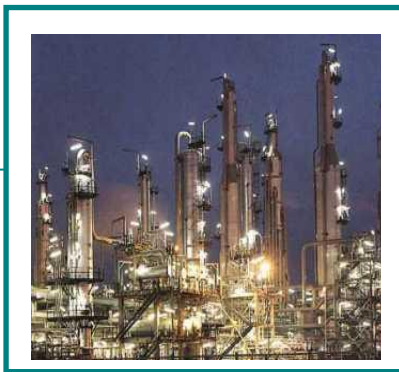


Extended Tight Supply as Price Dropped Further

In October, the demand was weak in the plastics market. The raw material prices extended the downward trend.

It was the buy side market for plastic raw materials. The supply was more than the demand. However, as the spot market was concerned, the spot inventory was very tight. The demand was more than the supply. Why was there limited supply of spot inventory as the price was decreased?

Would the market price keep decreasing in the coming one month? What methods would the suppliers exert to influence the prices? Would the tight spot supply situation be relieved?



SUNTA CHEMICAL LTD.

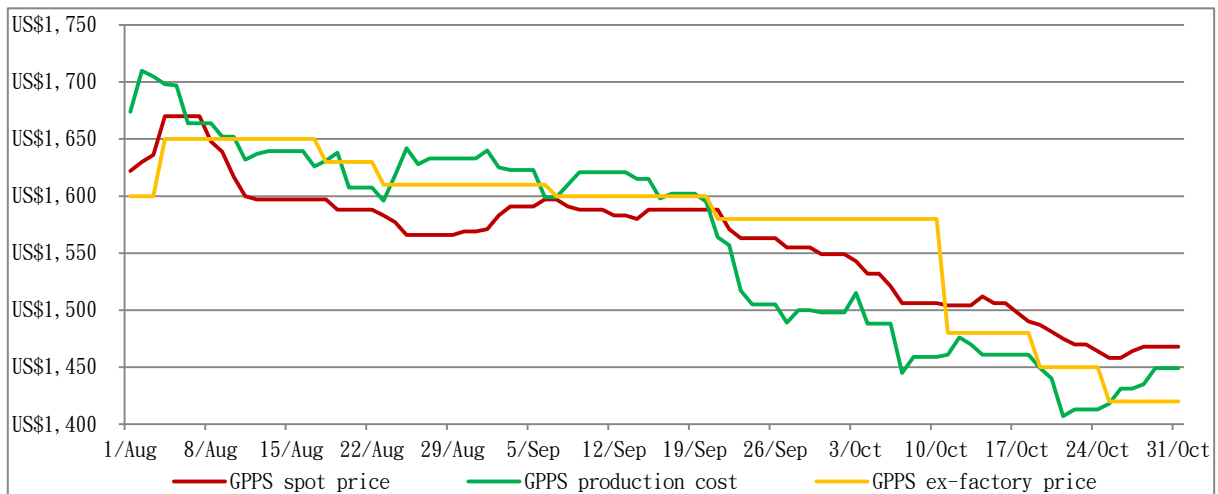
www.sunta.hk

Table of Contents

Plastics Market Price Extended the Downward Trend	3
 International Oil Price (WTI) –Large Rebound in Price	5
 Upstream Monomers – Price Extended Downward Trend due to Weak Demand	5
 Summary in October – Price Extended the Downward Trend	6
November Plastic Market Outlook – Slow Decrease in Price	7
 International Oil Price – Volatility in High Price Level, Further Price Increase would be Limited ...	7
 Upstream Monomers – Weak Momentum of Rebound	7
 Outlook - Slow Decrease in Price	8
Suggestions.....	9

Plastics Market Price Extended the Downward Trend

Figure 1: A chemical plant GPPS spot market price, production cost and ex-factory price (August-October 2011)



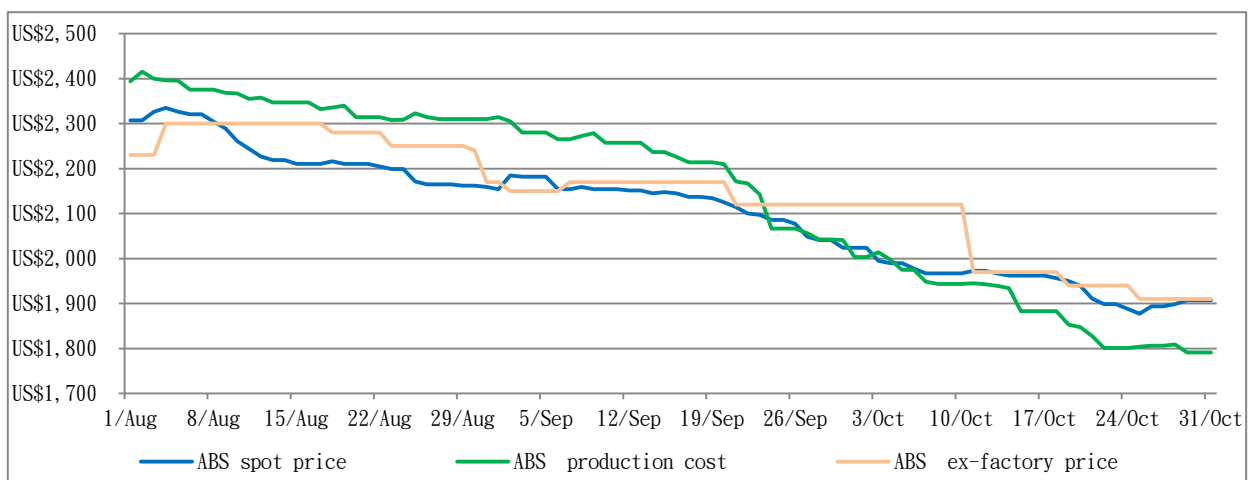
Data from: Hong Kong traders GPPS production cost calculated by SM (Styrene FOB Korea) +USD150, without terminal handling charges ◦

Table 1: PS spot price fluctuation (October 2010-October 2011)

Spot Price	End of October 2011 vs Early of October 2011 (%)	Fluctuation (January 2011-October 2011 highest price vs lowest price) ¹
GPPS	↓5.2%	↓13%
HIPS	↓2.6%	↓15%

GPPS price extended the downward trend, with a drop of 5.2% in October. The pressure for the production cost was reduced with plunge in the price of upstream monomer SM (Styrene Monomer). The GPPS price was in reasonable price level.

Table 2: ABS spot price fluctuation (August-October 2011)



Data from: Hong Kong traders ABS production cost was calculated based on 06*SM (Styrene) + 0.25*AN (Acrylonitrile) + 0.15*BD (Butadiene) +USD\$300 (conversion cost), without terminal handling charges.

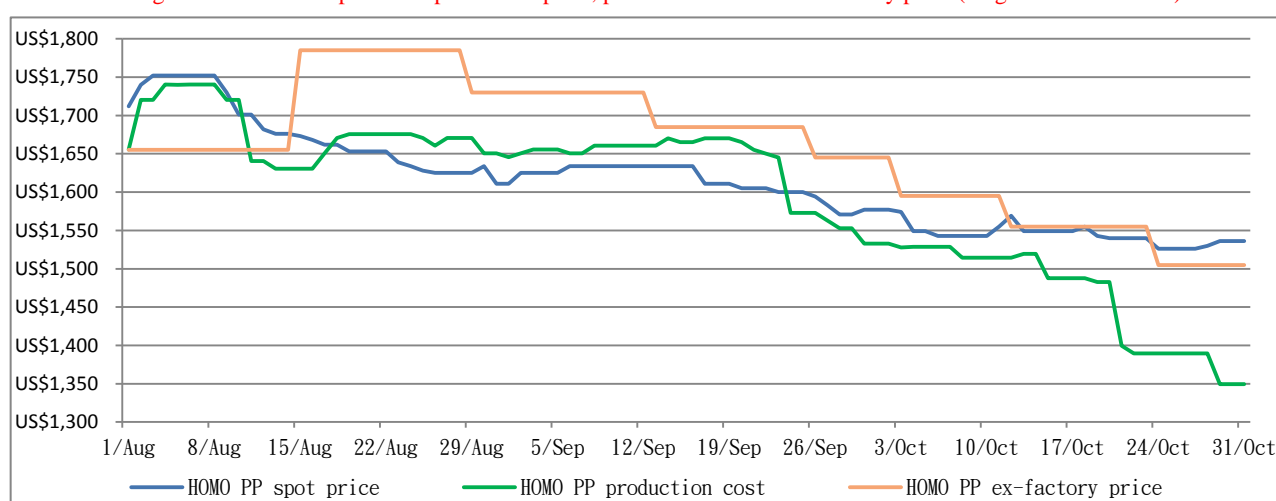
¹Please see the graph on website www.sunta.hk for more details ◦

Table 2: ABS spot price fluctuation (August-October 2011)

Spot Price	End of October 2011 vs Early of October 2011 (%)	Fluctuation (January 2011-October 2011 highest price vs lowest price)
ABS	↓5.8%	↓21%

ABS price extended the downward trend. The prices of the raw materials of ABS, namely, SM (Styrene Monomer), AN (Acrylonitrile) and BD (Butadiene) were all in downward trend. This resulted in large reduction in production cost, and the end of unreasonable situation of ABS price lowered than the production cost. The pressure of production cost of the chemical plants was relieved. There was room for price reduction.

Figure 3: A chemical plant PP spot market price, production cost and ex-factory price (August-October 2011)



Data from: Hong Kong trader HOMO PP production cost was calculated based on C3(propylene)+USD\$150 (conversion cost), without THC..

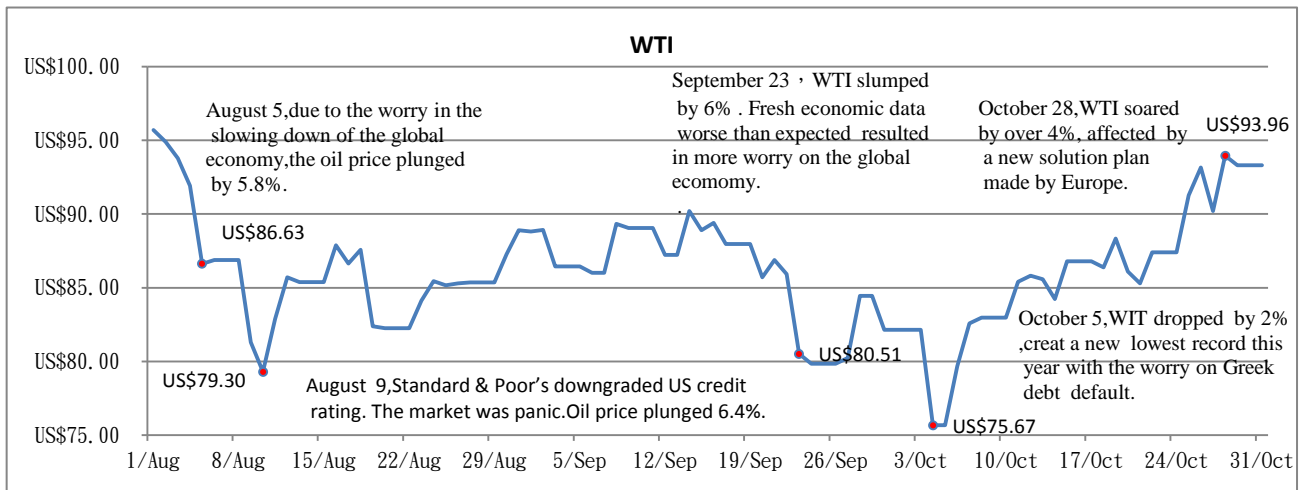
HOMO PP price dropped gradually. There was significant price decrease in upstream raw material, C3. The pressure of production cost was relieved. The ex-factory price had room for price reduction. The price reduction levels for BLOCK PP and RANDOM PP were not as significant as HOMO PP.

Table 3 : PP spot price fluctuation (August-September 2011)

Spot Price	End of October 2011 vs Early of October 2011 (%)	Fluctuation (January 2011-October 2011 highest price vs lowest price)
HOMO PP	↓2.6%	↓13%
BLOCK PP	↓0.8%	↓16%
Random PP	↓1.2%	↓12%

International Oil Price (WTI) –Large Rebound in Price

Fig 4 : WTI (August – October 2011)



Data from : NYMEX

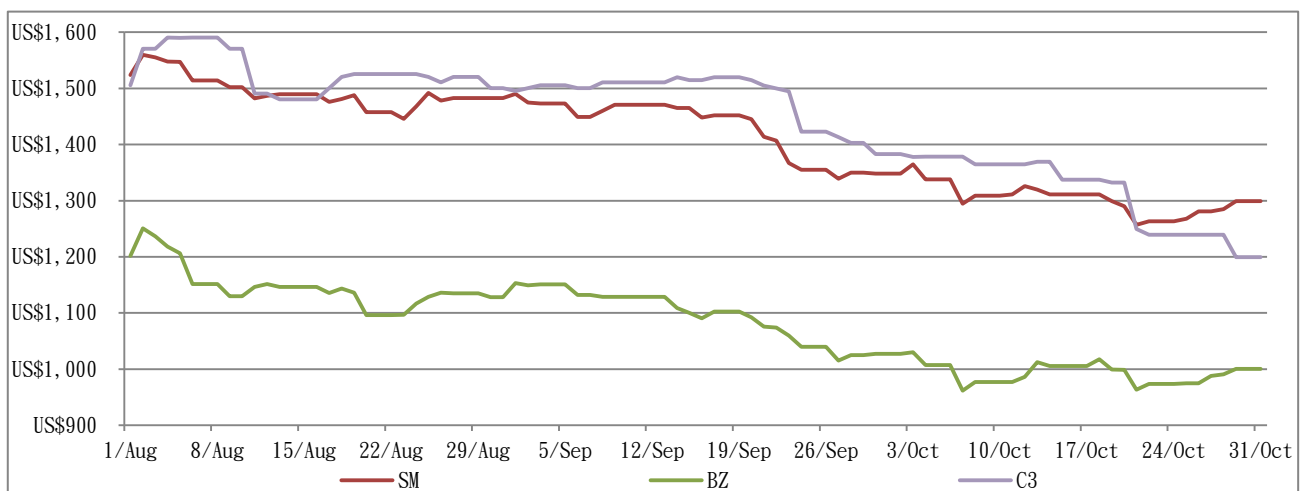
Table 4 : WTI fluctuation (October 2010 - October 2011)

WTI	End of October 2011 vs Early of October 2011 (%)	Fluctuation (January 2011-October 2011 highest price vs lowest price)
	↑13.6%	↓34%

In early October, the WTI ended the downward trend. The minimum October price was US\$77.61/barrel while the maximum October price was US\$93.32/barrel. The surge was contributed by the hope of solutions to the Europe debt crisis, improving US economic data, and the increase demand of heating oil in winter.

Upstream Monomers – Price Extended Downward Trend due to Weak Demand

Fig 5 : Monomer Price (August - October 2011)



Data from : Chem99

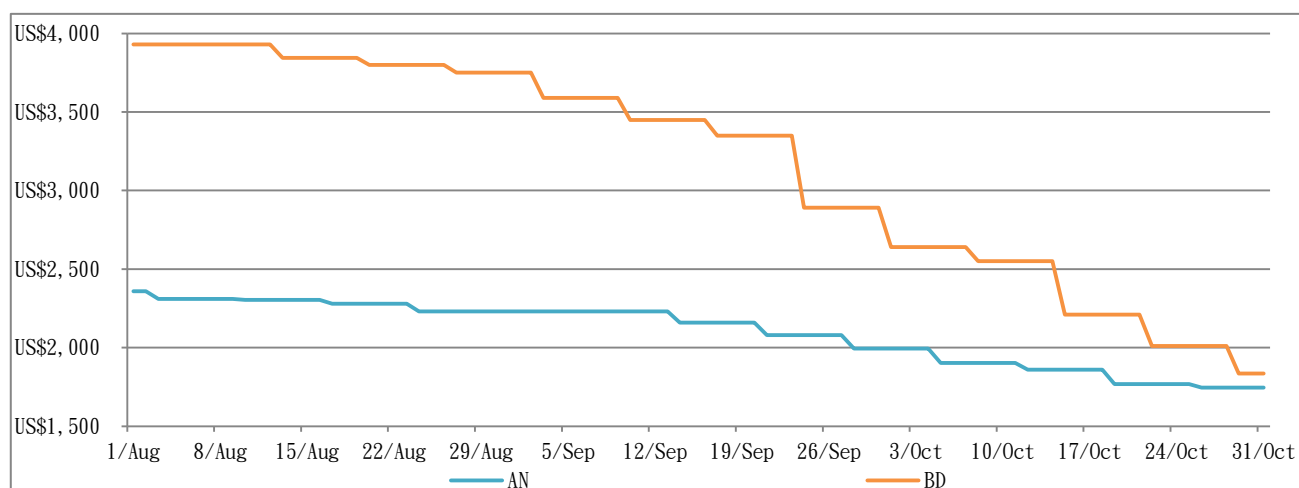


Table 5 : SM C3 AN BD fluctuation (October 2010 - October 2011)

	End of October 2011 vs Early of October 2011 (%)	Fluctuation (January 2011-October 2011 highest price vs lowest price)
SM	↓3.6%	↓19%
C3	↓13.3%	↓25%
AN	↓12.5%	↓39%
BD	↓30.5%	↓59%

Regardless of the large rebound in the WTI, the prices of the upstream monomers, including SM (Styrene), C3 (Propylene) and BD (Butadiene), were dropped. Among them, the drop was most significant for BD as it experienced strongest gain before October. BD was one of the raw materials of ABS.

Summary in October – Price Extended the Downward Trend

Chemical Plants	<p>With the plunge of upstream raw materials price, the production cost was reduced. The gross profit level of the chemical plants was improved. There was room for price reduction.</p> <p>As the downstream demand was weak, the chemical plants have been keeping their production rate at low level. Sources revealed that some ABS manufacturers in Asia kept the production rate at 50-60% only. It resulted in low inventory level.</p>
Traders	<p>There was weak demand in downstream. The business was not yet improved. As the outlook for plastics prices was not positive, the majority of the traders tended to deal with the customers for late delivery. The traders would replenish the inventory from the chemical plants according to their own order situation. As this practice was common in the market, the spot supply was very tight.</p>
Downstream Manufacturers	<p>The wait and see attitude prevailed among the downstream manufacturers. Some would keep inventory at very low level. It may result in rushing of stock ordering situation. As the orders for Christmas season were basically</p>

	<p>completed, the demand for raw materials became weak. The order situation was stable for downstream manufacturers specializing in summer products, one the other hand.</p> <p>Some of the downstream manufacturers would face loan payment pressure in Quarter 4. The small and medium enterprises in China would further be affected. Some manufacturers expressed that it has been becoming more and more difficult to open or discount the L/C.</p>
Market Situations	<p>The plastics market extended the downward trend. As the traditional peak season ended, the demand situation would hardly be improved. This resulted in negative view about the market.</p> <p>The chemical plants reduced their production rate and inventory level. Traders were reluctant to keep inventory during the downward trend. The spot supply was tight. On the other hand, there was room for price negotiation for late delivery order. The supply for late delivery was relatively easy.</p> <p>It was a special buy side market during this extended downward trend of the plastics market. The supply was more than demand for late delivery market. But the supply was less than the demand for spot market.</p>

November Plastic Market Outlook – Slow Decrease in Price

International Oil Price – Volatility in High Price Level, Further Price Increase would be Limited

The market expected there would be improvement to the Europe debt crisis. The economic data in US and China were not bad, resulting in oil price rebound. But as the economic outlook and Europe debt crisis were unclear, the WTI would likely remain in volatile price level.

Upstream Monomers – Weak Momentum of Rebound

The WTI had been rebounding from below US\$80/barrel to over US\$90/barrel in the last one month. With the support of the high oil price, the chance for further plunge in upstream monomers would be unlikely. But as the demand would also be weak, the rebound would not be long lasting.

SM (Styrene Monomer, main raw material of ABS and PS): The room for further price decrease would be narrowed. EPS was entering low season in China. ABS demand would also be weak. The major chemical plants in Asia have been maintaining low utilization capacity at around 50-60% for a few months. The upstream SM demand would be decreased.

C3 (Propylene, main raw material of PP): The downstream demand would be weak. Some crackers have been keeping at low utilization capacity and some crackers planned to shutdown the production lines for maintenance. Even with such reduced supply, there would be no influence to the spot market price.

BD (Butadiene, main raw material of ABS): BD suffered from 30% drop in price in October. Is BD at the bottom now? It may not be. With 3 months of continual flooding, several international cars and tyres makers in Thailand have been shutdown. The downstream demand for tyres was decreased sharply, resulting in significant decrease in BD price. The price may drop further in the near future.

Outlook - Slow Decrease in Price

1. Production Cost

The future WTI may maintain at high price level. This would support the price of monomers (SM, C3, AN, BD), resulting in narrowing down of price decrease of downstream plastics raw materials.

2. Chemical Plants

At the end of Quarter 4, chemical plants would need to submit their financial reports. Based on the year round operation situations, and the expected weak demand in Quarter 4, the chemical plants would be cautious about the production level and cost control. They may keep low production level or start maintenance of the production lines.

3. Extended tight spot supply

We can use the word “Cautious” to reflect the feeling of chemical plants, traders and downstream manufacturers.

The production has already been in low level at the moment. The chemical plants would be in passive position as the room for further reducing the production level would not be significant. Under the weak demand situation, the chemical plants can only keep at low production level and low inventory level.

Even though the chemical plants were willing to give special offer, the traders were still cautious in stock ordering as the plastics market was still in the downward trend. The traders preferred to take order for late delivery. They would keep spot inventory at low level. With the negative view about the plastic market, the traders were reluctant to increase the spot inventory. The spot level would become lower and lower.

The downstream manufacturers were also negative about the raw materials market. They would also keep inventory at relatively low level.

Such cautious attitude has been maintained for a while. The spot supply has been kept at tight

situation. As the market expected price would drop further, the spot supply would be tightened further as well.

At the moment, the inventory of chemical plants, traders and downstream manufacturers have been kept at low level. Significant drop in price would be unlikely.

Due to the room for reduction in production cost and the weak market demand, the plastics market may continue to adjust in price. But the drop would be limited by the tight inventory level and tight spot supply.

The price adjustment for different kinds of plastic resins would be different due to different supply situation.

For PS, the spot supply was tight. There would be only limited choice of models. The market price is near the production cost. The room for further price adjustment would be limited.

For ABS, there would be some room between market price and production cost. The spot supply is relatively sufficient. The room for price reduction would be more than PS.

For PP, there would be sufficient choice of models. Supply is relatively sufficient. There would be also room between market price and production cost. The room for price reduction would be a little bit more than PS and ABS.

Suggestions

1. Grasp the chance for price decrease

It is generally regarded as the buy side market when the price is going down. Making purchasing action in this period could generally gain advantage during negotiation.

Sometimes purchasers may delay purchasing action for a few days, in order to hope for further price decrease. However, it may happen that there is no more spot supply. The low inventory level in the factory may affect the normal production operation. The factory may need to pay at higher price to secure the spot stock immediately.

Therefore, we suggest the downstream manufacturers can make use of the negotiation power to actively secure the stock at earlier stage, at they could have more room for price negotiation and to avoid shortage of spot stock and suspension of factory production.

2. Attention to price volatility over the last one year.

As to most downstream manufacturers, the decreasing raw materials cost gives a good chance to buy raw materials. Their earlier contracts with their customers may be beneficial due to the cheaper production cost. To the coming orders, please pay attention to our price data about plastic resins in the last one year. Every different kind of uncertainties should be well considered carefully.