

# BlueClover

All Things PP

Brainfood for the Plastics Industry

Issue 25.01 – January 2025



## Market Update

### Plastics Feedstocks (Oil, Naphtha, Propane)

- All upstream energy prices are significantly higher compared to early December.
- WTI crude oil prices are up 15% the past month to a spot price of approx. \$78/barrel. Oil prices are the highest they have been in 4 months. Part of this price rally is a result of the exiting Biden administration placing even stricter sanctions on Russian oil last Friday.
- Propane prices in Mont Belvieu, TX are also up 15% to almost 91 cents per gallon (cpg). Propane prices have rallied because of the artic cold temperatures covering much of the Midwest and East Coast the past 7-10 days. Propane prices are the highest they have been since Feb 2024.
- Over the past month naphtha prices (CIF Japan) are 8% to \$676/mt.

### Propylene/Polypropylene

- Physical PGP prices have followed suit in terms of jumping up in price from December. Physical PGP in Mont Belvieu, TX is currently at 40.25cpp, which is up 15% from the December low price of 35cpp.
- December contract PGP settled at 39cpp which was 1cpp lower than our estimate of 40cpp for December. The December monthly average physical PGP price was 36.7cpp.
- We wrote in our last report that PGP prices would limp to the finish line of 2024 between 35 and 38cpp and then start out the 2025 year with higher pricing pressure. This is what happened. On Dec 31, 2024 physical PGP traded 36cpp. The lowest physical PGP price in January this year was 37.5cpp and is now up to 40.25cpp.
- BlueClover holds a bullish view for 1<sup>st</sup> quarter PGP pricing. For contract PGP prices, BlueClover is forecasting 44cpp for January, 54cpp for February, and 62cpp for March. This is a 1<sup>st</sup> quarter average of 53cpp. It's a bold bet to assume this much volatility. In our opinion if you polled pricing analysts in the PGP space I believe the average consensus would be for PGP pricing to go up in the 1<sup>st</sup> quarter but maybe only 4-8cpp up from the December price of 39cpp. BlueClover's estimate is for a 14cpp increase in 1<sup>st</sup> quarter from the December contract PGP price point. Our reasons are as follows...

## Market Update

### Propylene (cont'd) / Polypropylene

- Here at BlueClover we would break down our PGP bullish view as follows: 60% higher upstream costs and supply side tightness, 20% market psychology and 20% slightly better than expected demand.
  - Starting with the upstream costs and supply side tightness.
    - Upstream Costs: As of right now with propane prices at 90cents per gallon the PDH gross margin between Mont Belvieu propane and physical PGP is about 15cpp. The average gross margin for this spread in years 2023-24 was about 23cpp. (See Trader Toolbox on page 5) Also rising crude oil prices will give producers an outlet for PP exports which will help with the oversupply of PP and allow PP reactors to call for more PGP if they can run at decent operating rates.
    - Potential Supply Tightness: PGP is a byproduct of ethylene production. There are 9 ethylene crackers going down for turnaround between late December and April as reported by ICIS. Also, PDH units along with ethylene crackers can get disrupted by extreme cold temperatures in the Texas area. With a lot of winter left this is still a possibility.
  - Market Psychology
    - Group think does not stop at Bitcoin or Nvidia stock. If you haven't looked at Nvidia stock, please go check that out. Group think also finds its way into commodity markets and much of the PGP and PP industry are expecting prices to rally in the 1<sup>st</sup> quarter. If prices start to rally, which they have slightly already, it becomes a train leaving the station and folks want to buy before it gets too expensive, leading to more buying and supporting the price.
  - Better than Expected Demand
    - Anecdotally we are seeing PP customers start off the year purchasing materials. Perhaps it's a result of stockpiling ahead of anticipated price increases. But maybe it's the manufacturing sector experiencing a bounce up in activity. In December the ISM Purchasing Managers Index (PMI) which is a measure of USA manufacturing registered a 49.3 mark, the highest its been in nine months and a jump up from 48.4 in November. While numbers below 50 represents contraction in manufacturing the trend over the past two months has been upwards, signaling a bounce off the bottom.

## Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Jan 14th</u>	<u>Price as of Dec 5th</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	80.06	72.39	USD/barrel
WTI Crude	Cushing, OK	77.63	68.62	USD/barrel
Natural Gas	Henry Hub, LA	4.03	3.14	USD/MMBtu
Naphtha	C&F Japan	676	623	USD/mt
Ethane	Mont Belvieu, TX	27.125	24	Cents/Gal
Propane	Mont Belvieu, TX	90.5	78.875	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	33	26.75	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	40.25	36.5	Cents/Lb

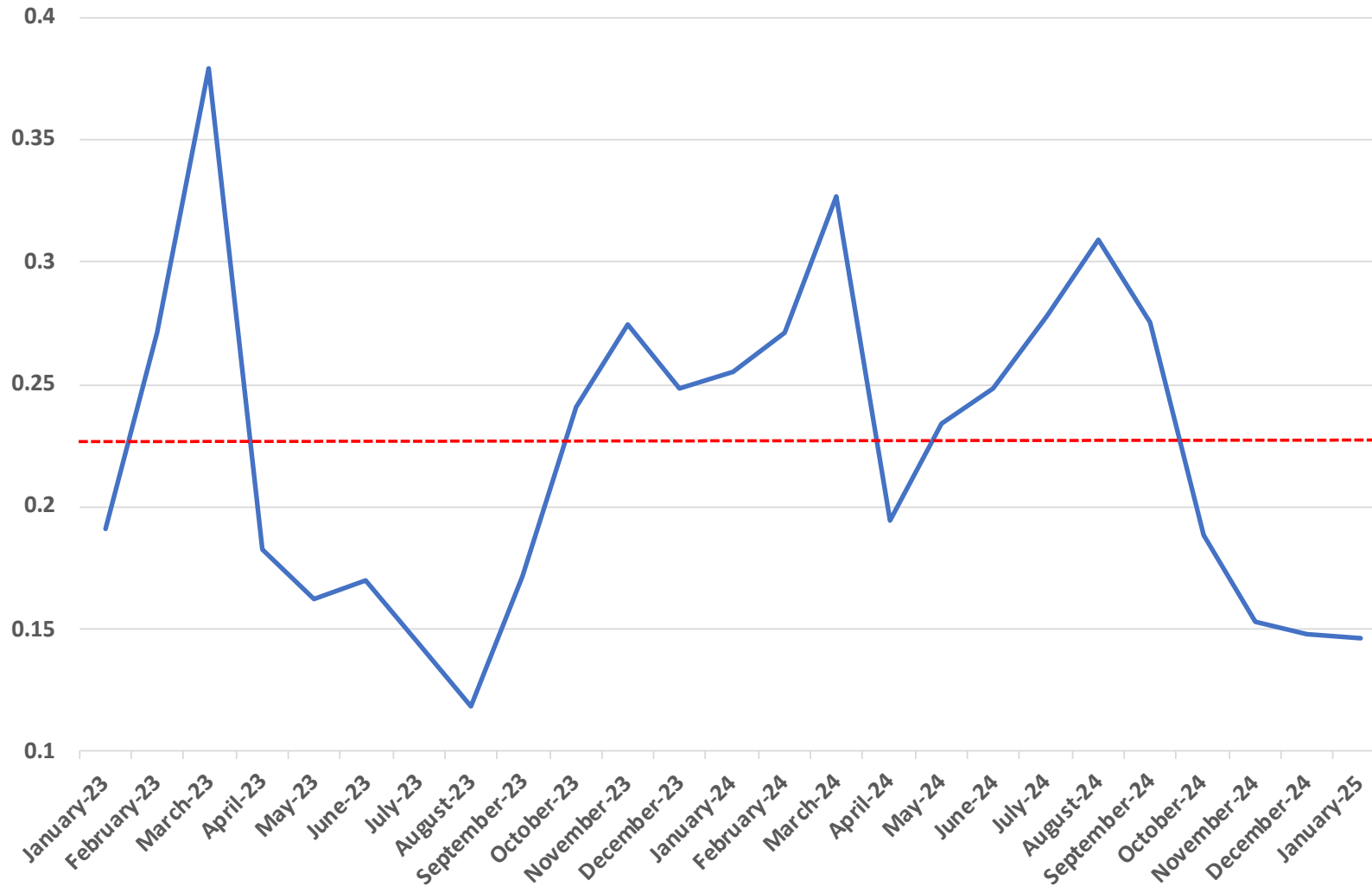


## BLUECLOVER LINE CARDS

Please click the link [here](#) to see BlueClllover’s line cards.

## TRADER TOOLBOX – GROSS MARGIN PDH SPREAD

GROSS MARGIN GULF COAST PDH UNIT  
PGP minus Propane (PDH cost) (USD/lb)

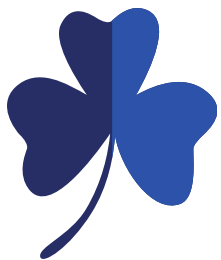


This chart shows the gross margin for a Gulf Coast PDH Unit by taking physical PGP and subtracting the cost of propane for a PDH unit in USD/LB. The chart is for Jan 2023 thru today.

As you can see the average spread is about \$0.23/lb. Today the spread is on the lower end of its range.

Propane prices have recently jumped up almost 20% since early December because of the extreme cold weather across much of the country.

This supply cost component is something to consider when putting on our thinking cap about future price direction for PGP.



## Disclaimer

The information contained in this newsletter is for informational purposes only and it is not intended to be, nor should it be construed or used as, business, financial, legal, tax or investment advice or an offer to sell, or a solicitation of an offer to buy, any product or service. This newsletter does not consider the business objectives or financial circumstances of any specific person who may receive it. The information in this newsletter was prepared by Blue Clover and has been obtained from public sources believed to be reliable. Blue Clover makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of Blue Clover and are subject to change without notice.

Any projections, forecasts and estimates contained in this newsletter are necessarily speculative in nature and are based upon certain assumptions. In addition, matters described are subject to known (and unknown) risks, uncertainties and other unpredictable factors, many of which are beyond Blue Clover's control. No representations or warranties are made as to the accuracy of such forward-looking statements. It can be expected that some or all such forward-looking assumptions will not materialize or will vary significantly from actual results. Accordingly, any projections are only estimates and actual results will differ and may vary substantially from the projections or estimates shown. Blue Clover has no obligation to update, modify or amend this newsletter or to otherwise notify a reader thereof if any matter stated herein, or any opinion, project on, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Past performance is not indicative of future success and there is no guarantee that any business or investment strategy will be successful.