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FOREWORD

Rising domestic feedstock costs and new global supply will set the tone for the European petrochemicals industry in 2018, with a higher oil price environment overshadowing three years of remarkable margins for European asset-holders.

In what is shaping up to be a year of two halves, producers may experience an easier ride in the run-up to summer. Numerous planned outages at steam crackers across the region will tighten European supply and allow greater scope for appreciating costs to be passed through to customers.

On the flip side, converters will initially have to brace for tight feedstock availability and higher prices, looking forward to the second half when new capacities in other regions ramp up production and new resin starts penetrating the European and Turkish markets.

Rising crude oil prices have already given the European methanol market an upward push at the break of the year, but the trend is unlikely to continue beyond the first half as new methanol plants come onstream in the US. Some European players might chose to embrace the increased volatility by seeking higher exposure to the spot market and through the development of more sophisticated hedging instruments.

In aromatics and blendstocks, a steep increase in chemical demand for toluene will further widen the disconnect between toluene and gasoline price trends. By contrast, European MTBE is likely to maintain its relationship with gasoline, entering 2018 with a marked lack of optimism amid limited arbitrage opportunities and poor blending margins.

Regulatory change may destabilize some petrochemical markets. Styrene lies under a cloud of uncertainty pending China’s next steps on anti-dumping duties, which could transform trade flows globally. China may also extend its consumption tax on oil product imports to blending components, with potential to create a supply glut for mixed aromatics in Europe. The European Union ban on mercury-based technology will meanwhile leave Europe short of chlorine and caustic soda, opening up extra opportunities for imports throughout 2018.

Overall, import dynamics may well be the biggest driver of change for European markets in the year ahead. Europe is likely to see rising imports of numerous petrochemical products, both as a result of lower domestic production – temporary or permanent – and as new capacities elsewhere in the world look to Europe as an attractive outlet.

—Anna Crowley, Bao Ying Ng and Maria Tsay

OLEFINs AND FEEDSTOCKS

MARGINS, GLOBAL START-UPS, LIGHT CRACKING TO SHAPE EUROPEAN OLEFINS MARKETS

- Rising feedstock prices to put pressure on margins
- Light cracking to keep propylene supplies tight
- Butadiene exports could diminish on new global capacities

The price of the main petrochemical feedstock naphtha is likely to be the biggest concern for operators of European steam crackers in 2018. Producers’ ability to pass down feedstock increases to their own customers remains under a question mark this year as consumers are starting to look across the Atlantic in the hope of more competitively priced molecules. It could already mean lower margins for producers in the short term.

The outlook for individual olefins markets in Europe is mixed as the new year presents different challenges to each of them. With light cracking, the ethylene market is expected to be relatively balanced in 2018, while propylene is likely to tighten, when compared to last year. Meanwhile, the region’s butadiene will see its biggest changes come from outside of Europe.

It is no surprise that Europe is not seen as a place to invest into new petrochemicals capacities. Disadvantaged feedstock pricing and relatively mature downstream markets will mean there is no incentive to expand production.

Ethylene production will likely be flat year-on-year at 20 million mt in 2018, and is expected to decrease marginally in 2019, based on S&P Global Platts Analytics data. In fact, Europe is forecast to largely remain balanced throughout the next 10 years, according to Platts Analytics.

There are fewer turnarounds planned for the year ahead than last year, meaning plant maintenance is not expected to add significant tightness to the market. The year will start off slowly in the maintenance calendar before the number of turnarounds picks up in the second quarter. Notable among the first planned maintenance programs of the year are Dow’s Boehlen, and BP’s Gelsenkirchen crackers in Germany in Q2, Total’s Gonfreville in France in the spring and Repsol’s Sines, Portugal, in summer.

Platts Analytics expects polyethylene to remain the biggest demand driver for ethylene in Europe in 2018 and beyond, while EDC production is expected to be the second biggest use of ethylene in 2018, making up 15% of demand.
“PE will continue to dominate ethylene use, moving from 64% to 86% by 2027,” Platts analysts said.

Producers of ethylene in Europe are facing pressure on their margins as a result of the recovery in the price of crude oil.

A production cut agreement by OPEC and non-OPEC members including Russia has been effective in supporting a notable increase in crude prices, which has carried over into ethylene feedstock naphtha. That agreement was recently extended to the end of 2018.

As one ethylene trader said at the end of 2017: “The theme for 2018 is margin compression after three very good years.”

Cracking light to keep propylene tight
Despite cracker start-ups in the US, there will still be a healthy flow of ethane from the US into Europe this year. This in addition to the wide use of LPG would mean again a limited production of co-products, such as propylene.

“The market will be tighter because of increased demand in Europe and less supply. Less supply is down to lighter feeds at crackers, in other words the cracking of more ethane,” said a producer.

Cracking light feedstocks yields more ethylene and less propylene, butadiene and pygas. Cracking 1 mt of ethane produces 0.8 mt of ethylene. Similarly, 1 mt of propane produces 0.4 mt of ethylene. This compares with just 0.3 mt of ethylene from cracking 1 mt of naphtha.

Added to this reduced supply is growing demand for propylene, on the back of increases in the underlying consumption of its derivatives.

“There is increasing demand for ACN and PP, therefore these plants are increasing propylene consumption. Many PP plants have done some sort of debottlenecking through recent years of strong demand.

With around 40 PP plants in Western Europe, and under the assumption that debottlenecking averages 5-10,000 mt for each plant in a year, we can see the European market could be around 300,000 mt shorter on propylene in 2018 compared to 2017,” the producer source said.

Increased reliance on imports could also mean a more volatile price as the market would be left more vulnerable to production hiccups.

New global capacities pose risk to butadiene exports
Despite anticipated light cracking, there is no tightness in sight for butadiene this year, as European suppliers will face competition in the international markets, following global capacity start-ups.

“Changes won’t come from the European market,” said one trader.

Europe will remain a net exporter of butadiene during 2018, but developments in export markets and trade flow fluctuations will be an important focus for European sellers looking both east and west.

“Asia is very quiet at the moment. Most buyers are covered for January/February. The big question is what will happen after the Chinese New Year [in mid-February],” said a European seller.

In China, China National Bluestar and Jiangsu Shenghong began new commercial operations during the fourth quarter of 2017, after bringing online new capacities in Puyang City, Henan and Lianyungang respectively.

New capacities will provide an alternative to purchasing butadiene from Europe, and some in the European market expect export opportunities to be curtailed as a result.

In the first 10 months of 2017, EU butadiene exports rose by almost 18% to 310,089 mt, mainly to China, according to the latest data from the European statistics agency Eurostat.

Market participants in Europe are uncertain as to what impact new or delayed cracker projects in the US may have on the butadiene market. One trader expected, “Imports into the US [to be] reduced heavily over the course of this year.”

However, another said there may be no impact on CC4 or butadiene and price is expected to remain a determining factor in the choice between imported and domestic material in both the US and Asia.

— Conor Molumby, Daved Chohan and Luke Milner
METHANOL MIXED AS HIGHER CRUDE SET TO SUPPORT MTOs AMID EXPECTED LENGTH

- Increased production to materialize in 2018
- Contractual discounts to widen
- Middle East volumes key to European markets

The methanol market in Europe is going to remain an extension of global trends this year, with upcoming increases in production capacity on the other side of the Atlantic ensuring sufficient supplies worldwide.

However, incremental demand from Asia might throw a spanner in the works if crude oil prices stay elevated.

Expectations of supply length have already manifested themselves in greater contractual discounts in Europe for 2018. But uncertainty remains around the timing and extent of the new production volumes as well as potential mothballing of older plants and feedstock gas shortages in other regions.

Furthermore, consumption capacities of Chinese methanol-to-olefins (MTO) plants and a strategic preference by swing Middle Eastern producers for the Asian markets could threaten to leave the European markets short of molecules in the coming year.

This would only become a real threat if, unlike in 2017, higher crude and naphtha prices will help improve production margins and cost competitiveness of the Chinese MTO plants.

Long year?
The overwhelming consensus in the European market is that global methanol markets are set for an oversupply in 2018. Large plants in the US and Iran have the potential to flood the global markets.

The NatGasoline methanol project in Beaumont, Texas, is expected to be fully up and running in 2018. The plant has an annual production capacity of 1.75 million mt, which is expected to be consumed primarily within the US.

On the other side of the world, Iranian product is also set to have a big impact, however it might be mostly felt in the second half of the year. The Marjan Petrochemical Company’s 1.7 million mt/year plant at Assaluyeh is slated to start production in early 2018. Some of the capacity is currently operating at reduced rates, and would also be in a position to ramp up.

The country already exports roughly 5 million mt/year of methanol or 7% of the global methanol production capacity of 80 million mt/year.

Some market players remain skeptical of the immediate impact of the Iranian product on the European market.

“It’s a bit too soon to worry about Iranian material,” a European producer source said. Extra volumes from Iran will mostly likely be headed first to China, which is already the largest buyer of Iranian methanol.

According to figures from Chinese Customs, Iran exported between 130,000-300,000 mt/month in 2017 to the country, accounting for almost half of the China’s methanol imports.

Bigger discounts
The anticipated extra volumes have been the main driving factor in further increasing discounts for the coming year in European contracts. The bulk of the European methanol changes hands under long-term contracts with the price often tied back to the industry-agreed quarterly contract price, settled by at least two independent producers and two independent consumers. Contractual discounts have been increasing every year for the past several years.

“We’ve been hearing the Rotterdam discount level at 18%-19% for this year and in 2018 it will be more,” a second producer source said. “It’s hard to see how there will not be extra volumes in 2018.?”

Spanner in the works
Several factors, including potential start-up delays, below-capacity run rates, gas curtailments,
shutdowns and strength in crude oil, could defy the bearish trend.

Chinese MTO plants are set to continue to dictate a core part of global methanol demand, and if it continues to be strong, Europe will find itself competing with Asia for the Middle Eastern molecules.

“There is a danger of European markets staying short of product throughout the first part of 2018 if the Asian premium remains in place,” one source said.

Asian markets have been trading at a premium to Europe since early August, with the spread widening substantially in September.

Middle Eastern producers had almost fully focused on supplying all non-committed material to Asia, leaving Europe short of fresh material.

An uptick in crude prices during the fourth quarter of 2017 has lifted Asian naphtha prices by around $100/mt in comparison with the start of the year, increasing costs of traditional olefins production and making MTOs more competitive in comparison.

During the first half of last year, MTOs were on the edge of profitability amid low naphtha pricing.

The recovery of Asian olefin prices as well as the higher crude prices, if sustained, would have a significant, supportive, impact on methanol demand from MTO plants.

“Strong demand from the MTOs has the potential of soaking up all of the extra capacity from Iran and elsewhere,” a source said.

Furthermore, the new capacity in the US leaves an air of uncertainty around the future of the Trinidad & Tobago methanol plant. The plant has a combined annual nameplate capacity of 4 million mt at its five production units and currently focuses heavily on the US markets.

Market players feel that the plant would either have to send molecules to other regions eg, Europe, or reduce run rates to manage the region’s stocks.

“The Trinidad & Tobago plant often has a shortfall of [feedstock] gas supplies so I think the most logical thing would be to mothball some of the units,” a source said, adding, “If they don’t reduce the rates then Europe is going to be the likely destination for the extra product and I’m not sure there is enough demand for those kind of volumes.”

— Michael Samueli

NAPHTHA CRACKS TREND HIGHER ON SUSTAINED PETROCHEMICAL DEMAND

- Market supported by firm petrochemical demand, expensive LPG
- Bullish Asian sentiment tightens Mediterranean

Physical fundamentals were well supported in the Northwest European naphtha complex over the fourth quarter, with robust demand and good supply extending a bullish trend that started at the end of the summer.

Since late September, the physical naphtha crack — the spread between CIF NWE naphtha cargoes and Dated Brent — remained in positive territory reaching near yearly highs of $1.65/b at the end of November.

Meanwhile, healthy petrochemical cracking margins and expensive LPG supported end-user demand for naphtha well into mid-December, with front month propane/naphtha swaps — an indicator of the relative value of propane versus naphtha — even pricing at a premium to naphtha and rendering gas unattractive as an alternative feedstock.

As an end of year feature, the arbitrage from the Mediterranean and the Black Sea to Asia has been more workable thanks to a strengthening Asian naphtha complex where physical cash differentials of open spec naphtha started the quarter at $2.50/mt and rose to above $11.50/mt by the end of Q4, S&P Global Platts data shows.

The subsequent tightness in the Mediterranean market restricted to a minimum the number of cargoes coming from the Mediterranean to NWE, while a late surge in freight rates for LR1s on the Mediterranean-Japan route indicated that arbitrage between east and west was marginal by the end of the year.

Looking ahead, traders see an extension of the current trend into 2018, with good petrochemical interest continuing to support a balanced market for open spec naphtha and high propane costs keeping gas out of the petrochemical pool.

PETCHEMS DEMAND SUPPORTS NAPHTHA CRACK

— Michael Samueli
Bullish sentiment in the paper market was also seen as sign of a strong market moving into the new year, with a steep backwardation between January and February.

However, end-of-year inventory management was expected to curtail buying interest somewhat towards the latter half of December.

— Philip Reeder

THIN PROPANE RESUPPLY, WEAK GASOLINE BLENDING SEES LPG STRUGGLE

- **Seasonal demand fails to reach usual levels across LPG in NWE**
- **Market weighs impact of mild weather and sluggish blending**

LPG struggled in the fourth quarter with a lag in the typical seasonal pick-up of both winter heating and gasoline blending demand, putting pressure on the propane and butane spot markets in Northwest Europe.

A relatively mild start to the winter delayed the usual inland heating season for propane, even as a closed arbitrage from the US to Europe kept the large propane market relatively strong.

Meanwhile, a closed arbitrage for gasoline from Europe to the US has softened gasoline blending demand, putting butane on the back foot and keeping petrochemical buyers in the market, but at lower prices than blenders would typically pay.

The first quarter of 2018 could offer a “better late than never” jolt to winter prices — but only if colder temperatures continue and an arbitrage opens up on gasoline, according to market sources.

Without those incentives, prices across the Northwest European complex are likely to stay above summer levels,

but are unlikely to reach prices typical for the winter season, offering another signal that the seasonality that has long defined Europe’s LPG markets is flattening out over the course of the year.

Meanwhile in the West Med, a recent sharp strengthening in prices is likely to attract an influx of product in early Q1 into the butane-hungry market, which is structurally short of local butane, as the arbitrage routes from both Northwest Europe and the US Gulf Coast are wide open.

— Katherine Dunn

AROMATICs AND BLENDING COMPONENTS

MIXED OUTLOOK FOR BTX WITH BENZENE FACING VOLATILITY

- **Benzene could weaken mid-Q1 — but potential rebound to follow**
- **Toluene to remain robust amid TDI, benzene demand-pull**
- **Mixed aromatics glut to curb toluene supply scarcity**

Benzene and toluene markets face a mixed outlook in 2018 amid a variety of fundamental changes in the respective markets.

The European benzene market looks set for a rollercoaster ride in the first half of next year on the back of recurring supply-demand mismatches — while benzene should remain strong in January amid firm demand and subdued imports, downstream styrene turnarounds will reduce demand around February. However, with numerous steam crackers commencing maintenance in March, the market could once again shift to being supply driven.

Meanwhile, with expanded toluene diisocyanate (TDI) production capacities and positive conversion margins to benzene, toluene appears to have a more comfortable start to 2018 as the demand front is unlikely to come under pressure. Depending on the margins on toluene and MX extraction, the prospects of a supply glut on feedstock mixed aromatics could also lead to increased potential availability of toluene within Europe.

**Styrene turnarounds may cause slack in Q1**

European benzene could come under pressure midway through the first quarter as at least three styrene plants are scheduled to undergo maintenance. Until the start of the turnarounds, European styrene producers are expected to...
run at high rates in order to build up inventory before the maintenance period, which could lend strong support to European benzene in January.

Planned benzene start-ups in Asia at the end of December and beginning of January are unlikely to affect European prices, as the six week transit time from Asia to Europe leave traders a small window import benzene to Europe.

The benzene market was globally strong for most of 2017, largely due to reduced exports from Asia to the US.

A plethora of new benzene capacity and units downstream of benzene were planned to start up in 2017 in Asia. The downstream units in Asia proved to be timelier in their scheduled start-ups compared with the benzene production units, resulting in less benzene exports from Asia, in particular from South Korea to the US.

**Chemical demand for toluene to increase**

An increasing disconnect between toluene price trends and those of gasoline is expected in 2018, with TDI production in Europe set to increase substantially.

Over 2015-16, Eurobob gasoline prices largely dictated European toluene prices, to the frustration of Europe's chemical players.

This year marks the first year since 2014 where toluene-to-benzene conversion returned positive margins to producers. Toluene-to-benzene conversion processes normally require a $150-$200/mt benzene premium to toluene to break even, with Mobil Select toluene disproportionation (MSTDP) units being closer to $150/mt, while toluene hydrodealkylation (HDA) is a more expensive process requiring close to $200/mt.

German chemicals producer BASF has said that its 300,000 mt/year TDI plant in Germany will be fully operational in the third quarter of 2018. BASF currently operates an 80,000 mt/year TDI plant in Schwarzheide, Germany, but that plant will be mothballed following a successful start-up of Ludwigshafen.

**Mixed aromatics glut could counter toluene tightness**

While the demand side appears robust for toluene in 2018, the supply side is unlikely to face any scarcity due to the prospects of a glut on feedstock mixed aromatics. This is as exports interest sidelines on mixed aromatics, as China may implement a consumption tax on mixed aromatics.

Until 2017, mixed aromatics were classified as a petrochemical product and were exempt from consumption taxes imposed on imports of other liquid oil products, except for jet fuel. But a vast majority of mixed aromatics imported into China were utilized as gasoline blending components.

However, with the overhaul of the tax system expected to take effect from January, imports of mixed aromatics into China could plummet as its gasoline blending value erodes, if the tax takes effect.

With Europe traditionally among China's top suppliers of mixed aromatics, the closure of the demand outlet would then be set to add length within the European domestic market.

The extra supplies of mixed aromatics could dampen gasoline-blending economics on toluene and co-product mixed xylenes, potentially relieving any supply pressure on the latter two petrochemicals.

Additionally, as aromatic petrochemical producers would be keen to maximize returns on their plants, a push for even more downstream toluene and MX extraction from mixed aromatics cannot be ruled out, given the strong outlook on toluene.
However, the economics of incremental extraction would largely depend on the weighted average potential margins generated on both tolune and MX.

If demand remains calm on MX in the short term, the potential increase in tolune availability could be capped. This is due to producers likely optimizing returns by limiting extraction, if the weighted average returns do not cover the costs of incremental production.

In contrast, a boost in paraxylene extraction demand from MX, to feed the increased production capacity of downstream purified terephthalic acid could prove supportive for extraction economics of tolune, from feedstock reformat and mixed aromatics.

Overall, global benzene balances and price trends will to an extent be determined by downstream start-ups in China, making it a demand-driven market going forward.

Unlike benzene, tolune would be a supply-driven market in Europe, taking influence from upstream mixed aromatics and co-product MX dynamics.

— Thordur Gunnarsson and Sam Hashmi

**PROSPECTIVE CHINA ANTI-DUMPING, US EXPORT SURGE COULD SPELL NEW ERA FOR GLOBAL STYRENE MARKET**

- Chinese ADD wild card to impact trade flows
- More US cargoes expected to move into Europe
- Bullish Q1 expected amid spot supply crunch

As a turbulent year for the global styrene market drew to a close, market participants were looking ahead to 2018 with increased trepidation, as talk of Chinese anti-dumping duty (ADD) on styrene imports looms on the horizon.

Meanwhile, the global styrene market is expected to start the year on a bullish note as Q1 supplies remain tight amid turnarounds globally.

Downstream, the styrenics industry fears demand destruction if styrene prices rise too steeply, echoing similar developments in Q1 2017.

**REDUCED ARBITRAGE MOVEMENTS INTO ASIA**

An ongoing ADD investigation by China’s Ministry of Commerce on styrene imports from South Korea, Taiwan and the US is expected to conclude by June 23. The three countries contributed more than half of the 2.57 million mt of China’s styrene imports from January-October last year, according to the latest Chinese Customs data. This investigation comes amid a wave of styrene production expansion in China to meet rapidly increasing domestic demand.

Current domestic styrene capacities of about 8.49 million mt/year is expected to rise by 9% to 9.25 million mt next year, according to S&P Global Platts data. An anticipated growth of around 5% from downstream sectors is expected to elevate total Chinese styrene consumption past 10.7 million mt in 2018, according to industry estimates.

The lack of clarity on the ADD investigation means the Asian styrene market will start the New Year cloaked under a veil of uncertainty, which has been hampering contract negotiations. The potential ADD on South Korea, the largest exporter of SM into China, has prompted buyers to seek a sizeable discount over the 2017 contract premiums for FOB-based term contracts, market participants said.

Talks of a possible retroactive tax claim on US-origin cargoes have also discouraged traders from continuing to move US styrene into Asia for Q1. In anticipation of ADD, producers in South Korea and Taiwan may also look at reducing their export allocation for 2018 and increase domestic sales, which will in turn further stifle Asian demand for US styrene.

**US CARGOES TO FLOOD EUROPE?**

Meanwhile, traders in Europe fear that Chinese ADD could lead to a surge in volumes from the US into the EU, which would lead to an oversupply of product. The US is a regular supplier of styrene to Europe, providing extra supplies during outages in the market. Between January-September last year, the US exported 144,441 mt of styrene to the EU, while this figure stood at 181,384 mt and 280,040 mt in 2015 and 2016 respectively.

Another home for US product could be India as its key supplier, the Middle East, is currently not under China ADD investigations. This could result in Middle East volumes headed to China if the ADD kicks in. Reduced Middle East exports into India will see it seeking volumes elsewhere. By late last year, Saudi Arabia had supplied 64,955 mt to the EU, compared with volumes totaling 61,677 mt and 60,105 mt in 2015 and 2016 respectively. ADD could lead to a significant decline in EU imports from the Middle East, with the US more than compensating for the lost volumes from the region.

**BULLISH Q1 EXPECTED AMID SPOT SUPPLY CRUNCH**

Going forward, a global supply crunch is expected in H1. Traders have been preparing for the impending tightness amid availability concerns that emerged as early as
October. The European market has been in a steep contango between Q4 2017 and Q1 2018 as buyers were prepared to pay a significant premium to secure product early.

In Europe, around 25% of total capacity is expected to be offline in Q1 as BASF, Repsol and Total conduct planned maintenance. As a result, the market is prepared for three-digit increases in the European contract price, similar to situations in Q1 2017. “European producers talk of between Eur200-250/mt [$240-$300/mt] increases [in the styrene contract price] during Q1,” a downstream source said.

Asia is also expected to lose around 117,840 mt of SM supply in H1 2018 due to scheduled maintenance, calculations show. A spot supply crunch in Q1 could extend to June, said market participants in Asia. The current resistance to winter restocking could lead to a sharp spike in styrene prices in January once downstream demand returns around the Chinese lunar new year in mid-February, mirroring the market conditions in H1 2017, according to Platts Analytics.

**Downstream destruction**

Soaring styrene prices had grave implications for the downstream polystyrene industry last year. In both Europe and Asia, there was significant demand destruction during January-April, especially in expandable polystyrene. Sources noted double digit year-on-year decreases in demand at the time. Not only was there substitution to other materials, there was significant difficulty in managing inventory levels from the price volatility.

The market fears a repeat of this for 2018. A GPPS buyer in Europe said that, instead of destocking before the year-end, buyers had increased inventory levels to prepare for significant price hikes in Q1. In Asia, market participants noted a sharp fall in spot polystyrene availability for December as regional producers chose to limit exports ahead of an anticipated spike in production costs in January.

Nevertheless, market participants are expecting sentiment to turn bearish further ahead in the second half of the year on ample supply from fewer anticipated turnarounds while significant new capacity is expected to come on-stream in Asia. China’s Anhui Haoyuan is expected to start commercial production at its 260,000 mt/year plant by April, while Sinopec Jingmen’s 80,000 mt/year capacity will likely start up by the end of 2018, according to trade sources.

In Europe, two turnarounds have been noted — works at LyondellBasell/Covestro’s Maasvlakte PO/SM unit and Synthos’ Kralupy Czech unit.

The supply crunch in H1 could lead to another year of volatility for the global styrene market, while the ADD could structurally change trade routes in the coming years. Another uncertain year lies ahead as “known unknowns” raise more questions than answers.

— Yuriko Kato and Frank Zeng

**SUMMER HOPE BURNS ETERNAL FOR MTBE AMID BEARISH SENTIMENT**

- US arbitrage window to remain closed
- Blending margins to remain squeezed
- Russian imports to stabilize in 2018

The ongoing bleakness in European MTBE markets is set to continue into 2018 with only the seasonal gasoline shift into summer specification offering any tangible hope of a reversal in direction.

The closure of hitherto established export opportunities to the US Gulf from Europe continues to negatively impact overall MTBE demand. The arbitrage is not expected to reopen on a long-term basis in the coming year.

In addition, weak blending demand as a result of squeezed margins, due to high naphtha prices versus low gasoline prices, is expected to remain a mainstay of European market fundamentals for much of the first half of 2018.

MTBE supply is meanwhile set to stabilize with increased Russian volumes continuing to flow into Europe at similar levels to 2017.

**US gains independence**

European market participants can no longer rely on an open export arbitrage window to the US Gulf as recent and planned upgrades to production capacities as well as direct imports from other regions have meant that the US markets are no longer dependent on European volumes.

US markets have proved well supplied with the arbitrage window closing in midsummer and, with the exception of a brief two or three weeks reopening, remaining shut for the entirety of the second half of 2017.
“It’s hard to see how or why the current situation will change in 2018,” a European trader said. “If there are prolonged or simultaneous shutdowns then there will likely be a tightness in the US and the arb will open up but in any case this will only be a temporary change in the status quo.”

**Squeezed blending margins**

Poor blending margins are set to remain a negative reality for European MTBE markets for at least the first part of 2018.

“There’s no strong incentive to blend at the moment and I believe this will be the case for some time to come,” a trader said, adding: “The only thing in the foreseeable future that has the potential of shifting the market dynamics is gasoline’s switch to summer specification in April.”

“But until then, short of an unexpected production issue, the situation won’t change.”

During Q1 2017, the spread between naphtha and gasoline was around $30-$40/mt, according to S&P Global Platts data, widening to $60-$70/mt in late March, just ahead of the gasoline specification change.

Since November, the spread has narrowed to just $15-$20/mt.

European gasoline markets have largely tracked the recent surge in crude oil prices but at depressed rates amid the wider seasonal decline in demand as a result of the off peak driving season.

However, several market participants were unconvinced that the summer driving season would have a dramatic impact in improving overall demand.

“MTBE is not weak because of the octane situation and the off-peak driving season,” a European producer said, adding: “The problem is the margin being tight between gasoline and naphtha. Until that changes, the fundamentals will carry on more or less as they are at the moment.”

**Russian supplies go unnoticed**

On the supply side, increased imports from Russia are expected to continue into 2018, after the recent flood of Russian MTBE into Europe failed to negatively impact markets.

“I haven’t seen the increases in Russian MTBE imports have any direct negative impact on MTBE fundamentals,” a second producer source said.

“I actually think the majority of Russian MTBE gets blended in Russia and then the finished grade gasoline is exported to Europe. This makes more sense. You only need to pay EU import taxes once that way,” the source added.

Eurostat data shows Russian MTBE imports into Europe at 44,079 mt in the first nine months of 2017, surging more than tenfold from just 4,229 mt for the same period of 2016.

The increase has largely been driven by hitherto sporadic exporters into the European markets like Russian major Sibur. The company is estimated to have exported 50,000-60,000 mt/year in 2017, with market sources expecting similar levels for 2018.

Sibur was unable to provide a precise export figure when contacted by Platts but estimated the MTBE market picture for 2018 to be “much the same as in 2017.”

During the peak summer season several shipments of Russian MTBE were heard offered to European markets. The majority was T1, non-duty paid material.

One such vessel was made up of 11,000 mt of MTBE. The vessel was eventually reported to have been bought by a trader who was putting together a large parcel bound for Latin America.

“Russian material being bought T1 off the coast of Europe and sent somewhere else has become pretty common,” a trader said, adding: “It will continue to happen a fair bit [in 2018].”

— Michael Samueli
**SURGING US GASOLINE PRODUCTION LEAVES EUROPE LOOKING FOR OTHER MARKETS**

- **Closed arb to the US shows no sign of opening.**
- **Firm demand in the Middle East supports NWE and Med markets.**

After a bumpy year, the gasoline outlook for the beginning of 2018 looks balanced, although sources expected the European gasoline market to soften in the run up to 2018 as trading activity slowed.

Nevertheless, the European gasoline complex remained relatively well supported for the time of year, with cash differentials in positive territory and the December/January Eurobob swaps spread trading in an unseasonal backwardation.

While the arbitrage from Europe to the US has recently closed, the arbitrage to the Middle East remains open from Northwest Europe and for the Mediterranean. Plenty of long-range tankers have notably sailed from NWE to the Persian Gulf and the Red Sea ahead of an ample maintenance program in the Middle East planned for the first quarter of 2018.

“The arbitrage to the Persian Gulf and the Red Sea can still work but people are more focused on [2018’s] things and some refineries were trying to clear the last barrels before the end of the year,” a trader said.

Meanwhile, large volumes of gasoline are still going to West Africa, with reportedly many more West Africa-bound cargoes loading from Europe in December than in November or October.

Gasoline imports into Nigeria have been mostly restricted to Direct Sale Direct Purchase (DSDP) cargoes on the back of upward flat price pressure from crude values. This caused spot import prices to rise above the government-mandated pump price, therefore removing the incentive for independent marketers to bring product into the country.

The strength of the European gasoline market will largely depend on whether or not the arbitrage to the US re-opens. According to the latest data from the Energy Information Administration, US import requirements are falling due to a surge in domestic production.

— Virginie Malicier

**CRACKS PERFORM BUT SUPPLY WEIGHS ON EUROPEAN JET MARKET STRUCTURE**

- **ARA barges lead jet complex in Q4.**
- **Backwardation draws stocks but expected to soften in 2018.**

Following an unprecedented period of backwardation in the European jet market over the second half of 2017, expectations for the New Year were for this structure to steadily soften.

Refining margins showed strength throughout last year, particularly in the final quarter, and producers have maximized their jet fuel production, taking advantage of the strong jet barge fuel crack which remains head and shoulders above diesel and gasoil.

The final quarter of 2017 saw jet fuel barges hitting three-year highs — when FOB Rotterdam barges saw their premium to the front-month ICE low sulfur gasoil futures strengthen to $62.25/mt on November 21 — due to a low stocks environment.

This had been made more acute by Hurricane Harvey in the US, which in turn had pulled some barrels typically destined for Europe out of the region in an unusual reverse arbitrage to the US.

This came on top of seasonal refinery maintenance which took offline key jet producing plants in Northwest Europe such as Shell’s 404,000 b/d Pernis refinery.

The return of production in Northwest Europe and the slow easing of the backwardation brought the barges back down in mid-December, and they were trading at a more usual discount to cargoes — a situation regarded as “normal” and expected to continue into 2018 outside of any further unexpected refinery outages.

The CIF NWE Jet fuel cargoes were also receding, albeit at a slower rate than the barges amid high arrivals in December.

The beginning of 2018 sees a shallow backwardation in jet fuel cargoes and traders expect some buying to materialize in the New Year as is usual once end-of-year stocks are accounted for.

Alongside the spot pricing, passenger demand numbers will continue to rise, according to industry body, the International Air Transport Association.

— Caroline Knight
POLYMERS

EUROPEAN POLYETHYLENE TO FACE FURTHER PRESSURE FROM INCREASED IMPORTS

- Domestic demand to remain robust
- US exports to Europe set to grow
- Middle Eastern producers expanding

Continued capacity additions in the US and Middle East are expected to play a significant role in shaping the European polyethylene markets in 2018. With robust domestic demand and no capacity additions scheduled in Western Europe over the next few years, the continent will need to rely on imported material to satisfy its domestic consumption.

Consumption of PE is expected to grow over the next few years, with Platts Analytics forecasting compound annual growth of 1% until 2022.

The total deficit in domestic supply of polyethylene in Europe will be 1.658 million mt in 2018, according to Platts Analytics. Europe has a net surplus of low density polyethylene, but it has a deficit of both high density and linear low density polyethylene, and these markets will experience the main impact from the global capacity expansions as US and Middle Eastern players compete for a lucrative share.

Last year 1.2 million mt of LLDPE, 1.6 million mt of HDPE and 350,000 mt of LDPE capacity were added in the US. This will grow further in 2018. Expansions this year include 625,000 mt of LDPE and 525,000 mt of HDPE capacity at Formosa's Point Comfort plants.

Over the next 10 years, the US is expected to have annual surpluses of 4 million and 4.1 million mt for LLDPE and HDPE respectively.

“The US will continue to ramp up PE production from new projects into 2018 and the outlet for this material is expected to increasingly find its way to Western Europe, as the region becomes more import dependent due to the comparable high cost of production,” according to Platts Analytics Hetain Mistry.

The products from new capacities were previously expected to arrive in Europe in the second half of 2017, but capacity ramp-ups were delayed due to the devastation caused by the Hurricane Harvey on the Gulf coast.

“We already made a lot of tests, the quality of the material is good,” one European trader said, adding that he expected some of the product to hit the European market already in the second quarter.

Middle Eastern surplus will impact European prices

Amid the continued US expansions, the competing Middle Eastern share remains strong. Iran has driven production capacity expansions in the Middle East and the region as a whole is expected to have a healthy surplus position for the coming years.

There are no new start-ups planned for this year though last year’s capacity additions included a 380,000 mt of LDPE and a 180,000 mt HDPE/LLDPE swing plant by Orpic in Kuwait.

The region’s largest polyethylene surplus lies in HDPE, and from a positive net trade position of 6.3 million mt in 2017, it is expected to grow to 9 million mt by 2027. Similarly, the region’s LLDPE surplus is expected to grow from 3.7 million mt in 2017, to 6.1 million mt by 2027.

The Middle East is expected to remain the biggest net exporter of PE globally in the next 10 years, according to by Platts Analytics estimates, with its total PE surplus at 12 million mt in 2017, rising to 12.4 million mt in 2018.

“Already, the Middle East has the controlling share of PE flowing into Western Europe but is likely to face competition from increasing US material hitting European shores. Beyond 2018, this [is] likely to be the trend also as waves of US investment come online,” according to Mistry.

Fundamentally, the Middle East remains in a strong position to export to Europe.

But the appetite in exporting tons clearly depends on current market fundamentals. “All producers in the Middle East look at the profitability between Asia and Europe,” a producer said.

Prices in Asia and Europe were moving in opposite directions last year and converged in December.

HDPE film in Asia increased by more than 10% in 2017 and was trading at $1,290/mt CFR FE Asia at the end of the year. In Europe the price has dropped by nearly...
9% over the same period, and was hovering around Eur1,120/mt ($1,325/mt) FD NWE. Middle Eastern producers also factor in their shipping costs, which are currently more than twice as expensive for cargoes to Europe compared to Asia.

Both domestic demand and supply conditions are expected to remain fairly stable in Europe. But as the rest of the world continues to churn out more pellets, Europe's net import position means its spot fundamentals will continue to be heavily influenced by foreign volumes.

— Daved Chohan and Conor Molumby

WEAK DOMESTIC DEMAND, CURRENCY AND EXPANDING GLOBAL PRODUCTION TO WEIGH ON TURKISH PE

Continued global production expansions are expected to generate further bearishness in the Turkish polymer market during 2018, after the depreciation of the Turkish lira undermined demand in late 2017.

In mid-November, the Turkish lira fell to a new low against the US dollar and financial and economic uncertainties have continued to affect the market.

Ordinarily, a severely weakened currency would result in more expensive imports, leading to less polymer supply in the Turkish market, and a rise in Turkish prices. With Turkish prices among the lowest in the world, and not recently considered a favorable export destination, there should have been even more reason for prices to surge.

However, weak domestic demand has prevented any substantial price increases for polymers in the Turkish market.

US leading global expansions

Turkey's location means it is a swing market, expected to attract products from all over the world in 2018. While the Middle East remains the dominant polymer exporting force, Iran has made significant strides in bridging that gap and US production is also poised to ramp up.

Fourteen new polyethylene plants are starting up in 2018 through 2019, in the first wave of new steam crackers and PE plants from the US natural gas booms. Seven plants, currently operating or undergoing final testing before start-up, could produce 6.4 million mt/year of PE. In 2016, the US had a PE surplus of 4.2 million, of which 90% was exported, according to US trade statistics.

Turkish market participants have been bracing themselves for the impact from the flow of petrochemicals expected from the US for a while now, but what makes this increased trade flow more likely is the increased self-sufficiency currently emerging in Asia.

Asian self-sufficiency

In the first quarter of 2018, China is due to see the start-up of 1 million mt/year of new capacity. This includes CSPC's 300,000 mt/year LLDPE and 400,000 mt/year HDPE units, as well as Qinghai Damei's new 300,000 mt/year HDPE/LLDPE swing plant. Nor do the signs of increased self-sufficiency not end with China.

In October, India's Reliance Industries Ltd. was in the process of stabilizing production at its new Jamnagar polyethylene complex, a company source said at the time.

The new complex was started up in September. It comprises a 550,000 mt/year LLDPE swing plant and a 400,000 mt/year LDPE unit.

Reliance is also building a 1.37 million mt/year steam cracker at the same site.

Asia has taken clear steps to improve its self-sufficiency, as evidenced by 3.5 million mt of PE capacity coming online in China over 2014-17. However this has not
changed the fact that the region will continue to have the highest global PE deficit through 2027, according to Platts Analytics.

In the short to medium term, the PE deficit in Asia has stabilized, as increasing volumes of pellets are seen around the globe.

**Iran drives surplus in Middle East**

For all the US and Asian developments, the Middle East remains the dominant polymer exporting force influencing the Turkish market.

The region’s surplus was around 12 million mt in 2017, according to Platts Analytics, and is expected to move to nearly 18 million mt by 2027.

With operating rates expected to average 85% over the next 10 years, the region shows few signs of slowing down.

By 2027, around 5.3 million mt of capacity is expected to come online, mainly driven by Iran, which continues to offer product into Turkey.

The Turkish polymers markets are closely watching developments in the Iranian market, as the Turkish market is set to remain a key outlet for Iranian material.

**Closer to home**

Turkish market participants also expect the neighboring European market to continue to influence developments in the Turkish polymers markets, as upstream price settlements in Europe are among the factors that drive Turkish price developments.

“The key will be what will happen in Europe,” said one Turkish market source, adding “In Turkey, I am not sure about demand but I do not see further decreases.”

As 2018 gets underway under the cloud of the lira’s tumbling value and resulting weak demand, as market participants hesitate to make purchases in an uncertain economic climate, low inventory levels are seen by some in the market as a potential flashpoint.

“Distributors and users have low stocks. Any uptick in demand and prices will go up but I see nothing good on the demand side,” said one market player.

Weak domestic demand in Turkey and the sizeable PE surplus in the Middle East, combined with its close proximity to the Turkish market, mean that 2018 is expected to remain as bearish as last year, especially when the growing surplus in the US, and the Asian drive towards self-sufficiency are added to the picture.

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**EUROPE’S CHLOR-ALKALI MARKETS TO ADJUST TO ‘NEW NORMAL’**

- Production landscape shifts after mercury ban
- Buyers look for new sources
- Changes to trade flows expected to aid supply

In 2018 Europe’s chlor-alkali markets will have to come to terms with a new landscape, following a string of chlorine production closures in late 2017 ahead of the European Union’s ban on producing chlorine using mercury-based amalgam electrolysis on December 11, 2017.

Market participants expect the ban’s full impact to redefine the supply chain, where buyers are forced to look for new sources of material. As a result, Europe is likely to see more imports of caustic soda and chlorine derivatives next year, which will help to partially mitigate the price upside caused by the domestic capacity shutdowns.

At the start of 2017, mercury technology accounted for 17.4% of the EU’s chlorine production capacity, according to industry body EuroChlor, which estimates that almost 10 million mt of chlorine and 11 million mt of caustic soda are produced annually in Europe.

Among the companies impacted, Spanish producer Ercros said that its own production of chlorine and caustic soda will fall by 55% as a result of the end of mercury-based amalgam electrolysis for chlorine production, while the end of Czech producer Spolana’s Neratovice site’s 135,000 mt/year chlorine production on November 30 has taken the company from a producer of intermediate ethylene dichloride to a buyer of EDC, in order to ensure the company’s own polyvinyl chloride production.

Following the end of mercury-based chlorine production at Inovyn’s Martorell site in Spain, the company has invested in an EDC import facility, which will supply the site via the port of Barcelona in order to ensure vinyl chloride monomer and PVC production. The end of chlorine production at Martorell and the subsequent end to EDC production at the site are expected to alter this intermediate’s trade flows.

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**CAUSTIC SODA PRICES HIT EIGHT-YEAR HIGH AHEAD OF MERCUR Y BAN**

Source: Platts

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— Daved Chohan and Luke Milner
“EDC exports to India and other places were replaced by deliveries to Spain [in December]... Europe was a net exporter but it will turn to be balanced, plus or minus, at the year’s end. It is no longer an exporter but this is good for the EDC prices. Indians and others will have to find another supplier,” one market source said.

The chlor-alkali process produces caustic soda and chlorine. Chlorine is used in the production of the intermediate EDC, which in turn is used to produce PVC.

Trade flows redefined
The caustic soda market in Europe, which saw prices reach their highest levels since 2009 during the second half of last year, expects limited changes in the opening months of 2018. The balance will be tipped towards tight, similar to late 2017 and this will continue supporting prices.

Strong global caustic soda prices are expected to incentivize its production on both sides of the Atlantic, and the run rates are likely to be high in 2018, according to market sources. This would lead to higher output of chlorine too, and some in the downstream PVC market expect an excess of chlorine derivatives to flow from the US into the European market, similar to late 2017. In September 2017 the EU imported almost 10,382 mt of PVC from the US, up 51% from 6,893 mt in September 2016, according to the latest available Eurostat data. “When caustic is high they produce it and produce chlorine, so the surplus of PVC in the US is to do with that,” said one European PVC market participant.

There will be more caustic soda coming to Europe too, which in tandem with shrinking exports will help to maintain relative price stability in 2018 at a high level.

The US is going to remain the main supplier to the region overall, and supplies from such countries as Russia and Egypt are likely to continue rising.

In the first eight months of 2017 caustic soda imports into the EU were up by around 7% year on year to 790,358 mt, according to Eurostat data.

During the first eight months of 2017 caustic soda imports from Russia rose 77% to 47,276 mt, while imports from Egypt were up 61% to 111,166 mt. Imports from the US, however, were down 26% year-on-year to under 241,344 mt.

“I believe that market will remain tight at least in the first two quarters. Prices will be stable at a high level,” one producer said.

“What I see for [2018] is inquiries from unknown companies from the past, looking for new suppliers,” one chlor-alkali producer said.

There could be some upside, depending on global price developments. Europe could find itself competing for import molecules with higher-priced regions, such as Turkey.

“Here in the Mediterranean, Turkey is paying so much that it will force producers to increase prices or to sell to them and it is clear that the producers will not give product cheaper in Spain if they can sell for more in Turkey,” one market participant said.

Caustic soda prices globally broadly followed an upwards trend throughout 2017, and European market participants will be closely watching developments in other markets in 2018, as the changes in production generated by the ban on producing chlorine using mercury-based amalgam electrolysis will alter the European caustic soda market’s trade flows in order to secure European supplies.

— Luke Milner

**STYRENE VOLATILITY LOOMS OVER EUROPEAN STYRENICS**

The European polystyrene market faced significant challenges in 2017 as prices echoed the extremely volatile conditions in the feedstock styrene market. Seller margins were squeezed as demand fell by double digit percentages in early 2017.

The European polystyrene industry is preparing for another uncertain year ahead amid a cloudy outlook in the styrene market, and a lack of imports squeezing supplies of products such as GPPS.

However in 2018, market participants in the styrenics industry are cautiously optimistic that they are better placed than 2017 to weather the storm, following on from lessons learned in the past year.

Feedstock uncertainty
The styrene industry is expected to see supply tightness in the first half of the year due to turnarounds globally. In Europe, at least three major producers are expected to have maintenance works in H1, which would affect around 25% of European styrene supply. In addition, the impending announcement on antidumping duties on styrene imports...
from South Korea, US and Taiwan into China is expected to significantly affect trade flows in the styrene market, which have hindered contract negotiations in Asia.

These factors are talking points in the polystyrene industry as styrene price movements will affect downstream PS prices and margins, according to a PS producer. The sharp movements in the butadiene market in 2017 had also affected other styrenics, such as ABS and SBR, the source added.

Soaring styrene prices in Q1 2017 due to planned and unplanned outages had grave implications for the downstream polystyrene industry in 2017. In both Europe and Asia, there was significant demand destruction during January–April, especially in expandable polystyrene. Sources noted double digit year-on-year decreases in demand at the time. Not only was there substitution to other materials, there was significant difficulty in managing inventory levels from the price volatility, which hampered seller margins. Although demand in the polystyrene industry picked up in Q3 and Q4, making up for lost demand at the beginning of the year, the market fears a year-on-year decline in total demand volumes in 2017.

The market also fears a repeat of this in H1 2018 and has prepared to avoid it accordingly. A GPPS buyer in Europe said that, instead of destocking before the year-end, buyers had increased inventory levels to limit the impact from anticipated price hikes in Q1. Converters were heard negotiating larger volumes in December with producers in an attempt to build inventories in the run-up to Q1. A styrene buyer source said that inventory levels across the value chain — in styrene and polystyrene — were the highest in several years as the year drew to a close in 2017.

In addition, the market hopes that the price increase in styrene in 2018 will be less severe than in 2017. In 2017, the styrene contract price increased from Eur1,195/mt (about $1,428/mt at current rates) in December 2016 to Eur1,650/mt in March — an increase of 38% during the period. However, sources hope that the Eur95/mt increase in the styrene contract price in December will limit some rises in the styrene market in early 2018.

Falling imports set to squeeze supplies?

Nevertheless, European converters may face supply pressures as import volumes remain limited. In reaction to expected price increases in styrene and PS prices in H1 2018, market participants in Asia noted a sharp fall in spot polystyrene availability for December as regional producers chose to limit exports ahead of an anticipated spike in production costs in January. This is expected to restrict import volumes at the beginning of 2018.

This is bad news for European converters who import significant volumes from the Asia market. In fact, import volumes have been declining in 2017 as volatility in the market created uncertainty in forward prices, resulting in limited buyer activity. Buyers typically only purchase volumes from abroad when they expect prices to be increasing in the following two months — the typical delivery time of product arriving from Asia. However, much of the volatility in the styrene market in 2017 was due to unplanned production issues that the market had very little visibility on price direction.

Looking to 2018, the styrenics industry is pegging its fate to movements in the styrene industry. The hope is that market volatility in 2018 will be less marked than in 2017 as the market has prepared inventory levels leading in to the new year across the value chain. However, the questions left unanswered in the styrene industry and the lack of control on developments in the feedstock styrene market have kept the styrenics industry on alert for further unexpected events in the year ahead.

— Yuriko Kato

### NWE PET PRODUCERS TO REAP MARGIN BENEFITS OF TIGHT SUPPLY, WEAK IMPORTS

- Recurring supply issues, lack of imports to support sales margins
- Producers rethink PET contract formulae as PIA soars
- Disconnect grows between virgin and R-PET markets

Polyethylene terephthalate producers in Europe are set to have a breezier start to 2018 amid tight domestic supply and weak import competition from Asia. The reported renegotiation of some feedstock-based contracts to offset rising purified isophthalic acid costs may provide further support to producer margins, while in the R-PET market recyclers will enjoy continued demand growth for recycled plastics.

**PIA pricing**

Sentiment is gaining momentum among PET producers that feedstock-based contracts have been underpriced, with efforts heard to incorporate a new element — PIA price exposure — into 2018 contracts.

European PET buyers generally prefer feedstock indexing over freely negotiated contractual offtake, with
feedstock-based contracts consistently pricing below spot equivalents. Feedstock-based PET contracts in Europe have to date excluded PIA, which accounts for only 2% of total raw materials. But soaring PIA prices — reported as high as Eur2,500/mt ($2,989/mt) in 2017 — have been eating into production margins, jeopardizing PET producer profitability.

Europe’s sole producer of PIA is Indorama, with a capacity of 220,000 mt/year. The company is expected to expand that capacity by around 100,000 mt/year, between Q1 2018 and Q1 2019, though was not able to provide an exact start date when contacted by S&P Global Platts in December 2017. PIA supply is set to remain tight in the meantime.

“[PET] resin suppliers are looking to raise margins by an additional Eur50/mt minimum, to cover what they say have been PIA [cost] increases over the last few years, and getting their returns back to a sustainable level,” a European PET buyer said.

Supply front — opportunity or threat?
The domestic supply front may also shore up European producer premiums, offsetting traditionally weaker winter demand from the bottled beverages segment.

JBF is yet to restart the second of two 216,000 mt/year PET lines at Geel, Belgium, after stopping production at the facility in Q3. The first line was restarted in November, with MB Barter signing an offtake agreement from the site for 16,000 mt/month (192,000 mt/year).

Recurring force majeure declarations by PKN Orlen in November and December at its PTA plant in Poland has also had knock-on effects on PET production in Central and Eastern European regions, where some producers are understood to have put contractual customers on allocations of 80%.

Meanwhile, Equipolymers has scheduled a turnaround on one of its two PET lines at Schkopau, Germany, in Q1 2018. “The turnaround will take place around February-March, for a duration of four weeks on PET line 1,” a company source said. “Line 2 will not be affected.” Line 1 has a 175,000 mt/year nameplate capacity, while line 2 has a production capacity of 165,000 mt/year.

However, if the European market is unable to get domestic production back to usual levels when summer demand takes effect around Q2, the supply deficit and associated support to NWE spot prices could spell an opportunity for imports to grab larger market share.

Arbitrage closed
A lack of arbitrage opportunities is likely to keep would-be importers at bay for the winter months at least, as high feedstock prices continue to contribute to Asian PET price upside.

According to Platts data, the FOB NE Asia spot price in H2 2017 hovered at discounts of more than Eur150/mt to the spot FD NWE level. While the spread was wide enough to pay for freight and import duties, it narrowed throughout Q4.

With feedstock PX and MEG prices on the rise in Asia, spot exports from Asia to Europe may not be economically feasible in Q1.

Recyclers’ bonanza
European producers of virgin PET resin are not the only sellers headed for a buoyant start to 2018. With a strong market position in 2017, recyclers are also set to reap good returns in the New Year.

This is mainly on the back of a structural shift in the market over the past quarters, which has increasingly seen recycled PET transform from being a resin substitute to a product of its own.

Optimism has grown among recyclers as more attention is paid to global plastic waste management, with heightened commitment expected from consumer goods manufacturers over the short to medium term to introduce more recycled plastics in their packaging mix. Government regulations stipulating minimum recycled content in the packaging mix, particularly in Europe, have added further support.

Recycled flake prices in Europe saw their discounts to resin narrow for Q4 2017, falling below Eur150/mt in November.

Traditionally, R-PET flake price movements have lagged upside or downside in resin prices, with recyclers focused on maintaining discounts of at least Eur200/mt to keep their offering competitive.

If narrower discounts are sustained, this could spell higher profitability for recyclers but there is one potential foe: feedstock baled bottle prices. Nevertheless, the structural demand shift and high growth outlook for the segment would act as a natural hedge for recyclers protecting baseline margins.

— Sam Hashmi
Special report: Petrochemicals  |  EMEA petrochemical outlook

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