

# BlueClover

All Things PP

Brainfood for the Plastics Industry

Issue 23.13 – June 2023



# Market Update

## Plastics Feedstocks (Oil, Naphtha, Propane)

- Crude oil, naphtha and propane pricing are all lower over these past two weeks.
- WTI crude oil prices were lower by about 2% over the past two weeks to a spot price of \$70.60/barrel. In our last report we wrote “We still expect pricing to break lower than \$70/barrel again in June” and we still hold this view. Crude prices have been trending lower due to recent economic weakness out of China, including some reports about less gasoline demand resulting from more purchases in electronic vehicles than expected.
- Naphtha prices (CIF Japan) are lower by a little over 4% to a spot price of \$552/mt.
- Propane prices are also lower by 4% these past two weeks to a price of 57.75 cents per gallon (cpg) in Mont Belvieu, TX.

## Propylene

- Physical PGP was trading around 31.5cpp on Tuesday June 6<sup>th</sup>. Pricing has since trended higher, trading as high as 36cpp on Tuesday June 20<sup>th</sup>. PGP was trading between 31cpp and 33cpp between June 6<sup>th</sup> and June 13<sup>th</sup>. It has since rallied 3cpp over 4 trading days from Wed June 14<sup>th</sup> through Tuesday June 20<sup>th</sup>.
- Weather may be a possible reason for the strengthening in spot physical PGP. High temperatures and rigorous storms hit parts of TX and LA this past weekend knocking out a significant amount of power. Also, there is a tropical system heading towards the Caribbean that has recently become a named Tropical Storm and has the chance of Hurricane development. Typically, this would be early in the season for a hurricane but the water temperature in the Atlantic is warmer than historically where it's been this time of year. As traders and companies see impending weather there is sometimes a rush to buy physical pounds in case certain production goes down.
- From our last Brainfood report, “BlueClover believes the chances of physical PGP pricing breaking lower than 30cpp are higher than they were two weeks ago. So we are now calling a sub 30cpp PGP physical market ‘likely’ from ‘remote chance.’” While BlueClover still expects physical PGP pricing to break below 30cpp in this period of falling prices, our prediction will need a bit more help since prices have rallied from 31cpp to 36cpp in the past two weeks.
- BlueClover is revising our estimate for June contract PGP from 34cpp to 35cpp. However, given this recent spot rally, there is a greater chance that June will settle higher than 35cpp than lower. The June month to date average for daily propylene prices in the physical spot market is 32.7cpp. We are revising our estimate for July contract PGP from the 33-35cpp range to the 31 to 33cpp range. This is a pretty bold guess in the face of a spot rally in PGP pricing.
- Given the drop in propane pricing and the rally in spot PGP, gross margins for PDH units are now around a healthy 19cpp compared to 15cpp in early May.

## Polypropylene

- With PGP prices rallying at the end of last week, there may be days here where widespec HomoPP transacts at parity or a discount to the physical PGP price. Two weeks ago, we wrote that widespec HomoPP railcars were trading in the 37-42cpp depending on grade and quality, and these numbers are probably lower by 1 to 2cpp today. PP producers that are not integrated into a PDH or a steam cracker need to push the pricing of PP higher or pullback on PGP buying at these price levels. Its reasons like this we see the PP operating capacity around 75% for the past few months.
- While domestic demand for PP has improved from previous months, to us at BlueClover it seems to be more a function of buyers not wanting to miss out at these price points than a need for material because of strong consumer demand into big box retailers.
- At this point a drop in PGP pricing in the coming weeks may not translate to further drops in widespec PP pricing as the current PP pricing environment is pricing in a PGP market that would reflect physical PGP in the upper 20s.
- It is our opinion that customers that have some inventory space should be purchasing PP at today's price points heading into the 3Q season to cover themselves against the hurricane season and cost average their material at a lower price point.

## Feedstock “Spot” Prices:

Product	Location	Price as of June 20	Price as of June 6	Unit
Brent Crude	North Sea, Europe	75.48	76.41	USD/barrel
WTI Crude	Cushing, OK	70.60	71.90	USD/barrel
Natural Gas	Henry Hub, LA	2.53	2.26	USD/MMBtu
Naphtha	C&F Japan	552	578	USD/mt
Ethane	Mont Belvieu, TX	21.5	20.625	Cents/Gal
Propane	Mont Belvieu, TX	57.75	60.375	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	16.125	16.5	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	36	31.5	Cents/Lb

\* Sources – CME, Bloomberg

## Inventory

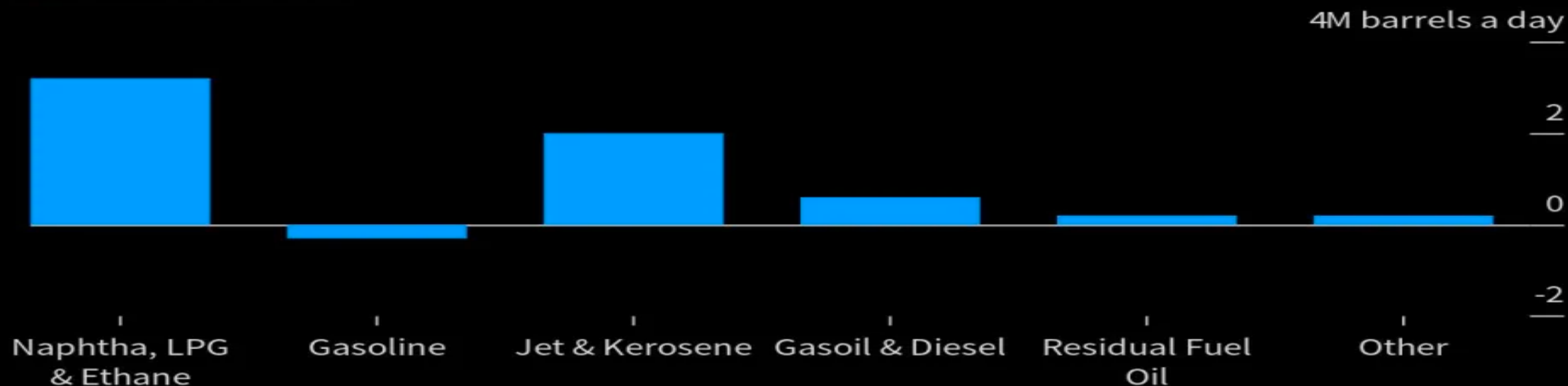
HERO GREEN™ (Post Consumer PP Repro)		
Grade	Description	Location
HG7BK1	7 melt HomoPP - Black	Midwest
<del>HG3GR1</del>	<del>3 melt HomoPP - Grey</del>	<del>Midwest</del>
HG16GR1	16 melt HomoPP - Grey	Midwest
<del>HG22GR1</del>	<del>22 melt HomoPP - Grey (SOLD OUT)</del>	<del>Midwest</del>
HG3GR3	3 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



### Most New Oil Demand Will Come From Petrochemicals

Growth in consumption by fuel type through 2028

■ 2022-2028 change



Source: International Energy Agency

Note: The figure for naphtha/LPG/ethane includes petrochemical and non-petrochemical uses. Petrochemicals growth alone is forecast at 2.3 million b/d in the period. Other fuels include lubricants, pet coke and asphalt.

**Bloomberg**

While the plastics industry is swimming in resin in what is considered a very long (over-supplied) global market from the current capacity, the oil market is looking to petrochemicals for demand growth. In the graphic above, petrochemicals are estimated to account for 40% of the growth in oil demand thru 2028. A significant amount of this demand will come from Chinese petrochemical production. Someone may want to tell the oil traders that the market may not need as much plastic as the Chinese have planned?!?!



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