November

Oil Price Effect

"It is not the peak season of demand. I think the price of plastic resins would continue to drop."

"It seems that the demand in this year is not strong. The price of plastic resins should have little room to increase, right?"

"Our business is not bad this year. There have been some growth compared with last year. But as the overall environment is not good, the price of plastic resins should drop further."

After several months of decrease, the price of plastic resins became stable in November. What was the factor supporting the spot price? Oil price at high level.

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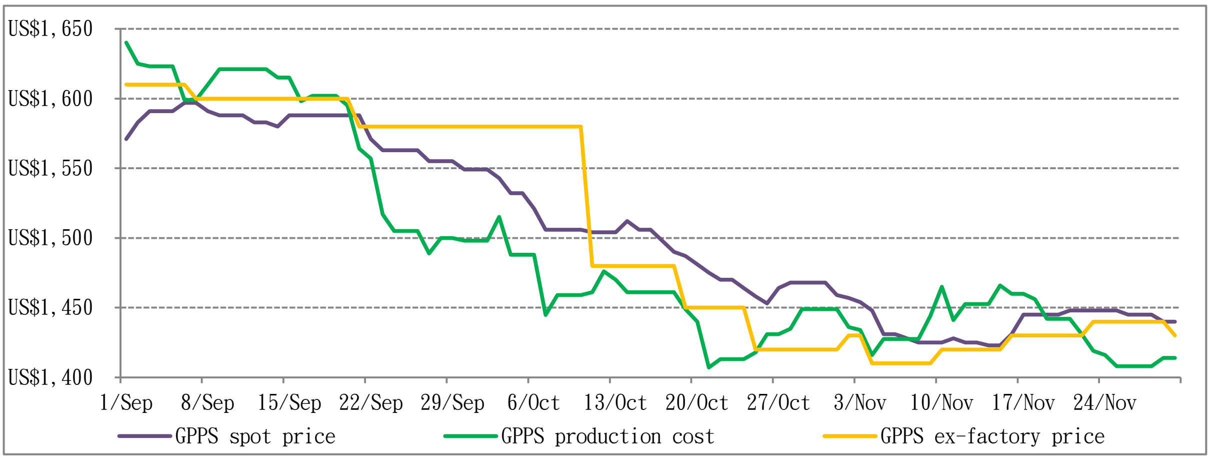
Plastic Market Became Stable

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



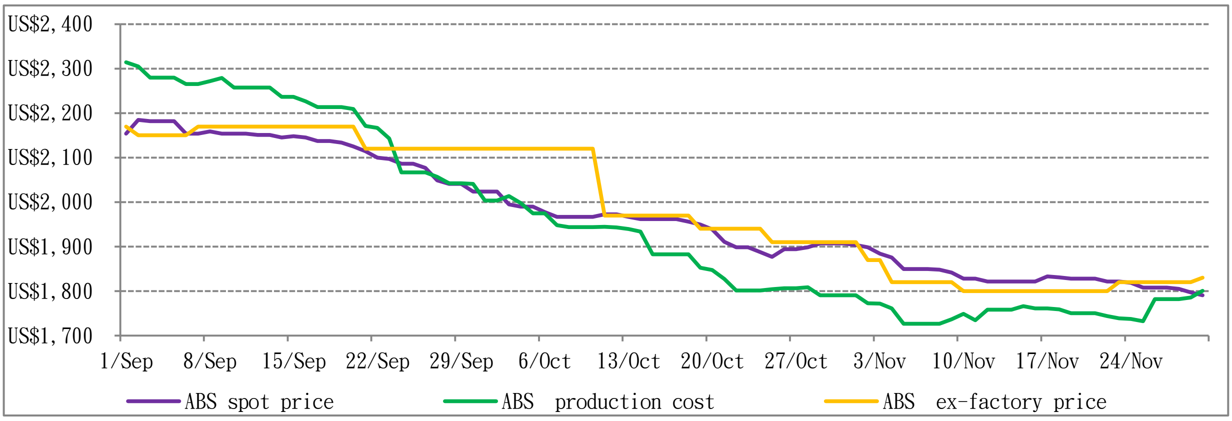
Data from: Hong Kong traders GPPS production cost calculated by SM (Styrene FOB Korea) +USD150, without terminal handling charges。

Table 1: PS spot price fluctuation（2011）

Spot Price	End of October vs Early of October (%)	End of November vs Early of November (%)	Fluctuation within 2011(highest price vs lowest price）[1]
GPPS	↓5.2%	↓1.3%	14.79%
HIPS	↓2.6%	↓4.45%	14.87%

The price of PS fell in early November, followed by small rebound in the middle of the month. Finally, the price became stable. In this month, the decrease in price of GPPS was narrowed down. For HIPS, the price was not decreased significantly before November, due to limitation of high production cost. In this month, HIPS price decreased further. There was nearly 15% price volatility in PS so far in this year.

Figure 1: A chemical plant ABS spot market price, production cost and ex-factory price (September-November 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 handing charges.

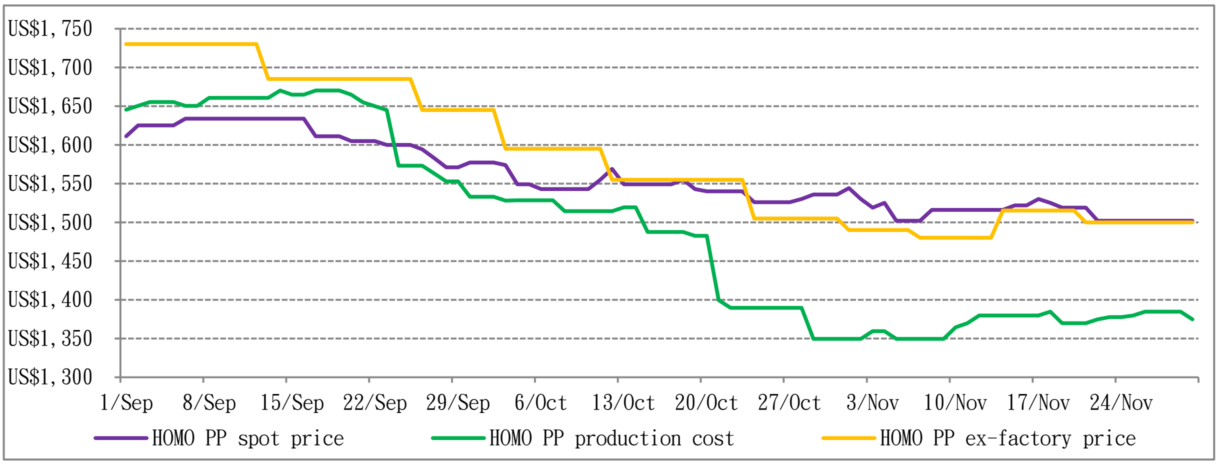
[1]Please see the graph on website www.sunta.hk for more details 。

Table 2: ABS spot price fluctuation（2011）

Spot Price	End of October vs Early of October (%)	End of November vs Early of November (%)	Fluctuation within 2011(highest price vs lowest price
ABS	↓5.8%	↓5.93%	24.94%

The price of ABS became stable since mid November, after some decrease in early November. As the price of the raw materials of ABS stopped decreasing further, the spot market price of ABS became reasonable in most of November. Toward the end of the month, the spot market price approached the production cost. There was almost no room for further price decrease as far as the chemical plants were concerned. The price volatility of ABS within this year was around 25%, higher than most of the commodity plastics.

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



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

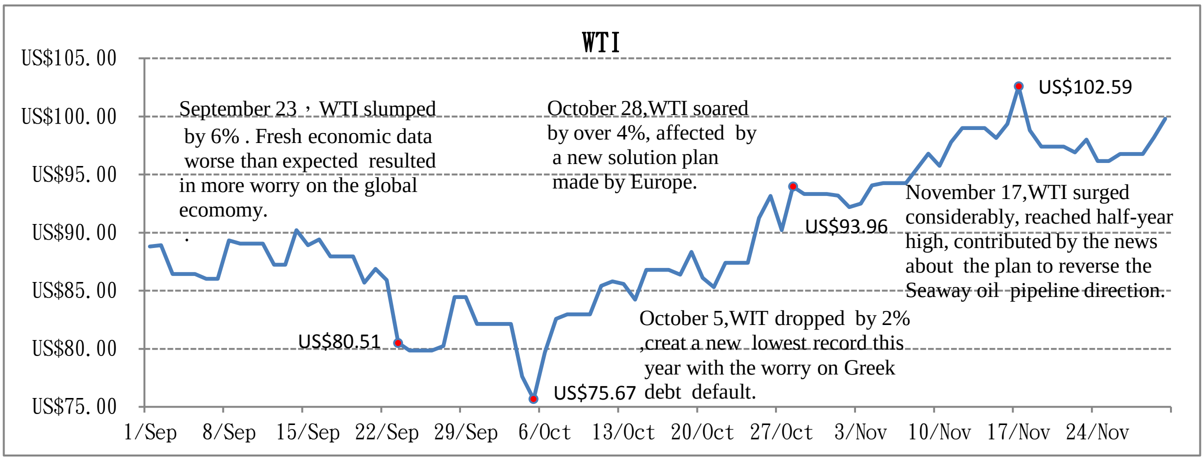
The spot market price of Homo PP was stable in November. As the upstream raw material, propylene (C_3), extended the plunge in early stage, the gap between spot market price of HOMO PP and production cost was enlarged, leading to the room for downward adjustment of Homo PP price. As price volatility in 2011 so far was concerned, Block PP was highest, followed by Homo PP and Random PP (ref. Table 3).

Table 3：PP spot price fluctuation（2011）

Spot Price	End of October vs Early of October (%)	End of November vs Early of November (%)	Fluctuation within 2011(highest price vs lowest price
HOMO PP	↓2.6%	↓2.72%	14.27%
BLOCK PP	↓0.8%	↑2.23%	16.16%
Random PP	↓1.2%	↓1.39%	11.53%

International Oil Price (WTI) – Regional Tension Led to Increase in Oil Price

Fig 4：WTI（September – November 2011）



Data from：NYMEX

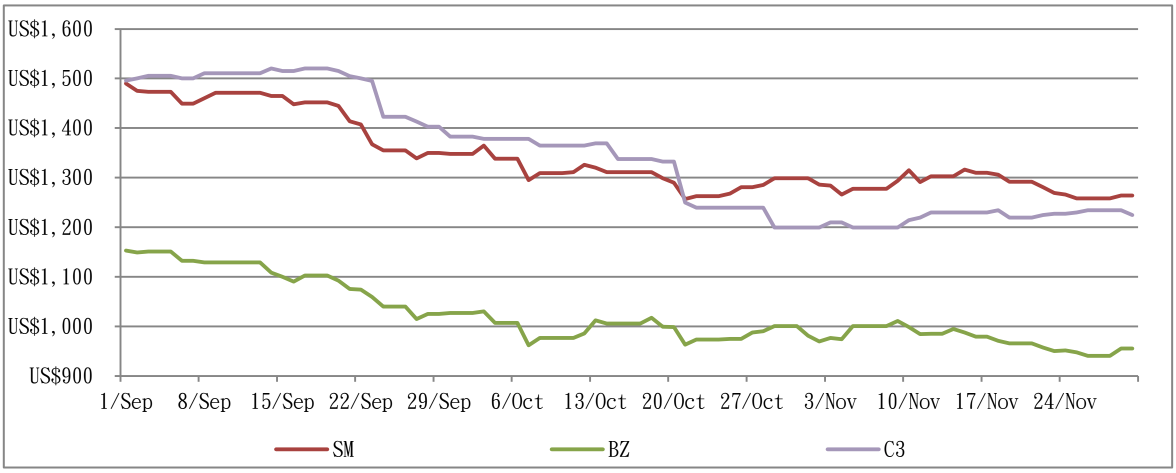
Table 4：WTI fluctuation（2011）

	End of October vs Early of October (%)	End of November vs Early of November (%)	Fluctuation within 2011(highest price vs lowest price
WTI	↑13.6%	↑7.08%	31.88%

Although Europe debt crisis could not be resolved soon, the growing regional tension in Middle East has stimulated the increase in international oil price. WTI once reached half-year high, passed through USD100/barrel in the middle of the month. The increase was not as strong as October. Due to the regional tension, complicated global economic situations and other spot events, the international oil price fluctuated greatly in 2011, with 32% volatility so far in this year.

Upstream Monomers – Stop Falling, and Became Stable

Fig 5：Monomer Price （September – November, 2011）



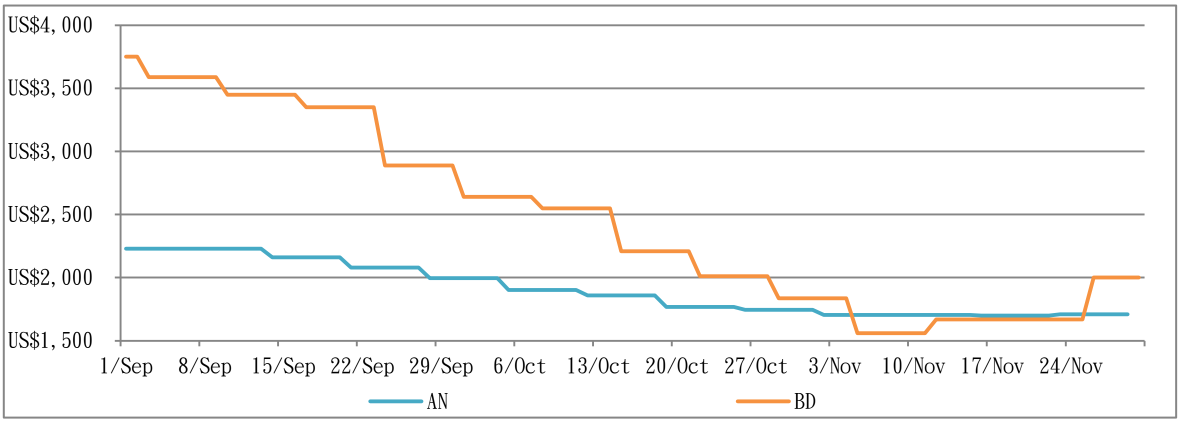


Table 5：SM C3 AN BD fluctuation（2011）

	End of October vs Early of October（%）	End of November vs Early of November (%）	Fluctuation within 2011(highest price vs lowest price
SM	↓3.6%	↓2.69%	19.42%
C3	↓13.3%	↑2.08%	25.29%
AN	↓12.5%	↑1.43%	40.87%
BD	↓30.5%	↑8.99%	65.33%

Although the downstream demand was weak, the previously falling upstream monomers prices have been stabilized due to uprising oil price.

SM: The decrease in price was narrowed down and stabilized. The upstream monomers, BZ (benzene) and C2 (ethylene), were still low in prices, giving less pressure to the production cost of SM. There was still profit for SM as chemical plants were concerned.

C3: The downstream demand for PP and AN etc were not strong. But with the uprising oil price and maintenance work of some cracking facilities, the price was stabilized with small degree of upward movement.

BD: Tyre and car manufacturers in Thailand have resumed production gradually after serious flooding. The downstream demand of BD has been strengthened gradually. Meanwhile, the supply of BD was still tight as its production capacity was reduced due to the plunge in BD price previously, which in turn supporting the BD price. BD price was up 9% in November after plunge in previous months.

Summary in November – Factor Contributing to Stable Plastic Market

Support by the High Oil Price

International oil price has been rebounded for 2 months. The average WTI price in November was USD97/barrel. The price reduction of the upstream monomers was limited by the support of high oil price. The room for reduction in production cost of commodity plastics was narrowed down. The price was basically stable in the bottom since middle of November. As the production cost was stabilized, the bottom line of ex-factory price from the chemical plants has been established.

The upstream monomer price has direct influence to the production cost of downstream plastics. Apart from this, high oil price has exerted subtle effect to the trading atmosphere of plastic market. With the support of high oil price, some traders and downstream manufacturers could feel that the room for further price reduction would be narrowed down. The expectation for future price reduction was weakened.

The risk of over selling by some traders was increasing

In the downward trend, some traders, in order to have business, would sell at low price in order to attract customers. This kind of traders would replenish the stocks later from the chemical plants after price reduction (for details, please refer to September and October Monthly Reports). Some traders who expected that the market price would continue the downward trend in the coming time, would actively take order at low prices. Therefore, we could expect that market price would vary considerably among different styles of traders.

As the market price was in the bottom range, together with the high oil price, the traders started to feel that the risk for further price reduction became higher and higher. As a result, they would shift from "very aggressive offer" to "aggressive offer". Some extremely low offer would be disappeared. The price variation in the market would be narrowed down.

Reduced output by the chemical plants

In addition to high oil price, the reduction in output by the chemical plants has suppressed the falling of plastic price. For example, the production rate of some Taiwan PP chemical plants had been reduced. The plants could not meet the order demand. Also, it's heard that shipment delay occasionally.

Without inventory pressure, some chemical plants could still increase the ex-factory price under weak market demand. The traders' selling could be encouraged consequently.

Extended tight supply as price dropped further

The continual reduction in market price of plastics resulted in low spot inventory by the traders (please refer to September and October Monthly Reports). The reduced output by chemical plants resulted in less supply to the traders. Together with occasional shipment delay, the supply in the market became especially tight.

In November, the downstream demand was further weakened. But under the influence of some other factors, notably high international oil price, the plastic price has gradually been stabilized.

December Plastic Market Outlook - Small Volatility

International Oil Price – Focus in Middle East with Lots of Uncertainties

The recent high oil price has been supported by the following factors. (1) The six major central banks have loosened the monetary policy. (2) The US economic data in Quarter 4 showed some improvement. (3) High tension in Middle East. The third factor was especially uncertain. The uncertainties in Syria, Iran, and some other Middle East nations, may result in battles and pushing the oil price up in short time.

There was no complete solution toward the Europe debt crisis as far. The crisis has been spread to other Euro zone countries. With the weak economic recovery, the coming oil price would still be very volatile.

Upstream Monomers – Upward Adjustment

The price of upstream monomers has been decreased for a few months. But due to the surge in oil price for the last 2 months, the monomer manufacturers have felt the pressure from the production cost. They were near the break even stage.

There has been announcement from some monomer plants for further reduction in

output. The reduced supply could stabilize and strengthen the monomers price. The cracking facilities of CPC and Formosa Plastics, both in Taiwan, were down 10% further. The newest output was at 80%. CPC has revised the maintenance schedule. They would start maintenance from the coming December, 2 months earlier than the original plan in February 2012.

The strong international oil price and reduced output by monomer manufacturers could continue to exert upward influence to the upstream monomer price. On the other hand, as Christmas and Chinese New Year are coming, the downstream demand would be weakened. The upward momentum of upstream monomer would not be strong.

Market Outlook - Small Volatility

Chemical plants

- As cost was concerned, the price of upstream monomers was stabilized. The plastic market price was approaching the production cost. There would be little room for further price reduction.
- As inventory was concerned, the long term reduction in output exerted little pressure to inventory. The supply would be limited.

Distributors and traders: as the market trend was down, they were reluctant to keep large stocks. As the downward trend persisted, the spot supply would be tightened. Before the Christmas, their common practice was to reduce the stock inventory.

Downstream manufacturers: To most factories, December is the traditional low season. The coming Chinese New Year holidays would be in January. The plastic demand would be weakened gradually. On the other hand, there seemed to show some loosening in monetary policy in China, which in turn could stimulate the demand of raw materials.

Based on the above predictions, the reduced output by the chemical plants and the tight spot supply has limited the price reduction of plastics. The overall reduced market demand, and the overall reduced inventory, has created new balance of demand and supply. With the support of high international oil price and high production cost, there would be upward pressure to the plastics price. However, the increase in price would be limited by the weak market demand.

Suggestion

(1) Step by step purchase

In the coming one month, small ups and downs in price would be possible. The risk of Just-in-Time would become higher. When factories need the raw materials urgently in time of upward trend, there would be little room for price negotiation. Worst still, as the spot supply would be very tight, it would be very difficult to find the stock. We would not encourage such kind of passive purchase practice. We rather suggested to take the proactive approach to purchase step by step in accordance to the inventory and order situations.

(2) Toward the end of the year, please pay attention to the Customs handbook to ensure there would be enough quota to use, to avoid any problems associated with logistics and inventory management.

Appendix – Major Plastics Events in November

17 November	WTI surged considerably, passed USD100/barrel and reached half-year high, contributed by the news about the plan to reverse the Seaway oil pipeline direction, which could allow the effective consumption of large oil inventory in Cushing.