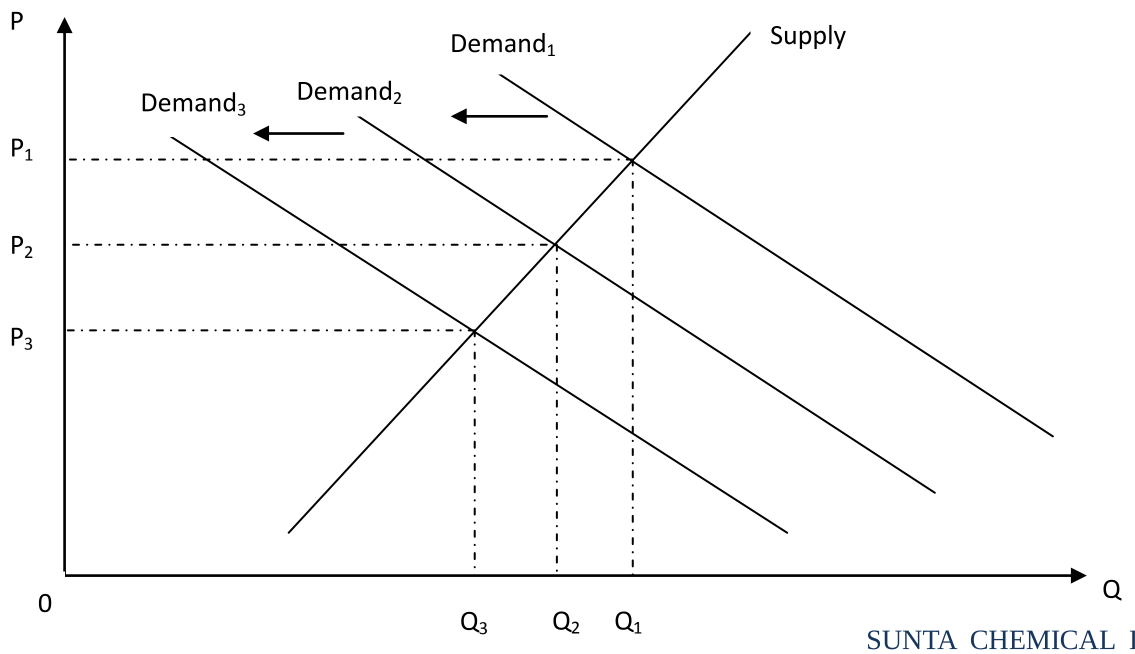
Buy Side Market

With the persistence of economic uncertainties, weak market demand and business of plastic traders, more inventory forced chemical plants to adjust the ex-factory price lower and lower, the market price of plastic materials kept decreasing in this buy side market.

There was small rebound in spot price in early September. But the rebound was not long-lasting due to weak market demand.

The future economic prospect was not optimistic. The traditional low season is coming. It seems that the buy side market would be persistent. Would the downward trend of plastic price persist? Would the sell side as represented by the chemical plants and the traders respond only passively?



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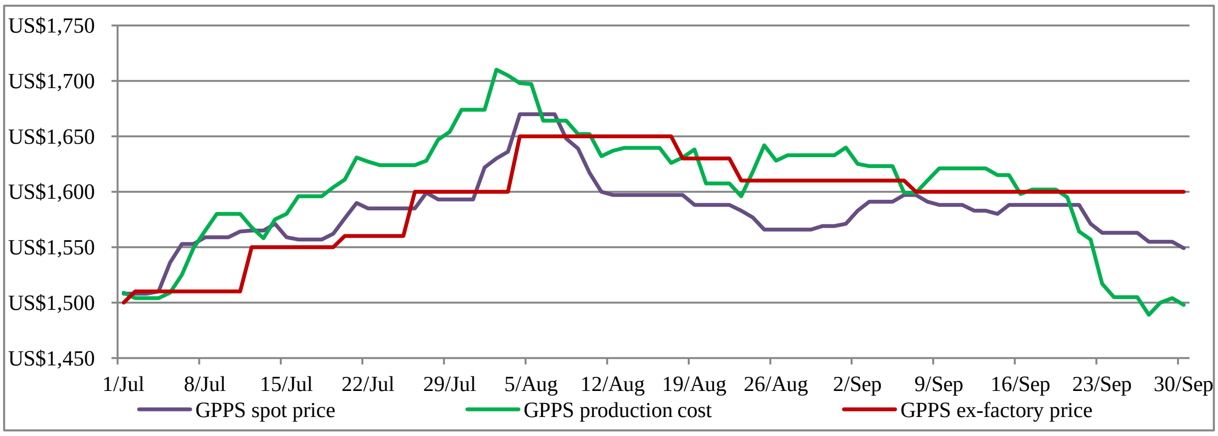
Gradual Reduction of the Price of Plastic Materials

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



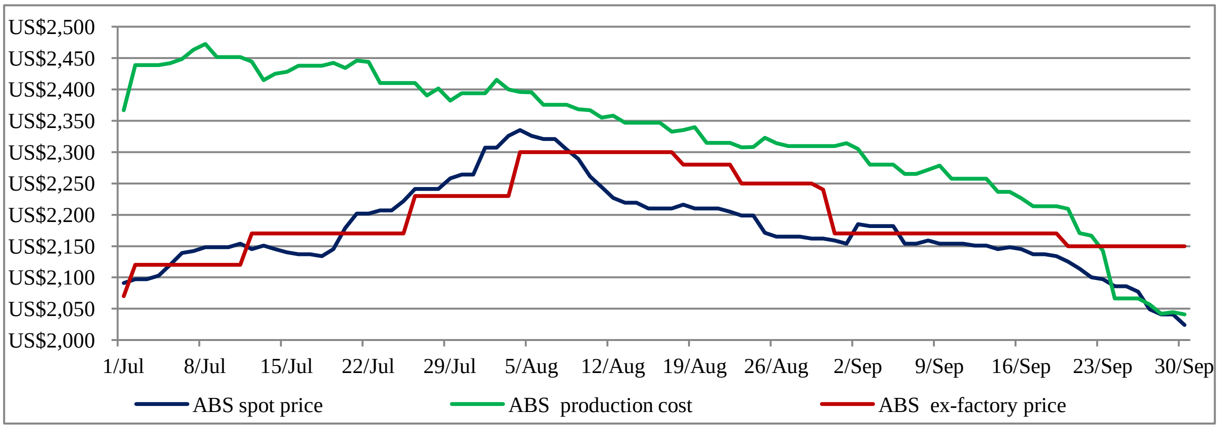
Data from: Hong Kong trader GPPS production cost calculated by SM (Styrene FOB Korea) +USD150, without terminal handling charges。

Table 1: PS spot price fluctuation（August-September 2011）

	End of August vs Early of August(%）	End of September vs Early of September(%)
GPPS	↓3.3	↓1.4
HIPS	↓4.2	↓1.9

PS price kept reduction due to weak demand. But the reduction in price was narrowed down due to low spot inventory. The reduction in GPPS price was slow down from 3.3% in August to 1.4% in September.

Figure 2: A chemical plant ABS spot market price, production cost and ex-factory price (July-September 2011)



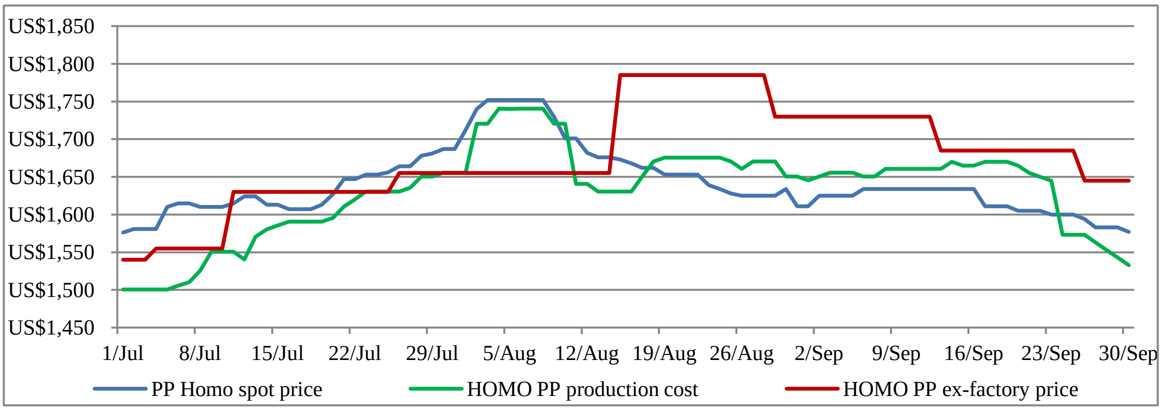
Data from: Hong Kong trader ABS production cost was calculated based on 06*SM (Styrene) + 0.25*AN (Acrylonitrile) + 0.15*BD (Butadiene) +USD$300 (conversion cost), without terminal handing charges.

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

	End of August vs Early of August(%）	End of September vs Early of September(%)
ABS	↓6.4	↓6

The production cost of ABS was reduced due to large reduction in upstream monomers price. The production cost approached the spot market price as the reduction in production cost was faster than spot market price. The sufficient spot supply of ABS caused reduction in ABS spot market price. The degree of price reduction was less in September compared to August. It was noted that the reduction of price in second half of September was more significant.

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



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

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

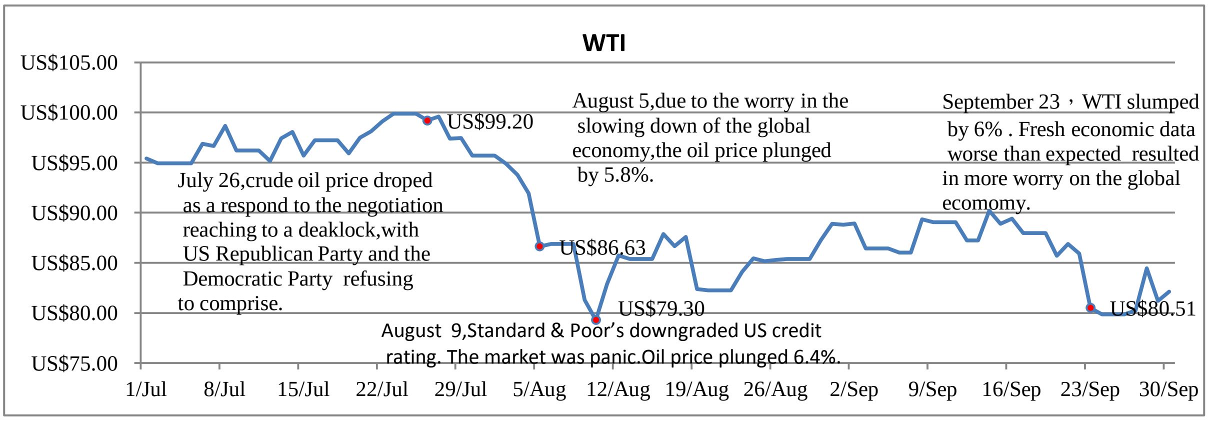
	End of August vs Early of August(%）	End of September vs Early of September(%)
HOMO PP	↓5.9	↓2.1
BLOCK PP	↓1.8	↓6.7

The downstream demand of HOMO PP was weak. But as the spot inventory was in low level, the reduction in spot market price was slowdown. On the other hand, there was sufficient supply of spot inventory of BLOCK PP. Therefore, the support of spot market price of BLOCK PP was weak.

The cost of upstream monomer C3 (Propylene) plunged significantly following the plunge of international oil price. The production cost of PP fell below the spot market price of PP.

International Oil Price (WTI) – Oil Price Hit by Economic Worry

Fig 4：WTI（July-September 2011）



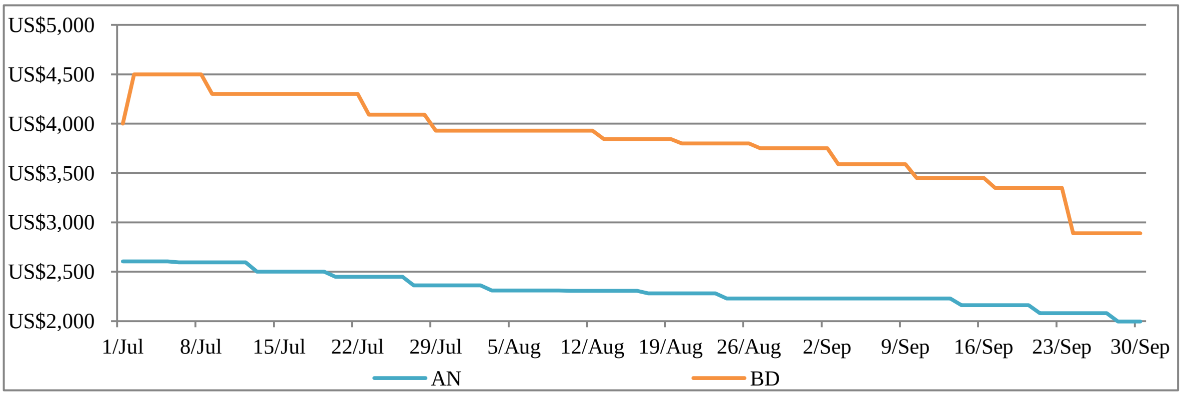
Data from：NYMEX

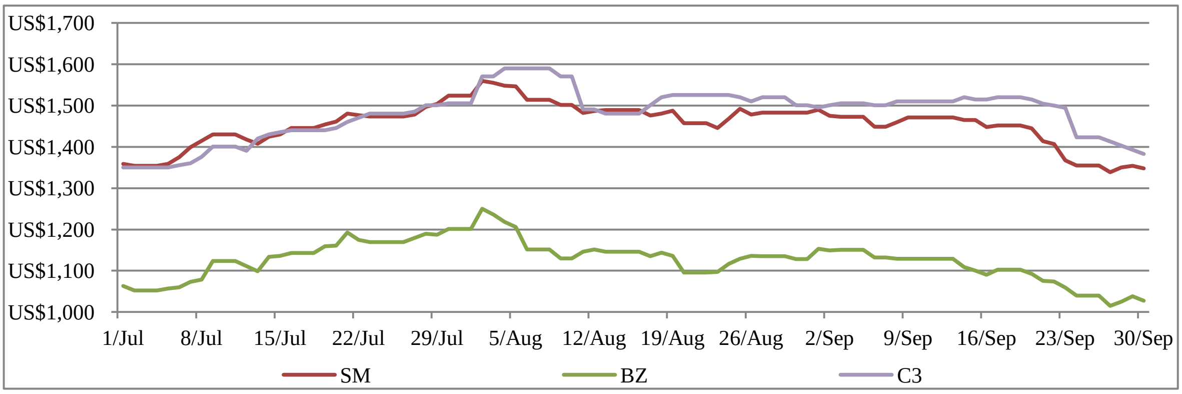
As the market was waiting for the announcement from the Federal Reserve meeting on 21-22 September, the WTI price was vibrated in a narrow range below US$90/barrel.

In the second half of September, Federal Reserve revealed their pessimistic outlook for the US economy. They announced the Operation Twist plan to stimulate the economy. The market feedback was not good. At the same time, the economic data from Europe and China were worse than expected. The oil price plunged significantly following the above events.

Upstream Monomers – Weak Demand, Overall Reduction in Price

Fig 5：Monomer Price （July-September 2011）





Data from :Chem99

Table 5：SM C3 AN BD fluctuation（July-September 2011）

	End of August vs Early of August(%）	End of September vs Early of September(%)
SM (Styrene)	↓2.7	↓9.5
C3(Propylene)	↓0.3	↓7.5
AN(Acrylonitrile)	↓5.5	↓10.5
BD(Butadience)	↓4.6	↓22.9

The monomers price were reduced gradually due to lowering oil price and weak downstream demand. Due to the high price of BD (Butadiene, one of ABS raw materials) in early stage, the demand of BD by downstream chemical plants (SBR、BR etc.)was very weak. A lot of chemical plants only had low profit.

Some chemical plants even run at loss. By response, some of the chemical plants shut down the production lines for maintenance. Such low demand in BD led to plunge in BD price.

Several C3 crackers in Asia were shut down for maintenance in early September. These facilities were gradually restart in the second half of September. Therefore, the drop in C3 price was more serious in second half of September.

Summary in September – Weak Demand and Weak Plastic Market

Chemical Plants	The upstream monomer price plunged. The production cost was reduced. But as the downstream demand was weak, the chemical plants reduced their output volume to reduce market supply.
Traders	The plastic spot market price kept decreasing. Traders reduced their selling price in order to receive order, and replenished the inventories later when there was profit. This action caused continual reduction in market price. As the chemical plants had pressure in inventory, they were forced to follow the market for price reduction.
Downstream Manufacturers	September was the traditional peak season in plastic demand. However, due to the weak economic situations in US and Europe, the downstream demand was lower than previous years. Although the high end market and low end market were not affected seriously, the order situation for the middle range market was very weak. Overall demand was weaker than 2010. As some overseas buyers delayed their purchasing plans, the manufacturers slowed down their production. Yet they still had high inventory volume of raw materials and their own finished products. Some manufacturers had cash flow pressure due to delayed payment from the buyers. Some manufacturers still kept full production capacities. As their quotation to the buyer was calculated based on previously high raw material costs, their profits were improved compared to last two years.
Market Situations	The wait and see attitude prevailed during the turbulent economic situations. The downstream manufacturers slowed down their purchase plan with the negative expectation of raw materials price. Some manufacturers adopted Just-in-Time policy. A few of them delayed buying the raw materials until nearly no inventory. In previous years, the manufacturers would keep sufficient inventory ahead of China National Holidays to ensure healthy production during and immediately after the holidays. Although there was short period of increased demand in September this year for the same reason, the market price could not be well supported. Unlike previous years, the price continued to fall. The decrease in spot market price was sped up ahead of the Holidays due to stock clearing pressure by the traders.

October Plastic Market – Will the Weak Demand Persist?

Table 5：Economic Data from US Eurozone China（July-September）

	GDP(%)		Consumer Confidence Index		Unemployment Rate（%）		CPI(％）		Industry PMI		
	Q1	Q2	Sep.	Aug.	Aug.	July	Aug.	July	Sep.	Aug.	July
USA	0.4	1.3	45.4	45.2	9.1	9.1	3.8	3.1	51.6	50.6	50.9
Eurozone	0.4	0.2	-18.9	\	\	\	\	\	48.5	49	50.4
China	9.7	9.5	\	\	\	\	6.2	6.5	51.2	50.9	50.7

Data from：Government or organization published.

Quarter 1 and 2 of 2011 saw the slow growth of economy in US and Europe. Even the emerging economy country such as China , whose growth beyond 9%, now growth slow down.

Generally speaking, Purchasing Managers Index (PMI) over 50 indicates an improvement while below 50 suggests a decline. Table 5 above showed that Manufacturing PMI moved around 50 from July to September. In Eurozone, the Manufacturing PMI has gradually decreased since July.

The unemployment rate in US has kept at high level. New employment situation was the worst since 1983. The US economy was nearly stagnant.

The economic data in recent months were not good. The market increasingly worried about the future economic situation.

International Oil Price (WTI) – Economic Prospect as the Main Factor, Still Turbulent

As the market worried the recession of the economy, money flowed among commodity, oil, US dollar and gold. The view about the economic outlook would have direct impact the forecast demand of cruel oil. As the economic outlook was uncertain, international oil price would be very volatile.

Upstream Monomers – Downward Pressure

There will be downward pressure of upstream monomers due to uncertainties in global economy and volatile crude oil price.

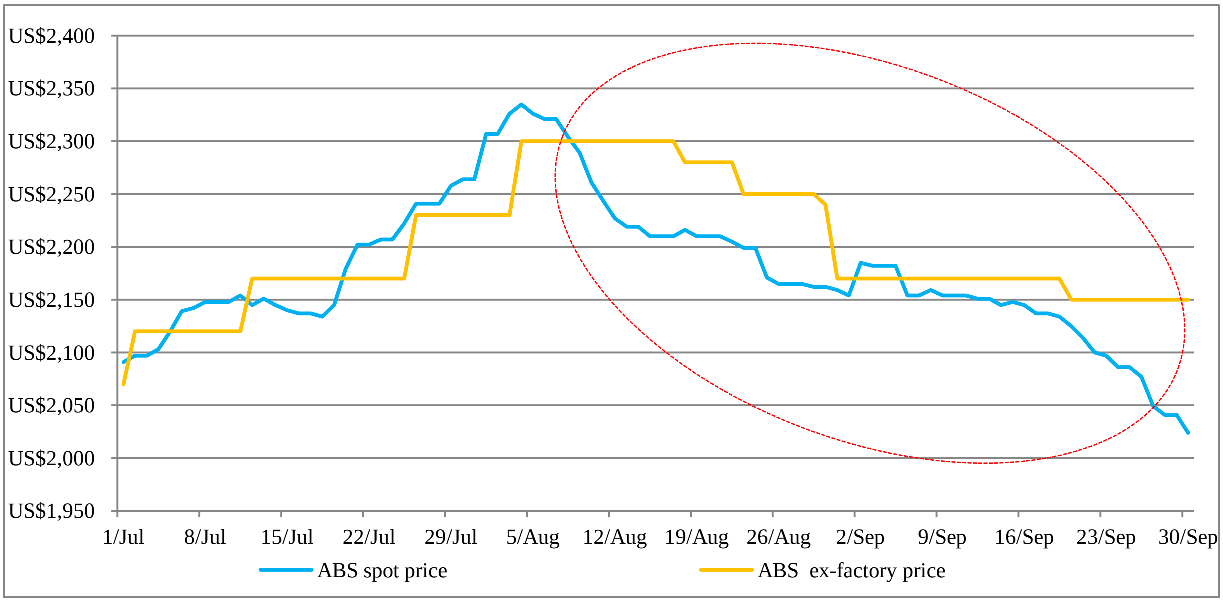
SM: As North China enters winter, the demand for EPS will be reduced. This will slow down the demand for SM. Additionally, the demand for ABS will be weak. The weak supply of the chemical plants caused reduced demand in SM (styrene monomer).

C3: As two major crackers in Taiwan resumed production from maintenance in late September, the tight supply of C3 was eased.

AN/BD: Following large reduction in price in August, there will be little room for further price reduction. The price is expected to be steady in the future.

Market Expectation –Spot Supply Tight

Take ABS Traders For Example



Data from: Hong Kong trader

In August and September, the ex-factory price from chemical plant was higher than the spot market price. Distributors and traders were under great pressure. Would they respond only passively? Or they would rescue themselves from long term loss in business. How could they do so?

The market demand was weaker than last year due to weak economy. As the peak season ends, the low season starts. There are only two months left before the Chinese Lunar New Year Holidays. The forecast of market demand is weak. There was news about factories shutdown or bankruptcy in China recently. Traders are conservative for stock buying to reduce potential loss. They only aim to maintain limited transaction, by carefully selecting business partners in downstream factories or peer traders. Therefore, we could expect that the traders would keep inventory in the minimum level or even no inventory. The coming spot inventory would be expected in very low level.

The plastic market price has been decreased for two months. There may be further drop in the future. Since September, the market supply has been increasingly tight. When the market supply keeps on decreasing, there will be one critical point at which the market price would rebound. But we expect that the rebound would not be significant. When the supply recovers, the price would not be long lasting.

Suggestions

In the supply chain with chemical plants, distributors/agents, and downstream manufacturers, every party wants to keep their benefit. As explained before, the spot market inventory would go into very low level in this struggling. Factories purchasers may receive lots of quotations from various traders. Some quotations may even show very bargain plastic resins. At this moment, what purchasing strategy should the purchasers adopt? Wait and see, or buy immediately?

We suggest downstream manufacturers to regularly review their inventory status to ensure normal production status. If the inventory is at very low level, they should replenish the stock level immediately regardless of the coming raw materials trend.

Moreover, they should investigate the validity or accuracy of the bargain offer.

As the distributors and traders may sometimes confirm customer orders first before buying from chemical plants, they may not have enough stock to deliver to the customers later, especially in case of shipment delay or tight stock supply. Purchasers should consider to balance between further cost saving and risk for no stock supply. They can buy from reliable and reputable suppliers after price comparison. Additionally, they can order from two or more suppliers to reduce the risk of putting all eggs in one basket.

Appendix: Major Plastics Events in September 2011

23 September	The WTI future plunged 6%, as the weak economic data led to market worry about the slowdown of global economy.