pain at the pump along with a significant drop in the stock market. Consumers, specifically those that may be retired or on a set income, will need to change consumer habits as the national gas price average recently hit a new record of \$4.59/gal.

Gasoline prices have not been rallying to record high prices as a result of higher crude prices. In fact, crude oil prices are down 10% from their early March peak. Gasoline prices are rallying because the refiners (units that turn crude oil into refined products such as gasoline, diesel, and jet fuel) have been earning record high profit margins. The refiners that are up and running are indeed running at very high operating rates with June projected at 95% operating rate. The bigger issue is that so much refining capacity was shut in the early days of Covid and much of it has not turned back on. According to the EIA, the total USA refining capacity is currently the 2nd lowest it's been since late 2014. This is despite the highest profits on record.

Economic theory would dictate that companies that can turn back on refining assets have every incentive to do so. But in reality, many companies are focusing on shareholder returns with the increased profits and citing less desire for fossil fuel reinvestment as their primary reason. We believe the invisible hand of the market will find its way to turning more shut-in supply back on over the next several months.

Stakeholders need to walk parallel paths between the need for fossil fuels today to alleviate price inflation and a push towards greener solutions over reasonable time frames. Currently less than 1% of the 250 million cars, SUVs, and light-duty trucks on the road in the US are electric.

Natural Gas

When Russia invaded Ukraine, there was lots of attention paid to the crude oil market. However, prices for crude are not that different then before the invasion. On the other hand, prices for Natural Gas are up 91% since late February 2022!!

Natural gas over the past few years has become more of a global market like crude oil as the USA increased its LNG (Liquified Natural Gas) exports by 50% in 2021 from 2020. The United States has been exporting record amounts of natural gas to Europe to help alleviate supply shortages as Europe relies less on Russian gas. This is another pain point for US consumers that perhaps is not as easily noticed or reported as filling up your car once a week.

Market Update

Plastics Feedstocks (Naphtha, Ethane, and Propane)

- Naphtha prices (CIF Japan) are unchanged at \$895/mt
- Propane prices are down slightly at 120cpg (cents per gallon) in Mont Belvieu, TX.
- Ethane prices are up 14% the past two weeks to a year to date record high of 62cpg (last report they were up 10%) . Ethane prices are being swept higher in the crazy high natural gas prices!!

Ethylene

- Ethylene prices in the Enterprise system in Mont Belvieu, TX are the same from two weeks ago at 29 cents per pound. The rise in ethane costs is hurting margins for USA based polyethylene producers.

Propylene

- Physical PGP prices in Enterprise's system currently sit at 55cpp and have been rangebound between 55cpp and 57cpp the past two weeks.
- The month to date average price for PGP is around 57cpp.
- BlueClover's estimate for May contract PGP has changed from down 8cpp to down 9cpp, which would bring May contract PGP to 62cpp.
- The following sentence from our last report still holds true so far: *"With propane holding strong around \$1.20/gal, a 20cpp gross margin for PDH units would put physical PGP pricing a 54cpp. We guess that PDH margins will remain north of 20cpp so PGP may stabilize in the mid 50s if propane prices can hold steady."*
- Following up on the bullet above, there has been lots of price support for PGP at the 55cpp price level over the past two weeks.
- BlueClover is slightly bearish PGP prices at this point. We are guessing that physical PGP has a better chance of getting to 50cpp than it does getting to 63cpp. If our guess ends up correct it will lead to further PGP contract price decreases in future months.

Polypropylene

- We have been seeing widespec Homopolymer in the 86cpp to 88cpp price range for railcars delivered and we estimate this number to be falling.
- According to a recent analysis by Emergen Research, the global renewable PP market is forecasted to be worth \$59 million by 2027 , from \$38 million in 2019. This is a compounded annual growth rate of 6.2%. This rate is significantly higher than all forecast growth rates for virgin PP however the renewable PP market is starting at a much smaller size.

Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of May 24</u>	<u>Price as of May 10</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	113.55	103.32	USD/barrel
WTI Crude	Cushing, OK	110.20	100.36	USD/barrel
Natural Gas	Henry Hub, LA	8.77	7.29	USD/MMBtu
Naphtha	C&F Japan	895	895	USD/mt
Ethane	Mont Belvieu, TX	62.125	54.5	Cents/Gal
Propane	Mont Belvieu, TX	120.5	123.5	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	28.625	28.625	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	55	56	Cents/Lb

* Sources – CME, Bloomberg

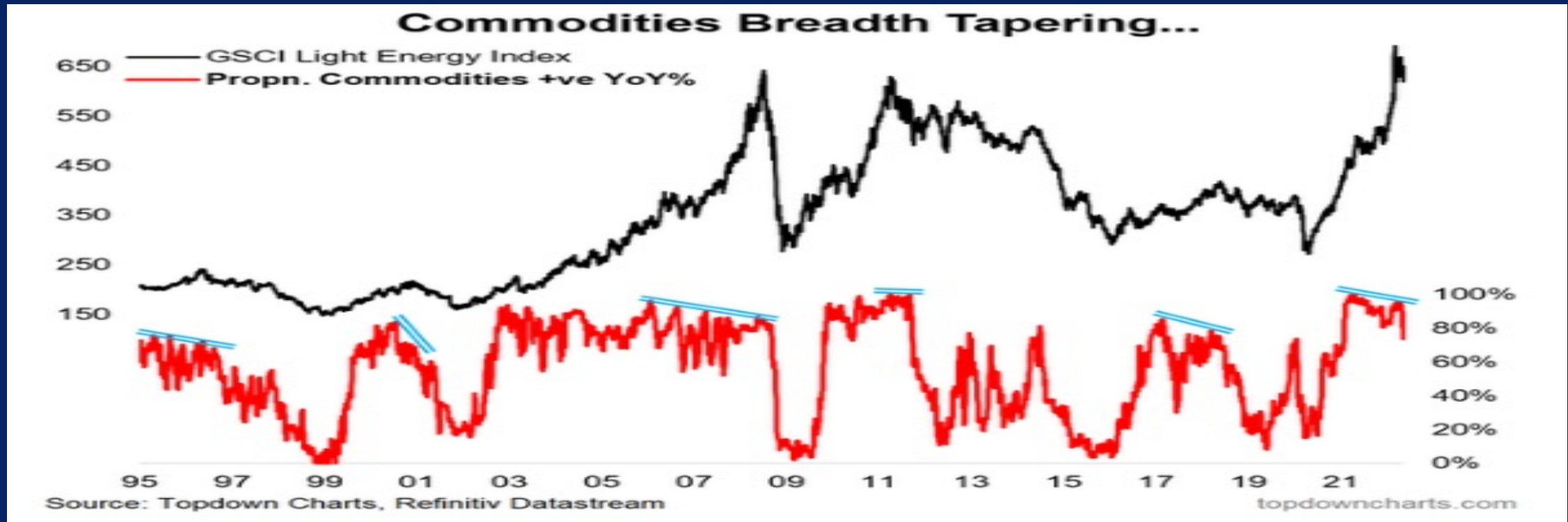
Inventory

HERO PRIME™		
Grade	Description	Location
	SOLD OUT	

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



Trader Toolbox – Have Commodity Markets Peaked?



The above chart highlights the GSCI Light Energy Index (a broad commodity market index) in the black line. You can see this index peaked earlier this year but has since started to retreat.

More importantly, a person named Callum Thomas, tracked the proportion of commodities that have positive price change on a year-on-year basis. This number is the red line and has maxed out at 100% several times in previous years. The trend has started to come down (the blue line). In commodity bull markets, this % is increasing or stable. The trend tends to have a negative slope prior to a price correction.

Reasons for potential commodity price peaking include crowded speculative longs in commodity positions, a weakening macro backdrop with greater risk of recession (ex. Stocks falling, interest rates rising), and a stronger dollar. As they say, high prices cure high prices and low prices cure low prices. Something to consider as all the headlines report inflation and geo-political risks.



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 [here](#) for more information.



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