

BlueClover

All Things PP

Brainfood for the Plastics Industry

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Market Update

Plastics Feedstocks (Oil, Naphtha, Propane)

- Crude oil has been unchanged over the past two weeks but the more closely tied polypropylene feedstock prices such as naphtha and propane were both lower.
- WTI crude oil prices are unchanged these past two weeks, trading around \$73/barrel. We wrote in our last report that we believe crude oil pricing has downward momentum. During the past two weeks prices for WTI crude oil retreated to \$70/barrel only to rally back to \$73/barrel this past week. BlueClover expects WTI pricing to break lower than \$70/barrel in June.
- Naphtha prices (CIF Japan) are only down 2% the past two weeks from a price \$600/mt on May 9th to \$590/mt on May 23rd.
- Propane prices are lower by 10% the past two weeks to a spot price of 63.5 cents per gallon (cpg) in Mont Belvieu, TX. Propane prices were 80.5cpg on April 25 so prices have fallen by 21% the past four weeks.

Propylene

- Physical PGP has been steadily trading between 34cpp (May 11th) and 37.5cpp (May 15th). There have been a consistent number of physical PGP trades for May delivery at 36cpp this past week. At the time of writing, physical PGP is trading around 35cpp.
- BlueClover is keeping our guess at contract PGP for May at 39cpp, which would represent an 8cpp decrease from April contract PGP (47cpp). The May month to date physical PGP calendar average is 35.25cpp according to the PetroChem Wire.
- BlueClover has the same view from our last Brainfood report, “(we expect) physical PGP to trade into the lower 30s with a remote chance of getting into the upper 20s” over the next 45 days. BlueClover is keeping our estimate for June contract PGP is in the 35-37cpp range and July contract PGP is in the 33-35cpp range. We believe there is a 60% chance of lower PGP pricing in the next month or so (60% chance of lower pricing vs 40% higher). Please bear in mind that we think the odds of continued lower pricing is greater than 50-50 however its not the same situation as when physical PGP prices were in the 60s and pricing had a lot of room to move lower. Current pricing is within 10 cents of multi-year low price points.
- PGP continues to get pushed down by the over supply of polypropylene and, to a lesser degree, pulled down by propane pricing. With Mont Belvieu propane pricing at 63.5cpg, the gross margin for a Gulf Coast PDH unit currently sits around 17cpp (up from 15cpp two weeks ago). The lower propane pricing is providing cushion for PDH units to sell lower PGP pricing and still realize the same margins.

Polypropylene

- North American PP demand has fallen 8% from the 1st quarter of 2022 to the 1st quarter of 2023.
- In the 4th quarter of 2022, North American PP producers did a tremendous job of increasing PP exports (see Trader Toolbox on page 4) and rationalizing operating rates to sub 70%. This helped to rebalance the oversupply glut of PP that we experienced in the 4th quarter 2022 and helped to stabilize the market with increasing PP prices in the 1st quarter. However, in the 1st quarter 2023, export volumes decreased (due to incredible amounts of Chinese PP product being exported to the world), operating rates increased into the 75-80% range, and another large-scale asset in ExxonMobil's PP unit came online. This all led to another supply overhang that the market is currently working through today in the 2nd quarter of 2023.
- According to our internal estimates, North American PP producers would need to operate at 71% operating rate to meet current demand levels. Historically it is very difficult for PP producers to run at an operating rate of less than 80% over a long period if all the units are up and running. For this reason we expect the market to remain long but we do expect producers to use the export and operating rate levers as best they can to support the market in the coming quarters.
- BlueClover was writing for the past two reports that we expected pricing to slide lower by 2-5cpp for widespec and 3 to 6pp for prime. This has taken place and so far PP prices have yet to stabilize in the current slide.

Feedstock “Spot” Prices:

Product	Location	Price as of May 23	Price as of May 9	Unit
Brent Crude	North Sea, Europe	77.05	77.04	USD/barrel
WTI Crude	Cushing, OK	73.19	73.21	USD/barrel
Natural Gas	Henry Hub, LA	2.37	2.22	USD/MMBtu
Naphtha	C&F Japan	590	600	USD/mt
Ethane	Mont Belvieu, TX	20.5	19.875	Cents/Gal
Propane	Mont Belvieu, TX	63.5	70.375	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	17.5	18	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	35.25	35.5	Cents/Lb

* Sources – CME, Bloomberg

Inventory

HERO GREEN™ (Post Consumer PP Repro)		
Grade	Description	Location
HG7BK1	7 melt HomoPP - Black	Midwest
HG3GR1	3 melt HomoPP - Grey	Midwest
HG16GR1	16 melt HomoPP - Grey	Midwest
HG22GR1	22 melt HomoPP - Grey (SOLD OUT)	Midwest
HG3GR3	3 melt CoPP 3.4 izod - Grey	Midwest
HG35GR3	35 melt CoPP 1.1 izod - Grey	Midwest
HERO GREEN™ (Post Consumer HDPE Repro)		
Grade	Description	Location
HG7GRPE	7 melt HDPE Grey - 0.94 - 0.954 density	Midwest



North American PP Exports



Source: American Chemistry Council

The above graph is a one year chart of North American PP Exports as reported by the American Chemistry Council. As you can see when the North American PP was more balanced in the 1st half of 2022, the exports averaged around 30 mil lbs/month. As you can see these numbers jumped to about an average of 78 mil lbs/month in the 4th quarter of 2023. Producers needed to export as domestic demand was decreasing and multiple world scale units came online in 2022. Going forward, North American PP producers may need to use exports as a lever to alleviate additional supply.



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