

BlueClover

All Things PP

Brainfood for the Plastics Industry

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Market Update

Plastics Feedstocks (Oil, Naphtha, Propane)

- Since our last report two weeks ago, oil and naphtha are up small but propane pricing is up big on account of the arctic freeze sweeping across much of the USA.
- WTI crude oil prices are up about 3% to \$72.84/barrel compared to two weeks ago.
- Naphtha prices (CIF Japan) are pretty much unchanged around \$650/mt
- Physical propane prices in Mont Belvieu, TX are up 18% these past two weeks to a spot price of 81.25 cents per gallon (cpg). Midwest propane supplies looked rather healthy heading into the middle of December last month. Then the Energy Information Administration (EIA) readjusted the inventory levels for the final two weeks of the year which resulted in an inventory figure that was lower than both 2022 and the 5 year average when compared against those time periods. This lower inventory adjustment married with an arctic blast for much of the country currently has led to rallying propane prices.

Propylene

- Physical PGP prices are trading at 49.5cpp up from 43.75cpp two weeks ago. Physical PGP prices were consistently between 43.5cpp and 46cpp for most of December but broke thru into higher prices this month.
- One reason that PGP prices may have jumped up the first two weeks of January is the forecast for Texas. Houston had a low of 18 degrees on Monday night and an estimated low of 21 degrees on Tuesday night. Everyone remembers the Texas power grid failures in Feb 2021 resulting in shut down PDH units and PP reactors shooting prices higher. When unusually cold weather is approaching, market participants may be reluctant to sell inventory and incentivized to buy more. We believe the Texas power grid is better able to handle colder weather than it was 3 years ago. We anticipate this to be a non-event but some producers may choose to do a planned plant shut-down as opposed to rolling the dice with the cold weather.
- Last report we wrote... *“Bearish pressures include very cheap crude oil and propane pricing along with a very sluggish PP demand profile. Bullish pressures are tied to possibly not having enough physical PGP supply in the system resulting from the unexpected PDH outages.”* Well you can cross out the very cheap propane pricing since prices have rallied 18% in two weeks. While today’s propane pricing is higher, its perfectly reasonable to have physical PGP pricing in the 35-38cpp range based on historical gross PDH margins.

Market Update

Propylene (cont'd)

- Last report we were wrong when we wrote ... *“BlueClover is going to venture on the side that PGP pricing will push towards the upper 30s in the next 4-6 weeks versus the upper 40s”*. Physical PGP prices did indeed head into the upper 40s. There goes the market punishing us for trying to call a top. In fact this physical PGP market has been punishing my views for the past several months. As crude, propane, and polypropylene demand decreased these past few months we surely expected PGP to follow suit. But due to ongoing PGP supply issues this has not been the case.
- BlueClover’s estimate is that contract PGP will be up 2cpp for January to 50cpp. Our forecast for February is in the 40-43cpp range and March is in the 38-41cpp range.
- BlueClover will hold its view that physical PGP prices push into the mid to upper 30s in the next 3-5 weeks but respect the fact that prices may push higher into the low 50s over the next few days/week.

Polypropylene

- As mentioned in the propylene section on page 2 some PP producers may choose to shut down or run at reduced rates to be better prepared in the event of a power outage due to the cold weather. This may temporarily take some supply out of the market. However we feel that the demand environment can handle this temporary reduction in supply.
- Certain PP consumers have started purchasing in January after holding back buying in Nov and Dec as they expected prices to decrease. After holding out for a couple of months buyers have needed to restock inventory and producers are selling PP at prices to move the product. The prices for widespec HomoPP are not high enough for PP producers to make any margin over PGP however the pick-up in demand helps provide an outlet for the product. Prime grades of PP still command the appropriate adders over PGP.



Feedstock “Spot” Prices:

| <u>Product</u> | <u>Location</u> | <u>Price as of Jan 16</u> | <u>Price as of Jan 2</u> | <u>Unit</u> |
|------------------------------|-------------------|---------------------------|--------------------------|-------------|
| Brent Crude | North Sea, Europe | 78.64 | 76.29 | USD/barrel |
| WTI Crude | Cushing, OK | 72.84 | 70.71 | USD/barrel |
| Natural Gas | Henry Hub, LA | 2.98 | 2.55 | USD/MMBtu |
| Naphtha | C&F Japan | 651 | 648 | USD/mt |
| Ethane | Mont Belvieu, TX | 23.75 | 17.5 | Cents/Gal |
| Propane | Mont Belvieu, TX | 81.25 | 68.875 | Cents/Gal |
| Ethylene (Enterprise system) | Mont Belvieu, TX | 19.25 | 17.75 | Cents/Lb |
| PG Propylene (Enterprise) | Mont Belvieu, TX | 49.5 | 43.75 | Cents/Lb |

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Trader Toolbox – Manufacturing Profits Continue to Slide Lower

Below is a link to a great article by Bill Wood from the Plastics News

'Soft landing' for overall economy, not manufacturing

In the article above Bill does a great job of highlighting how its actually the service sector that is driving wage growth and continued inflation as consumers continue to spend larger percentages of discretionary income for services over goods.

He highlights how profits for all US manufacturing is lower year and year and this trend is still accelerating leading to lower profits with each successive time period when compared to 12 months earlier.

Many industries in the plastics and durable segments have seen the impact of higher wages along with lower demand for their products lead to lower profits.



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