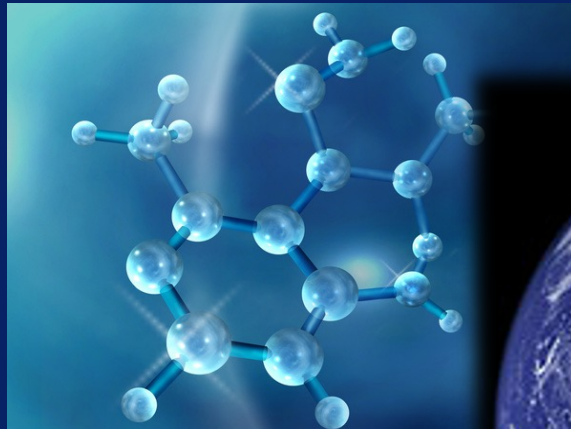


Brainfood for the Plastics Industry

Issue 22.19 – Sep 2022



Market Update

Plastics Feedstocks (Naphtha, Ethane, and Propane)

- Naphtha prices (CIF Japan) are only down 2% over the past two weeks to a spot price of \$642/mt. Naphtha pricing has been pulled down by lower crude oil pricing and also pushed down by an incredibly over supplied global resin market. Global PE and PP prices have been plummeting since mid-year 2022 and this has pushed the naphtha-polyethylene margin to its lowest spread on record in many Asian regions.
- Propane prices have decreased by 15% in the past two weeks to 88.25cpg (cents per gallon) in Mont Belvieu, TX.
- Ethane prices are lower by 24% in the same time period to a spot price of 38.375 cpg. Ethane prices are under pressure from the over supply of polyethylene globally, also natural gas pricing did pull back recently.

Ethylene

- Ethylene prices in the Enterprise system in Mont Belvieu, TX are lower 17% from Sept 12 to a current spot price of 20.5 cents per pound (cpp)

Propylene

- Physical PGP prices in Enterprise's system settled at 35.125cpp on Friday Sept 9. This is down from 41.75cpp two weeks ago and from 46.5cpp six weeks ago.
- The current estimated monthly average for physical PGP in Mont Belvieu, TX is 38.649cpp.
- Sep contract PGP settled down 5cpp to a monthly contract price of 44cpp. In our last report, BlueClover was estimating a contract PGP price decrease by 3cpp.
- While we wrote in our last report that, *"Undoubtedly the supply pressures of the polypropylene market are having an impact on PGP demand"* BlueClover also claimed *"While it is certainly a realistic possibility, BlueClover is going to make a guess that PGP pricing does not break below 40cpp this year."*
- Clearly, our guesses on PGP price direction has been wrong for a couple of months now. We have been continuously surprised at the continued weakening crude oil market along with the relentless supply and tepid demand for PP. Two non-supply contributing factors for the price declines for PGP and PP are the China covid lockdowns along with central banks around the globe raising interest rates to fight inflation.
- As we approach winter, I remain slightly bullish the PGP complex. Any pop in propane prices may have an impact on PGP pricing, and while the PP export opportunities are limited, BlueClover expects PP producers to rebalance supply over the next couple of months.

Polypropylene

- PP prices for both domestic and export continue to move lower. It's the same story as two weeks ago *"The constant supply of PP along with subdued demand continues to impact pricing. As a result, PP buyers continue to draw down their inventories as their steadfast expectation of available product remains."*
- The PP supply has indeed remained available to buyers recently. The American Chemistry Council recorded the largest end of month PP inventory for July at 1.83 bil lbs. The 2nd largest month this year was 1.77 bil lbs back in January 2022. BlueClover expects this number to increase from its July levels.

Crude Oil

WTI crude oil prices are lower by 9% the past two weeks to a spot price of \$79.61/barrel. WTI prices have dropped 12% since the middle of August.

The momentum trade of lower crude oil prices continues to remain in place. Bears point to an imminent global recession as a result of the increasing global interest rates. Last week alone, the central banks of the USA, UK, Norway and Switzerland all raised interest rates. It appears that many central banks are willing to risk a recession in order to stem the highest inflation experienced by consumers in decades.

BlueClover continues to point out that demand for refined products remains steady and there is a slew of supply side risks that remain in place. The European Union oil embargo on Russian crude oil shipments takes effect in December. This will create more demand for non-Russian oil sources. Another supply side risk is that the USA has already depleted its strategic oil stocks down to 427 million barrels. This is the lowest the strategic inventory reserve has been since 1984. Currently, the Energy Information Administration has not given a timeline on when they plan to replenish this safety stock.

We have highlighted countless times in the Brainfood reports about how the societal push away from fossil fuels has led to less funding and capital back into oil and gas projects. Oil and gas firms feel like they must tread a thin line between reinvestment in fossil fuels (which the world still uses and needs) and green projects.

Below is a desperately needed, common sense response from Jamie Dimon during a recent congressional hearing:

"Please answer with a simple yes or no, does your bank have a policy against funding new oil and gas products, Mr. Dimon?" Rep. Rashida Tlaib asked JP Morgan's chief executive

"Absolutely not, and that would be the road to hell for America," Dimon said in response. "We aren't getting this one right. The world needs 100 million barrels effectively of oil and gas every day. And we need it for 10 years. To do that, we need proper investing in the oil and gas complex. Investing in the oil and gas complex is good for reducing CO2. We've all seen, because of the high price of oil and gas — particularly for the rest of the world — you've seen everyone going back to coal."

BlueClover continues its neutral view on crude oil with a view of greater upside pricing risk than downside.

Natural Gas

Natural gas prices experienced a 19% pull back the past two weeks with the current price for natural gas in Henry Hub, LA at \$6.55/mmbtu.

Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Sep 26</u>	<u>Price as of Sep 12</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	86.85	93.78	USD/barrel
WTI Crude	Cushing, OK	79.61	87.53	USD/barrel
Natural Gas	Henry Hub, LA	6.55	8.05	USD/MMBtu
Naphtha	C&F Japan	642	656	USD/mt
Ethane	Mont Belvieu, TX	38.375	50.25	Cents/Gal
Propane	Mont Belvieu, TX	88.25	104	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	20.5	24.75	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	35.125	41.75	Cents/Lb

* Sources – CME, Bloomberg

Inventory

HERO PRIME™		
Grade	Description	Location
	SOLD OUT	

Post Consumer PP Repro		
Melt	Description	Location
3	Black 3 melt HomoPP	Midwest
16	Grey 16 melt HomoPP	Midwest
22	Grey 22 melt HomoPP	Midwest



Trader Toolbox - The Plastic “Problem”

Having come back from the GPS+PEPP conference in Chicago last week, one big takeaway is how single use plastics and the plastics’ carbon footprint has remained the biggest challenge facing the industry.

After hearing from brands such as Amcor and Berry, and producers such as Exxon and Nova, we are excited at the array of solutions that the industry is involved with. There remains significant growth opportunities in mechanical recycling, and we expect chemical recycling to develop projects at scale to help the industry. The communication among industry participants is better than it's ever been.

However, we know more work needs to be done when we come back to our desks this week and see the following headline:

“Bloomberg takes on the plastics industry”

As a former New York City and current New York state resident, I know that Mayor Mike has big pockets and lots of resources. He is launching a \$85 million campaign aimed at preventing more than 120 petrochemical projects in regions such as Louisiana, Texas, and the Ohio River Valley.

So, while many companies in the petrochemical industry may feel like we reached peak negative publicity, my concern is those days are still ahead of us.

Bruce Niles, who is the head of the group Climate Imperative, said the following recently “With a sustained effort over the next several years, the U.S. will close all coal plants by 2030. Petrochemicals are the next big fossil fuel fight.”



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