FOREWORD

The global petrochemical industry is heading into the second half of 2019 caught in a whirlwind of volatile crude oil prices, ongoing trade disputes and geopolitical tensions. International upheaval has shaped trade flows and price movements in the first half of the year alongside another major trend – the rise of new petrochemical plants as additions to upstream refineries in China.

China’s new mega-refineries, as well as new capacity in Southeast Asia, seek to bridge gaps in key upstream and downstream supply chains and have upended established trade flows into China, while also affecting prices and product margins associated with upstream petrochemicals such as isomer-MX and paraxylene. The trend is expected to continue for the rest of 2019, with further capacity due online in the coming months.

US trade disputes with China and Mexico have also upset global supply, with tariffs and counter-tariffs forcing producers of various petrochemicals to look for new markets and possibly disrupt long-established supply chains if traditional routes are closed or too costly.

Refinery outages in various regions have further redirected export flows between Asia, the US and Europe. With some markets facing oversupply or lack of demand, due to both the trade disputes and additional Asian capacity, there was a general bearish trend in the first half of 2019, and this is expected to continue into the later part of the year.

Geopolitics in the Middle East, notably US sanctions on Iran, have also interrupted some global oil flows, while continued shale-led surplus olefins production further cemented the US’ position as the global price floor for many petrochemicals.

Finally, recycled polymers are expected to gain an increasing foothold, especially in more developed economies, as global brands embrace sustainability under growing pressure from consumers, the media and environmental policy.

We hope you enjoy S&P Global Platts review of petrochemical markets in H2 2019. This is our first global outlook and we welcome your comments – do share your feedback at petchems@spglobal.com.

— Samar Niazi

AROMATICS AND POLYESTER CHAIN

Growing Asian benzene supply as US demand remains uncertain

Global trading continues to be a key characteristic of the benzene market, with unexpectedly firm demand from the United States providing a welcome relief as traders sought to move North Asian and European benzene there over the second quarter.

Despite healthy buying interest from the US market, China’s import volumes have fallen sharply over the first half of 2019, with the country importing just 132,000 mt in May, a 60% decline from January’s import volumes.

Moving into H2, the strength in US demand may lose some steam and not continue into Q4, while CFR China demand will remain dependent on the fluid demand-supply dynamics in the domestic market.

Will the US continue to support demand for global benzene?

A key contributor to the firm demand this year has been limited domestic production from the US, as higher toluene prices translated to poorer margins for toluene conversion unit operators and less domestic benzene output, as units were either shut or continued to run at reduced rates.

Given that approximately a quarter of benzene produced in the US has toluene as a feedstock, any movement in the price of toluene in the US will affect benzene. Due to the seasonality of gasoline consumption in the US, demand for toluene as a blendstock typically increases during the summer months. With conversion margins poor at the start of the second half of the year, toluene has been largely supported by gasoline demand. This demand will inevitably fade with the onset of Q4 and toluene prices will be pressured lower, while toluene disproportionation, and selective TDP margins should improve. If margins stay firm for an extended period of time, domestic benzene output should increase as well.

However, benzene demand has been dented going into H2 as higher prices resulted in demand destruction downstream. In H2 June, benzene became more expensive than styrene and multiple styrene producers acknowledged that they had cut rates and were only producing to meet contractual obligations. “I’ve eliminated my open/spot positions. I’ve no incentive to produce extra material,” a source told S&P Global Platts. While details and confirmation were not immediately available, participants also suggested that cumene makers had cut rates as well.
During the latter half of 2019, the expectation is that US benzene supply will remain tight throughout Q3, and that tightness will be alleviated by a steady stream of imports, prompting expectations of prices correcting heading into Q4. The question is exactly how much downward pressure will prices face with the start up of new benzene capacities and amid expectations that toluene conversion margins will ultimately improve. If run rates of conversion units improve at a time when derivative demand is lagging and the market is flush with imports, benzene prices could remain soft headed into 2020.

At the same time, prices could move higher should the trade dispute between the US and China or the Middle East conflict be resolved.

**Demand from China hinges on the growth of domestic supply**

With the start up of mega refineries in China, import volumes are expected to decline, but by how much remains uncertain.

Downstream producers requiring benzene with unique specifications, as well as buyers with production plants located along the coast of China, are likely to continue importing benzene from traditional producers in Asia.

On the other hand, demand from traders would be contingent on the spread between domestic East China prices on an import parity basis and CFR China prices. The spread has been volatile and inconsistent, making it difficult for traders to confidently work the arbitrage. The average spread between domestic and CFR China benzene in H1 stands at minus $18.50/mt, keeping the arbitrage firmly shut.

As a result, inventories have been declining steadily going into H2, hovering at year-to-date lows in early July. Amid tightening supply, China Petroleum & Chemical Corporation, or Sinopec, a major benzene producer in China, whose listed price is the basis for the bulk of term contracts in East China, has increased its listed price four times in H1 July, a Yuan 100/mt upward adjustment each time.

A key event expected to shake up the supply-demand balance in China is the start up of Zhejiang Petrochemical in Zhoushan, a free-trade zone in China's eastern Zhejiang province. Phase 1 of the refinery has a nameplate capacity of 970,000 mt/year of benzene from its aromatics unit, while downstream products produced at the same plant and from benzene as feedstock include 1.2 million mt/year of styrene, 400,000 mt/year of phenol and 100,000 mt/year of acetone.

Thus, the plant’s total demand for benzene is approximately 1.5 million mt/year. With this, the plant is expected to be net short on benzene. Assuming that all units operate at full run rates, demand from China could be higher in H2.

**Growing Southeast Asian supply, more tax-free CFR China material**

With Petronas’ Refinery and Petrochemical Integrated Development, or RAPID, complex in Johor, Malaysia, and Hengyi’s refinery in Brunei expected to reach commercial operations in H2, the nameplate supply from Southeast Asia could grow by an additional 667,000 mt/year.

While it remains unclear whether all of this volume will carry a Form E advantage into China, market sources acknowledged that there would be more supply of tax-free benzene, resulting in an increased competition between the various supply sources.

On the demand side, with Indonesia the only net-importer of benzene in Southeast Asia, and the country’s PT Trans Pacific Petrochemical Indotama to cease production of aromatics in August, demand from the country is expected to be higher in H2.

**Net-long Europe offered potential relief from turnarounds**

In Europe, upcoming cracker maintenances from August through September signals that benzene production could be curtailed in H2.

“This might be a welcome relief for a long market,” a benzene trader said.

Benzene supply in Europe has exceeded that of demand in H1 and this demand-supply dynamics may continue into
WILL GLOBAL TRADE SHRINK WITH RISING RATES?

Benzene is one of the most globally traded aromatic petrochemicals and could therefore be among the products significantly affected by rising freight rates in the wake of the IMO 2020 sulfur cap. Due to oversupply in Asia, large volumes of benzene are regularly shipped to other regions such as the Americas and Europe. One of the few certainties ahead of the IMO 2020 changes is that freight rates will increase – but how much and how fast remains to be seen. Could there be significant changes to the trade flows as freight cost increases and shipments become less economical?

Shipment volumes between S. Korea/Japan and the US could shrink as freight rates increase. The US is also a large exporter of petrochemicals and may be negatively affected. For a 10,000 mt cargo to move from Northeast Asia to the US Gulf, the rate in early 2019 was around $57.50/mt. This could increase to high $60s/mt to low $70s/mt in 2020, based on market estimates.

China is significantly expanding its production capacity of aromatics such as paraxylene over 2019–20 and that will potentially have a negative impact on trade flows to China.

Shipment volumes are expected to be less affected by fuel cost increases due to IMO 2020 regulations because the smaller vessels supplying these routes consume less fuel. Due to the smaller sizes of chemical tankers, scrubber installation uptake has been low.

Sources: Eurostat, China Customs Statistical Information Center, Japan Customs Department, South Korean Customs and Trade Development Institute
H2. A return of demand from the paraxylene sector and workable conversion rates for toluene disproportionation would result in the US and Asia producing more benzene and sparking more export volumes to head into Europe from the Middle East as trade patterns are disrupted.

— Tess Tseng, Kevin Allen, Simon Price

US, EU styrene markets look for direction from Asia amid weak demand

The US and European markets will continue to look toward the Asian market for direction for the remainder of 2019 amid weak global demand, according to market participants.

Americas

US producers will continue to wrestle with anti-dumping measures in the second half of 2019 — specifically those lobbied by the Chinese government.

In 2018, China announced that it would implement anti-dumping duties on US styrene exports, finalizing duties in June at 13.7-13.9%. The duties impacted a series of US producers and ultimately altered historical trade flows.

Styrene exports will continue to impact pricing in the US, despite exports decreasing steadily in recent years. This is primarily due to anti-dumping duties, but also because Interchem, a major player in the styrene export market, ceased all global trading since late December.

Exports to Asia will play an important role as — after touching record high levels in Q1 and Q2 — China's styrene inventories have begun to dwindle. China, Taiwan, Korea and Singapore will play important roles in the styrene supply-demand balance, but initial expectations are for continued length in the US market.

The most significant factor in the styrene market remains US trade relations. While negotiations between the US and China showed signs of progress during the G20 summit in late June, no firm agreements were realized. But even if the current disputes are resolved, US styrene makers and exporters would still have to contend with anti-dumping duties. Derivative demand from polystyrene and ABS in the region has been dented as a result of the trade disputes between the two nations. Along with a tenuous global economy, home appliance and packaging demand has weakened leading to higher inventory levels, sources have said.

The health of the global economy, and its impact on styrene derivatives used in consumer goods, will also influence the US styrene market. But ongoing trade disputes between the US, Mexico and Canada, market sources expect continued length in both the benzene and styrene markets, and weaker demand for derivatives.

One producer predicted that polystyrene and ABS demand would taper off in July and buyers would return in earnest during August and September, based on an expectation that benzene prices would fall as the market became more balanced, helped by June imports hitting their highest level since March 2016.

In addition, many sources said they expected production from conversion units to improve as toluene prices move lower following the end of the summer driving season.

Europe

The European styrene market began to gather pace by the end of the first quarter as market participants secured volumes ahead of a number of planned maintenance works in the second quarter of the year.

As the market enters into the second half, styrene supply is expected to remain long following the arrival of US imports into Europe. At least 80,000 mt arrived in the region as market participants secured volumes to account for the production shortfall from planned maintenance.

Market sources pointed to four producers in Europe undergoing planned maintenance during the second half, with impact mostly to be felt in the autumn when around 2 million mt/year of nameplate production capacity will be removed in the region.

These outages could tighten European supply as they have in previous years. But with the US structurally long, US producers may continue to export styrene to Europe, ensuring supplies remain ample.

European exports to China will continue in H2 2019. This a new trade flow, introduced following last year’s anti-dumping duties on the US, Taiwan and South Korea.

With weak European styrene demand and flush supply, market participants will look to Asia to export material.

However, arbitrage opportunities to Asia will depend on appetite for European styrene, which has waned recently due to high inventory levels.

European styrene is set to face continued pressure from weak demand downstream. Polystyrene producers remain under pressure from a global shift away from single-use plastics to more recyclable products. Polystyrene demand has been falling year-on-year, but the EU’s ban on single-use plastics by 2021 has hastened the process.

Total, a major player in polystyrene, announced this year that it would close the 110,000 mt/year polystyrene plant in El Prat, Spain.

“The closure of the Spanish plant [is] the adjustment on capacity to match the EU demand,” a company source said.
Global plastics manufacturer Ineos Styrolution announced it would convert its polystyrene line in Wingles, France to ABS.

Output halted at Egyptian polystyrene producer E-styrenics’ 200,000 mt/year El Dekhila Port plant, according to market sources. Several other companies are altering their portfolios to the new landscape.

Several factors have led to weakness in the ABS market this year. Demand in the automotive sector, a key downstream market, has slumped amid rigorous emissions testing and uncertainty in the global economy. Alongside this, competitive Asian imports may continue to find a home in Europe, pressuring producers. Producers hope for an increase in demand after the summer lull.

### Asia

Asian styrene monomer started the year with healthy production margins, despite the high inventory levels seen in Q1. Strong sentiment that high stockpiles would be consumed during the heavy maintenance period lifted the market. By the end of the first half of the year, the supply disruption in South Korea and a Q2 steady drawdown in inventory levels supported prices.

In the second half of the year, expectations of a supply and demand imbalance indicated a bearish outlook. Increased supply due to fewer planned turnarounds than in H1, coupled with persistently soft downstream demand, are the main bearish factors market participants will be looking out for.

**SM production margin remained firm on weak feedstock prices in H1 2019**

Planned maintenance in H2 include Taiwan's Formosa Chemicals & Fibre Corp.'s 250,000 mt/year No. 1 unit and its 350,000 mt/year No. 2 unit, as well as Malaysia's Idemitsu SM's 240,000 mt/year units scheduled in July.

Due to some supply shortages in Asia and an open arbitrage between the US/Europe and Asia, deepsea SM cargoes are likely to arrive in Asia from H2 July to August, coinciding with the return of South Korean supplies, adding to market length, sources said.

In addition, Zhejiang Petrochemical's 1.2 million mt/year capacity SM plant in China is slated to start up in Q4 2019. Overall, a longer SM market is expected in the second half of the year.

Meanwhile, on the demand side, the outlook has not been optimistic. Downstream ABS and polystyrene demand has been slow in May and August. Firm styrene prices and weak end-user demand have led to squeezed margins for ABS and PS producers. This resulted in operating rates at ABS plants being cut, as margins fell deep into negative territory. Deeper cuts in operating rates would not be a surprise if fundamentals worsen further, said sources. On the other hand, reduced operating rates have begun to rebalance supply, and there have even been signs of tightness.

Sentiment in the styrenics market has improved, following US President Donald Trump and China's President Xi Jinping agreement to resume trade talks. Sources noted that buying interest, however, was fairly unchanged and more clarity would be needed from trade talks before downstream demand could improve. Until then, market activity in the downstream polystyrene and ABS markets would likely remain thin short-term, with possibility of an uptick for demand after late August, traditionally the start of peak demand season.

With demand for PS/ABS weak and the outlook uncertain, and styrene supply length expected globally, market participants expect a bearish scenario in H2.

— Olu Shaw, Kevin Allen, Regina Sher
Global toluene market under pressure moving into H2

Geopolitical tensions and the unknown capacity of Chinese toluene startups are likely to weigh on the market in the second half of 2019, but some sources say prices could garner support from a tighter gasoline market in the run-up to new regulations on the sulfur content of marine fuels which take effect at the start of 2020.

Asian market uncertain; China in focus

The outlook for the Asian toluene market in H2 is a mixed bag. While the market is expected to be underpinned by demand growth uncertainty in the third quarter due to geopolitical tensions, market participants were more bullish about Q4.

“Once China’s economy has bottomed out, the toluene market [in Asia] will also go up,” an Asia-based trader said. China recorded its official manufacturing purchasing managers’ index (PMI) for May at 49.4%, lower than analysts’ expectations of 49.9%, due to fewer new orders and a drop in export orders.

At the same time, trade tensions between the US and China remain unresolved, with Chinese retaliatory tariffs on US imports having come into force on June 1, further weighing on the global growth outlook.

Heading into Q3, the peak summer season will come to an end, and demand for gasoline blending components such as toluene in Asia could also taper off.

Despite cautious sentiment, some said there might be a rebound toward the end of 2019 ahead of the implementation of the International Maritime Organization’s global cut in the sulfur cap on bunker fuel to 0.5% from 3.5% starting January 1, 2020. “With IMO 2020, freight rates and gasoline prices will increase,” the source said, adding that the global sulfur limit presents an opportunity for toluene as refiners may optimize middle distillate yields, tightening gasoline supply.

In the Chinese domestic market, toluene capacity is expected to increase steadily in H2. Market participants, however, were unable to provide a specific breakdown of the new capacity. “Most of this year’s production capacity is concentrated in the PX [paraxylene] units and the actual toluene capacity is unknown,” a China-based source said. According to sources, petrochemical enterprises that are expected to have new toluene facilities include Sinopec Luoyang, Sinopec Anqing and Zhongke Refining and Chemical.

Toluene disproportionation (TDP) unit margins in Asia have been on the rise since the end of May, with the benzene-toluene spread flipping into positive territory on May 24 at $8.33/mt, S&P Global Platts data showed. While the spread remained low compared to historical healthy levels of $80-$110/mt, more producers may use toluene as a feedstock with positive production margins expected out of the TDP. Earlier in May, some TDP operators had reported run rates falling to as low as around 60% due to low margins.

US prices expected to fall

US toluene prices are expected to face downward pressure in H2, although sources said demand would be contingent upon a number of factors. Late in Q2 and heading into Q3, prices were relatively firm because of limited extraction due to poor economics and stronger demand for gasoline blending. Extraction economics were poor in June, with toluene’s premium to reformate falling to single digits, Platts data shows.

Generally an attractive premium would be considered closer to 20 cents/gal, sources said. Poor economics meant that some refiners were unlikely to extract toluene and would opt to push reformate into gasoline, a source said.

Reduced extraction, coupled with higher blend values, bolstered nitratin-grade toluene pricing and prices rose to the low 270s cents/gal range. This dynamic was expected to persist through the first part of Q3. However, prices were expected to fall back as seasonal demand from the gasoline segment wanes. If this takes place, demand from toluene conversion units would be the primary driver of prices.
Conversion unit economics have been poor since the end of Q1 and TDP margins have been sharply negative — short of a brief period in June. Selective TDP margins have fared little better, and sources have said that unit operators have mostly been running at nominal rates. The fate of toluene conversion economics and toluene demand in the second half of the year will depend on both benzene and xylene prices.

Any fall in toluene prices would need to be met by rises in benzene and paraxylene. Spot paraxylene prices in the US have been low and notional pricing has been below crystallization costs. As a result, sources say paraxylene makers are producing only what is necessary to meet contractual obligations. Paraxylene is expected to see some push and pull as poor economics could result in rate cuts and a tighter market while seasonal demand from the polyethylene terephthalate sector is expected to weaken.

Benzene prices are also expected to affect demand for toluene. Weaker conversion economics have curbed domestic benzene output in the US and this led to consumers being heavily reliant on imports during late Q2 and early Q3. If this trend continues, any short positions in the market could result in sharp price increases and could push conversion margins into positive territory.

In sum, the expectation is for US toluene prices to fall in H2. The extent depends on extraction economics as well as benzene and paraxylene prices.

Europe shares bearish outlook

Expectations for the European market are similar. As in the US, the summer driving season has meant toluene economics being driven by gasoline blending, with downstream chemical consumers satisfied with contractual deliveries. Europe is set to remain net long on toluene moving into H2, with little change expected in the medium term, a source said.

Toluene premiums have trended around $90-$100/mt over gasoline in June. This has been due to bullish toluene and benzene pricing in the US, following the closure of the Philadelphia Energy Solutions refinery. Demand for imported RBOB gasoline increased, supporting demand for toluene as an octane booster in Europe. While the arbitrage appears to have closed for aromatics, added demand for imported gasoline is expected to remain due to the missing production from the East Coast refinery.

European prices experienced a boost from the chemical sector during H1, due to production shortages within the Mediterranean. Without further disruption to several plants at the same time, little change is expected to the oversupplied environment.

— Simon Price, Jin Ming Lim, Kevin Allen

PX producers mull cutting runs on thin margins, limited PTA demand growth

Bullish expectations at the end of 2018 for this year have largely proved to be unfounded as capacity increases in the first half of the year brought global paraxylene prices lower.

Asian paraxylene prices fell 20.4% over the second quarter to $838/mt CFR on June 28. The fall coincided with Hengli Petrochemical starting operations at its integrated crude-to-petrochemical refining complex in Dalian.

The complex has two paraxylene production lines, each with a capacity of 2.25 million mt/year, which provide captive feedstock to three purified terephthalic acid lines, each with a capacity of 2.2 million mt/year.

Hengli is one of the world’s largest producers of PTA, which goes into the making of polyester products. It has traditionally been a major buyer of spot paraxylene, but spot PX delivery to Dalian has drastically decreased since April.

The complex is yet to reach 100% run rate, but market participants said a large fall in spot paraxylene demand from Dalian following the startup and the subsequent ramp-up of Hengli’s PX production has upset the Asian supply-demand balance.

Asian aromatics refining margins have also narrowed post the Hengli startup. The spread between CFR Taiwan/China paraxylene over feedstock CFR Japan naphtha physical sank to $279.88/mt on May 17, the lowest since March 30, 2015.

Asian PX-naphtha margins averaged $559.41/mt in the first quarter, but fell to $369.57/mt in Q2 due to ballooning Chinese domestic supply. The fall was exacerbated by a weak Asian benzene market in H1, forcing Northeast Asian aromatics producers to announce operating rate cuts from May.

In Japan, JXTG Nippon Oil & Energy announced a 20% reduction in PX production from May to August because of the narrow PX-naphtha margin, S&P Global Platts reported earlier.

Non-integrated aromatics’ units running on isomer-grade mixed xylene feedstock were among the worst hit in Q2, said market participants, adding that a spread of $160-$180/mt between PX and isomer-MX was needed for a typical breakeven.

The spread between PX and isomer-MX hit a year-to-date low of $108.67/mt on June 26, down from $466.67/mt as recently as March 12.

Northeast Asian producers were also hit by the discontinuation of Iran sanctions waivers sharply increasing the feedstock costs for condensate splitter-based PX producers.
South Korea has been the largest buyer of Iranian South Pars Condensate (SPC) since 2016. It imported 12.74 million mt of SPC in 2017, accounting for 45% of the country’s total condensate imports, customs data showed.

South Korea’s Lotte Chemical was heard mulling lowering its operating rate at two PX units in Ulsan with a combined capacity of around 750,000 mt/year, if the PX-MX spread keeps narrowing.

Another Korean producer, Hyundai Cosmo, was considering adjusting its run rate at its 1.18 million mt/year PX plant in Daesan if the negative margins continue, Platts reported earlier.

Elsewhere, China’s Qingdao Lidong Chemical cut rates at its plant in northern Shandong province by 30% from June as margins for paraxylene fell. The plant can produce 1 million mt/year of PX and about 270,000 mt/year of benzene.

Market participants expect PX-MX margins to fall further as the second half of the year looks set to bring further PX capacity expansions, such as the 1 million mt/year Sinopec Hainan No.2 plant. The market also expects restarts at major MX-feed paraxylene production units, such as S-Oil's No.2 plant and Formosa's No.3 plant, in the third quarter.

In Southeast Asia, the start of operations at the Hengyi Brunei PMB integrated petrochemical complex is imminent after the company carried out its comprehensive test “smoothly,” Platts reported earlier.

The first phase of the project expects to see crude processing capacity of 8 million mt/year, producing 1.5 million mt/year of paraxylene and 500,000 mt/year of benzene. In the second phase, the refinery will add 14 million mt/year of crude processing capacity and 2 million mt/year of paraxylene.

The plant will move paraxylene from Brunei to Hengyi’s domestic downstream enterprises in Zhejiang, China, thereby reducing spot PX demand from Ningbo, said sources.

Spot demand from Ningbo is expected to fall further in the fourth quarter, coinciding with the expected startup of Zhejiang Petrochemical's 4 million mt/year PX capacity integrated petrochemical complex in Zhoushan.

PTA fundamentals to stay strong on limited capacity growth

Downstream, H2 outlook for the Asian PTA market looks positive amid limited new capacity, despite uncertainties around demand from downstream polyester and textile sectors.

Active PTA capacity in Asia increased to 67.1 million mt/year by the end of June, after the restart of China’s Fuhaichuang Petroleum and Petrochemical's 1.5 million mt/year No.3 line, South Korea's Hanwha General Chemical's 450,000 mt/year No.2 unit, and the commissioning of China's Sichuan Shengda Chemical's 1 million mt/year PTA plant in H1, Platts data showed.

China’s Dushan Energy Ltd. (Xinfengming)’s new 2.2 million mt/year PTA plant is expected to come online in September. The plant will start up on schedule with at least two monthly term PX contracts for H2 already agreed, sources said.

Chinese PTA fundamentals are expected to stay strong, with balanced-to-tight supply, PTA prices may be pressured by the startup of Xinfengming and the restart of the Fuhaichuang plant after turnaround, sources said.

Startups for Yisheng Petrochemical's 3.3 million mt/year No.5 PTA line in Ningbo and Hengli Petrochemical's 2.5 million mt/year No.4 PTA unit in Dalian are likely to be delayed to early 2020, sources said.

Xinfengming is one of the biggest polyester producers in China with an existing capacity of 3.7 million mt/year. The new PTA production will be used entirely for internal consumption.

In India, JBF Industries’ 1.25 million mt/year PTA plant in Mangalore is unlikely to start in the foreseeable future, said market sources. Neighboring ONGC Mangalore Petrochemicals will continue to export PX volumes that were originally planned for JBF’s new PTA plant.
Meanwhile, Indian Oil Corp.'s 553,000 mt/year PTA plant remains shut without any clear start-up timeline, a source close to the company said, following a planned six-week maintenance that began mid-February.

Therefore, Indian PTA buyers have been actively seeking PTA imports amid tight domestic supply.

Some Indian polyester manufacturers approached Northeast Asian PTA producers to negotiate term contract for supply in H2.

However, Asian demand sentiment is generally weak further down the polyester chain for H2, especially in China, due to the US-China trade tensions and slowing economic growth, sources said.

Nevertheless, the Chinese market is unlikely to see chronic PTA length in H2, sources said, as major PTA producers may adjust operations in response to the market.

**Prompt supply tight in Europe as producers cut run rates**

European paraxylene spot activity is expected to be thin in H2, with spot prices tracking the Asian market.

As in H1, European producers may continue to limit production to contractual volumes only. Capacity reductions of around 30% could continue as producers cope with excess supply, said sources. However, spot cargoes were hard to find despite excess supply, European traders said.

European FOB ARA spot pricing is, on average, at a $100/mt discount to the Platts CFR Taiwan/China marker for forward laycans. However, a lack of transparency in the European spot market could create opportunities for traders to make higher margins on spot trades, thereby lifting prices for prompt cargoes.

— Frank Zeng, Benjamin Brooks, Miranda Zhang

**Global MEG braces for supply glut amid new capacity, uncertain demand**

Market sentiment is expected to remain bearish for global monoethylene glycol (MEG) in the second half of 2019 amid a supply glut, as most MEG producers are already facing losses with prices hitting an average $538/mt CFR China in June, the lowest since March 2009, S&P Global Platts data showed.

Besides ethane-based MEG, almost all other MEG manufactures are currently running at a loss. The MEG profit margins are calculated to be averaged minus $8/mt, minus $155/mt and minus $43/mt for naphtha-based, ethylene-based and coal-based MEG respectively in the first half of 2019 in Asia, Platts data showed.

Still, majority MEG suppliers have chosen to continue operating at a loss because of either positive cash flow or long-term business development considerations, sources said.

**Ample supply with new MEG capacity**

Global MEG supply is long following the startup of two new MEG plants with total capacity of 920,000 mt/year in the US in H1 2019, and additional capacity of 2.59 million mt/year to be expected in H2 2019, according to sources.

The overall global MEG capacity has increased to around 37.5 million mt by June 2019, after the startup of Sasol’s 220,000 mt/year MEG line (total 380,000 mt/year capacity for ethylene oxide and MEG) in Lake Charles, Louisiana, as well as Lotte Chemical’s 700,000 mt/year MEG unit at Lake Charles, Louisiana, according to Platts data.

Asia’s MEG capacity remains stable at 29.5 million mt/year by June without new capacity added in H1 2019. This includes 10.7 million mt/year MEG capacity in China, out of which around 42% is contributed by coal-based MEG plants in China, based on Platts data.

Asian market participants are currently eyeing on the progress of Malaysia’s Pengerang Refining and Petrochemical (PrefChem) project, which includes 740,000 mt/year MEG unit at Lake Charles, Louisiana, according to Platts data.

**ASIAN MEG PRICES FALL TO 10-YEAR LOW**

Source: S&P Global Platts
MEG in end-March via imported ethylene, yet brought offline subsequently while waiting for stable ethylene supply from its new 1.2 million mt/year steam cracker unit, Platts reported earlier. However, a fire broke out at the atmospheric residue desulfurization unit of the new refinery at the same site on April 12, leading to delays on the commissioning of the new steam cracker, Platts reported earlier.

The company purchased naphtha from the spot market subsequently to test the steam cracker, but failed the latest startup attempt in end-June without a clear restart timeline, a source close to the company said. Some trade participants said the company would restart the steam cracker and MEG unit in end-July, expecting the first MEG cargo to sail off in late-August or early-September, but this could not be directly and immediately confirmed with the company.

In addition, MEGlobal plans to bring online its 750,000 mt/year new MEG at Freeport Texas in November, sources close to the company said.

In China, new investment to coal-based MEG plants are expected to slow down amid poor MEG profit margins, sources said. An estimated 1.1 million mt/year of new coal-based MEG capacity totaled in H2 2019, lower than the initial expectation of 2 million mt/year additional coal-based plants this year, Platts reported earlier.

This includes Xinjiang Tianye (Group) Co. Ltd.'s 100,000 mt/year capacity expansion on the existing facility and another new 600,000 mt/year MEG line at Shihezi, as well as Inner Mongolia Rongxin Chemical Co., Ltd.'s 400,000 mt/year new MEG unit at Dalad, which is currently undergoing final preparation work before startup, according to market sources.

There will not be any new conventional MEG plants to be brought online in China this year, as the startup for both Zhejiang Petrochemical's 750,000 mt/year MEG line at Zhoushan and Hengli Petrochemical Co., Ltd.'s 900,000 mt/year No.1 MEG unit at Dalian are likely to be delayed to early 2020, sources familiar with the matter said.

Separately, MEG inventories at the main ports in east China hit a record high 1.4 million mt in April, and have gradually dropped around 1.2 million mt by June, Platts reported earlier.

Trade participants believed MEG stocks would continue to stay high for the remaining of the year, unless large-scale production cut is seen globally.

Mixed sentiment for demand from downstream PET/Polyester

Sentiment is generally weak for demand along the whole polyester chain in H2 2019 in Asia, amid US-China trade tension and slowing global economies, even though some participants expect firmer buying interests in the third quarter.

Polyester demand in China was tepid even during the traditional peak buying season from March to May. As a result, there were averaged 20-day worth of inventories across various polyester filament yarn and staple fiber grades by end-May, almost 43% higher year on year, according to market sources.

Even though Chinese polyester finished goods eventually dropped to as low as seven-day worth of stocks by June, with healthy polyester operating rate above 90% of total capacity, some trade participants still take a dim view of demand, saying that such low polyester inventories were due to speculative purchases from downstream textile producers in June, not because of firmer demand prospects for H2.

Nevertheless, some other market participants believed that demand growth will hit the market.

“It is just a matter of time,” a polyester producers said, adding that another peak period is usually expected for polyester products in H2 — during August and September — in order to prepare textile and apparel goods ahead of winter and year-end festivals.

Furthermore, many leading polyester producers in China are currently running at almost full capacity, indicating bullish demand expectation these major producers have, sources said.

Trade participants are closely monitoring the orders from end-users for textile and apparel products.

China's total capacity for polyester and polyethylene terephthalate (bottle grade) has hit around 56 million mt/year by June, with around additional 4 million mt/year new capacity expected in H2, according to Platts data.

— Miranda Zhang

MX under pressure from Asian PX supply, but new plants offer hope

Global mixed xylene markets face the threat of falling downstream paraxylene prices and margins as they enter the second half of 2019.

Asia

New Chinese PX plants are starting up and adding length to the crucial Asian PX market. These plants also bring hope for increased MX demand as they will need to source MX externally. One key new plant is Sinopec Hainan's No. 2 PX plant, which is expected to start in the third quarter. Sinopec is expected to import around 20,000 mt/month
of isomer-grade MX after the new plant comes into production, S&P Global Platts reported in May. The Sinopec No. 1 PX line currently produces 600,000 mt/year, but the company expects to raise production to 1 million mt/year by the third quarter, Platts reported.

PX run rates may be cut due to lower production margins. “There are new PX plants based on MX, which will consume more MX, but existing PX plants may reduce operating ratio,” a Northeast Asian PX producer said in July. “New PX plants versus lower operating rates will make MX balanced in H2.”

So far this year, Asian MX prices have bucked the falling trend in PX, rising $100 from $620/mt FOB Korea January 2 to $720/mt July 16, Platts data showed. Over the same period, Asian PX fell $69.50 to $858.83/mt CFR Taiwan/China, as China’s Hengli Petrochemical started its new 2.25 million mt/year PX plant in March. The PX-MX spread hit a year-to-date high of $466.67/mt March 12, but has since fallen to $138.83/mt July 16.

South Korea’s S-Oil is expected to drastically reduce its MX sales quantity in August, market sources said. Over the last few months, S-Oil has supplied about 50,000-60,000 mt/month of MX.

S-Oil expects to restart its 1.1 million mt/year No. 2 PX unit at Onsan in August. The unit was shut in March for longer-than-usual maintenance.

A Northeast Asian trader had an optimistic outlook on the MX market in the second half of the year, targeting a spread between MX and naphtha at close to $200/mt over the coming period. From January through mid-July, the spread averaged about $160/mt.

**Americas**

US mixed xylene prices are expected to face continued pressure during the latter half of 2019, driven by a subdued downstream paraxylene market and reduced export demand. Stronger blend values are expected to support US mixed xylene prices through the first part of Q3. Mixed xylene’s blend value was as high as 273.37 cents/gal during early July, Platts data showed.

This can be attributed to a wider regrade, the spread between regular and premium gasolines, which was seen as high as 24.50 cents/gal. Sources expect this trend to continue through July but taper off in August as seasonal demand for gasoline in the US falls.

US spot paraxylene prices began to drop in the second quarter of this year and have remained low headed into H2. To put it into perspective, the US prompt spot MX-PX spread flipped into negative territory in late June and fell as low as minus $51/mt, Platts data showed. Using an average June spot MX price, the spread was barely positive and hovered under $20/mt to start July. At these levels, crystallization units were unprofitable, curbing demand for mixed xylenes.

Participants said that lower demand was partially offset by limited output from toluene conversion units as toluene disproportionation margins hovered in negative territory for much of the first half of the year. Margins could improve during the latter part of the year as demand for toluene from the gasoline segment drops and prices fall, though this would still depend on stronger benzene and mixed xylene pricing.

Seasonal demand in the downstream PET market is another factor expected to impact mixed xylene prices. Typically, PET demand in the US is stronger in summer months, and sources said that demand was likely to fall in late third quarter and into fourth quarter. This would negatively impact the upstream paraxylene market and subsequently mixed xylenes. A similar dynamic is expected in the orthoxylene market as PA demand falls in line with colder weather. Looking further out, the start-up of the Corpus Christi Polymers PET and PTA plants are likely to support the xylenes chain.

Looking forward, US mixed xylene prices are expected to face pressure but could still see some upside, sources said. Participants pointed to poor extraction economics and said that some support from octane demand would likely result from the closure of the Philadelphia Energy Solutions refinery in the Northeastern part of the country and the pending implementation of IMO 2020 regulations.
Europe

Any rise in mixed xylene demand in Europe in H2 2019 will rely on increased interest in the downstream paraxylene market and a corresponding increase in the paraxylene spread over mixed xylene. So far this year, chemical demand has been muted, with paraxylene margins over mixed xylene falling into negative territory.

The current situation is slightly better but still does not look optimistic for producers.

As a result, spot market activity has been low with producers limiting excess supply over their contractual volumes.

European markets will continue to see strong demand in H2 from the gasoline blend pool, which has prevented premiums from falling to historic lows. While premiums have fallen considerably since the end of 2018, strength in the gasoline market and high blending values for mixed xylene have kept some demand in the market. The driving force behind gasoline blending demand for mixed xylene will be shipments to the US. US demand is expected to increase following the fire at Philadelphia Energy Solutions refinery and the subsequent news that they plan to permanently close the fire-damaged 335,000 b/d refinery, which is likely to strip 153,980 b/d of gasoline production from the market.

With its high octane value and the fact that MTBE cannot be used for blending in the US, European markets are expected to see continued demand for mixed xylene-blended gasoline in the US.

— Kevin Allen, Benjamin Brooks, Gustav Holmvik

OX supply to lengthen as China, S Korea increase exports

Northeast Asian supply of ortho-xylene is expected to lengthen in second half 2019 due to lower demand from a bearish outlook for its downstream plasticizers industry, as well as increased domestic supply in both China and South Korea.

China, the largest importer of OX in Northeast Asia, imported only 48,332 mt over January-May, down 71.3% from the same time period last year. It also exported 8,003 mt of OX over the five-month period, compared with none a year earlier.

So, while China remains a net importer of OX, its reliance on imports has fallen drastically.

This is due mainly to related Asian paraxylene production margins plummeting since the startup of Hengli Petrochemicals’ integrated refinery complex at end March, which has two PX lines each with a nameplate capacity of 2.25 million mt/year. The Asian PX-naphtha spread narrowed to its lowest level since Q4 2017 in May, with the spread between benchmarks CFR Taiwan/China PX and CFR Japan naphtha physical sinking to $304.08/mt on May 15, a few dollars shy of the previous low of $297.875/mt on November 10, 2017.

While producers had been prioritizing PX production over OX prior to Q1 due to unusually strong margins for PX production, this came to a grinding halt in April, resulting in a higher percentage of OX being produced from aromatics units. Chinese OX supply saw a further increase from the startup of Fuhaichuang’s No. 2 aromatics unit on March 18, which has a nameplate capacity of 240,000 mt/year of OX. All of Fuhaichuang’s OX production will have to be offered in the open market as it does not operate any downstream phthalic anhydride plants.

Due to the length in domestic OX cargoes, state-owned China Petroleum and Chemical Corp., or Sinopec has repeatedly lowered its domestic prices since Hengli’s startup. With domestic prices lower than international prices, it is economical for China to export OX to Southeast Asia and Europe, and this will likely persist into H2.

In the short term, some Chinese OX import demand will return after planned maintenance at Fuhaichuang that started June 20 and was expected to last 30-45 days. No OX shipments to Zhangjiagang from Fuhaichuang’s Gulei port have been reported since May 29, when 3,000 mt was discharged. This, coupled with lower-than-usual East China commercial inventory of around 16,000 mt at Zhangjiagang,
means some PA makers could enter the market seeking additional OX spot imports for July.

Lower PA output boosts OX exports
In South Korea, OX production was heard to have increased since May, with major producers Lotte Chemical and LG Chem both looking to export one to two additional spot volumes each month for H2. In particular, LG Chem will have more OX cargoes to export after reducing run rates at its 60,000 mt/year PA plant in Yeosu coinciding with the shutdown of its 90,000 mt/year dioctyl phthalate plant at Naju.

The DOP plant was shut April 11 and was reported to have resumed operations in early June. However, the long-term future of the plant remains uncertain, as industry sources said the company may harbor plans to permanently shut the plant in H2 due to poor plasticizer margins and increasing competition from other DOP makers in Northeast Asia.

“Around 55,000 mt/year of PA from the company's Yeosu plant is used for captive DOP production. If PA production rates at Yeosu are cut due to permanent closure of the DOP plant, the company will need less feedstock orthoxylene for H2 and we could see an increase in Korean exports of OX,” a buyer in South Korea said.

South Korea's OX exports will likely head to Southeast Asia, Taiwan and Europe instead of China in H2, taking advantage of the open arbitrage into these markets and avoiding the chronic supply overhang in East China. However, with the tightness in Europe expected to ease in Q3 and major Asian OX suppliers Formosa Chemicals and Fibre Corp in Taiwan, Reliance Industries in India and PTT Global Chemical in Thailand having returned or due to return after maintenance, there will be fewer outlets in H2.

A tight OX market in Europe in H1 caused by production issues and exacerbated by a lack of Russian material flowing into the region prompted European traders to look to the US Gulf and Asia for cargoes, which drove up OX prices globally. However, they found themselves competing for only a small pool of cargoes.

South Korean OX sellers were becoming more cautious about sending parcels to Europe by end June, while sellers in the US were concerned about a fall in spot price and any potential movement of Russian OX into Europe.

While global market prices may not completely re-equilibrate in H2, Europe looks set to become more balanced for OX and less reliant on imports. Slower demand in the PA market over summer has helped ease demand pressure on OX and sources now expect European production to return fully to the market in September.

Where we may potentially see some tightness in supply is from a lack of Russian imports. High domestic Russian prices resulted in its imports falling sharply to 6,111 mt over January-April from 18,918 mt in the same period a year earlier, according to Eurostat data. Market sources said imports were not expected to pick up in H2.

Despite this, the supply-demand balance should be manageable in Europe, unless production issues arise again, market sources said.

Elsewhere, tightness in the US OX market has been exacerbated by strong increases in prices for feedstock mixed xylenes, which have risen 21% since February 1 to 267 cents/gal ($809.01/mt) FOB USG as of June 28. At this price, based on production costs estimated at $150/mt on top of spot mixed xylene assessments, it is no longer viable to export US Gulf OX to Europe, with prices in the two regions around parity and freight costs at $52/mt for 5,000 mt at end June.

— Frank Zeng, Benjamin Brooks

METHANOL AND MTBE

Methanol prices under pressure from supply overhang

- US trade tensions with China, Venezuela change trade flows
- Increased production exacerbates downside risks
- Demand insufficient from Asia, Europe to absorb excess supply

Global methanol markets head into the second half of the year with prices under pressure from ample supply and increased production capacity.

Continuing US-China trade tensions, a deteriorating situation in Venezuela and a ramp up of production in Russia have prompted an influx of cargoes to Europe, leaving European sellers to market their product to Southeast Asia, India, China and South Korea.

The change in trade flows has shifted the supply and demand balance and net demand growth in Asia, with Europe unable to absorb the excess supply.

China: the last hope for traders

Traders pushing Algerian, Azerbaijani, Trinidad and Tobago, and Venezuelan methanol cargoes to China indicated that fundamentals were weak.

China CFR methanol prices for August have fallen 35% on the year and 5.6% on the month to $250/mt CFR, S&P Global Platts data showed.
Zagros Petrochemical’s two 1.65 million mt/year plants, apart from a technical hiccup in March, have been operating at 80-90% of its capacity and regularly exports to India and China.

With Asia already grappling with sluggish downstream demand, further length could come when Middle East K himaye Pars and Bushehr Petrochemical start their 1.65 million mt/year plants in the fourth quarter.

**Venezuelan product redirected**

With the geopolitical climate of Venezuela and its relationship with the US having deteriorated throughout the year, methanol trade flows have seen significant shifts in the first half of 2019.

While the EU imported roughly 180,000 mt of Venezuelan methanol from January to April of 2018, the imports totaled approximately 275,000 mt in the first four months of this year.

China imported a total of 126,624 mt of Venezuelan methanol February to May, with some months averaging 50,000 mt, data from Chinese customs showed. The trend is expected to continue into H2 2019, sources said. Venezuela hardly made a dent in the Chinese methanol market in 2018.

**US prices slump following logistical headaches**

Pricing in the US spot market softened over the first six months of 2019, with values hovering in the low 100 cents/gal range for much of the first quarter only to drop down to double-digits for the vast majority of the second.

Logistical headaches only intensified at the end of the first quarter when a fire broke out at one of the most liquid terminals for methanol trading, Intercontinental Terminals Company’s petrochemical tank farm in Deer Park, Texas.

In the days following the ITC fire, spot pricing reached 111 cents/gal FOB USG, the highest level for the first half of 2019, where it remained for several sessions before retreating.

**More Iranian methanol headed to India**

Barring any disruption of financial transactions to Iranian companies, Iranian methanol is expected to dominate the Indian market due to its better netback compared to China.

Since it started up in February, Kaveh Methanol has been operating at 55-60% of its 2.3 million mt/year capacity. The producer has been sending around 40,000 mt of on-spec methanol every five weeks to the West Coast of India, offsetting production outages elsewhere in the Middle East.

Chinese imported methanol prices have steadily declined from highs of $308/mt CFR in March to $250/mt CFR for August as ongoing US-China trade tensions have resulted in languid downstream petrochemical prices.

Trade sources estimated 50,000-60,000 mt/month of methanol from Trinidad and Tobago will arrive in China over June-August, up from 30,000-40,000 mt/month seen last year. Chinese customs data showed that Trinidad and Tobago imports steadily increased from 19,500 mt in February this year to 124,025 mt in May.

This has led to a supply overhang in China, and the problem is compounded by a shortage of tank space at China’s eastern ports.

Inventory levels currently sat at 850,000 mt, but the drawdown of inventory should increase in August when Nanjing Chengzhi Clean Energy Co.’s new methanol-to-olefins plant uses their existing stock.

The plant, which started operations at the end of June, can produce up to 360,000 mt/year of propylene and 240,000 mt/year of ethylene using 1.8 million mt/year of methanol.

Luxi Chemical’s MTO plant in Liaocheng, China, is slated to start in the second half of July.

As such, buying interest for methanol could pick up over August and September, and some support in prices could materialize, trade sources said.
The terminal reopened amid little fanfare from the methanol community in mid-May. “The main participants are likely still sorting out the contracted business so they can understand their true position and then begin trading around it,” one source said. “You’d hope by the end of Q2 things would have caught up,” added another.

Prices fell from mid-May onward, with value dipping as low as 80 cents/gal FOB USG.

In the second half of the year, US-China trade war will likely continue to affect product flows between the two countries. In May, China announced that it would be increasing tariffs on US methanol from 10% to 25%, effective June 1.

“I think it will have a big impact,” one market participant said, questioning whether methanol demand in other East Asian countries would be able to “soak up” product.

“A 25% [tariff] means South Korea and Japan tanks will be really full, long market globally,” a second source echoed.

Supply-demand imbalance in northern hemisphere
In the Northern Hemisphere, European sellers were bearish after weaker spot prices and demand during the second quarter of 2019.

The industry-settled methanol contract price for the third quarter of 2019, which was agreed down Eur45 from the second quarter to Eur305/mt FOB Rotterdam, is the lowest level since the fourth quarter of 2016, according to Platts data.

Canadian methanol producer Methanex’s posted European third-quarter contract price also dropped Eur45 from the second quarter to Eur315/mt, which is also the lowest Methanex European quarterly contract price since the fourth quarter of 2016.

A supply and demand imbalance is widely considered to be behind the drop in methanol prices.

The launch of Russian methanol producer Shchekinoazot’s new 450,000 mt/year plant in the third quarter of 2018 and a subsequent push by Russian producers for greater European market share have added to the supply and demand imbalance, according to European market participants.

“Competition will be tough in Russia,” a producer said, referring to further expected expansions.

In the first four months of 2019, Russian methanol exports to Europe increased by 96,111 mt on the year, according to Eurostat data.

Over the same period, EU imports of US methanol rose by 165,334 mt and imports from Venezuela rose by 95,669 mt.

In addition to rising import levels, new domestic production is set to raise the European market’s supply in the second half of 2019, as Dutch methanol producer BioMCN’s parent company OCI announced plans to start its second line in Deltzijl, the Netherlands, in June.

This new line is expected to almost double the site’s capacity by adding around 438,000 mt/year of methanol production.

— Esther Ng, Ellie Valencia, Lara Berton, Luke Milner

Global length could signal bearish movements coming for MTBE

- Lengthy supply in MTBE expected to continue in global hubs
- US, Asia to ArA arbitrage windows open on paper
- Lackluster MTBE demand from LATAM

The ongoing length for MTBE in all three main hubs - Northwest Europe, Singapore and the US Gulf Coast - is set to continue into the second half of 2019, with only the European market expected to offer some hope of balance.

Kicking off the summer driving season in Europe, coinciding with the beginning of the second half of the year, is an opportunity for strong demand for MTBE in the Amsterdam-Rotterdam-Antwerp region, before the switch to the winter grade gasoline, when the market is expected to weaken in line with seasonal trends.

However, the uncertainty in Latin America seen in the first half of 2019 is expected to persist going forward. The decreased role of Mexico as an outlet of the US Gulf Coast MTBE and no buying from Venezuela created an MTBE oversupply in the Gulf, driving the prices to a discount to the Northwest Europe marker.

The Asian MTBE market is expected to be under pressure in the second half of this year, as rising capacity across the region and competition with ethanol might cloud the expected uptick in seasonal demand.

EUROPEAN MTBE FACTOR WEAKENS TOWARD WINTER, 2018 WAS AN ISOLATED CASE

Source: S&P Global Platts
Warm summer and cold winter of MTBE
Strong EMEA buying interest seen in the first half of the year is expected to carry over to coming months, with the African gasoline market adding much of the support.

Refineries running high on diesel and distillates production for shipping transportation, due to the preparation for IMO 2020, has resulted in a high yield of naphtha as co-product. Cheaper naphtha makes blending economics more attractive for MTBE demand.

Product availability in Europe is expected to be stable to tighten with no changes in the existing capacities, though imports could prompt a supply shift. The Persian Gulf region is the most likely source, as it has a freight advantage over Singapore.

Planned maintenance during the summer and fall on a number of units in Northwest and Eastern Europe will create an unavoidable disruption on supply. One of the European producers is expected to maximize ETBE in the third quarter, while a second one might be challenged on feedstock raffinate supply, a trader said. In close proximity, the Russian ZapSibNeftekhim MTBE unit is not online yet, with a planned start near the end of the year.

Long supplies in US Gulf and Singapore pointing towards Europe
In the Western Hemisphere, the US in January imposed sanctions on Venezuela’s state PDVSA, including for a series of general licenses. Under one general license, the US Treasury Department required existing contracts, including shipments of transportation fuels and gasoline additives such as MTBE to wind down by February 27.

While US Energy Information Administration data indicates that US MTBE exports to Venezuela totaled 1.87 million barrels in 2018, export volumes to the country in the first half of 2019 have totaled just 259,000 barrels, all delivered in January.

MTBE ARB TO ARA OPENED WIDELY ON PAPER

To compound the situation, MTBE demand in the Mexican market was also down in the first four months of 2019, falling roughly 16% from the same period in 2018, with demand falling on the back of higher gasoline prices and driving restrictions amid heavy pollution in the Mexico City area.

The political change in Latin America was a significant driver for US Gulf MTBE in H1 2019. There is still a looming uncertainty of its role in H2 2019 due to the low oxygenate gasoline demand in the region. Low to no buying from Venezuela, as well as limited material going to Mexico resulted an MTBE oversupply in the US Gulf Coast and prices falling to a discount to the European quote after historically trending at a premium.

“Venezuela and Mexico gasoline demand picking up is the only way to rebalance US, not seeing that happening,” a producer said.

New capacity in Asia amounts to 1.38 million mt in H2
A number of market players projected that the new capacity additions in the MTBE sector would shift the trade balance from net-short to net-long in many Asian countries.

Overall, around 1.38 million mt of new MTBE capacity is expected to come online in the second half of this year across Asia.

In China, Zhejiang Rongsheng's 100,000 mt/year of MTBE plant in Zhejiang province is expected to come online, while Malaysia’s Petronas Refinery and Petrochemical Integrated Development (RAPID) is planning to start its 750,000 mt/year MTBE plant in Pengerang in the third quarter.

In Taiwan, Formosa Petrochemical’s 330,000 mt/year MTBE plant will be started up in the Q3 and India’s Reliance will run its 200,000 mt/year MTBE plant in Jamnagar in the fourth quarter.

Easing supply tightness in the gasoline market would reduce MTBE demand for gasoline blending, a trader based in Singapore said, adding that increased demand for vacuum gasoil for marine fuels prior to the IMO 2020 implementation could tighten the gasoline supply in H2 and prop up the MTBE prices.

— Michelle Kim, Stergios Zacharakis, Ellie Valencia
OLEFINs

Europe to keep importing ethylene from US; eyes Asian barrels

- Europe to remain most expensive region
- Asia steam cracker run cut in focus

Europe is likely to continue to import ethylene, mainly from the US and possibly from Asia, in the second-half of 2019 as supply in Europe is expected to remain limited, while the US and Asia are expected to be inundated with supplies.

In the middle of this year, an arbitrage window for ethylene to move from Asia to Europe was technically open, after the ethylene price spread between the two locations widened to around $300/mt.

“It’s a big change. Europe is structurally long, and [the] most expensive region in the world,” one trader said.

Market sources said ethylene demand in Europe slowed down somewhat in July following the re-start of large crackers in Northwest Europe as well as the start of the summer holidays.

There is expectation that supply for the rest of the year will experience some degree of tightness due to scheduled maintenance at some plants, with any insufficiencies to be met by imports. Should there be any turnaround, it is due to take place from late August to end of October.

Europe is likely to continue to import ethylene from the US, where supplies are ample. For 2019, five new startups are expected in the US Gulf, with capacity totaling just under 5 million mt/year. Thus far, only two out of these five plants have come on line in 2019: Indorama's 440,000 mt/year cracker and Westlake-Lotte's 1 million mt/year cracker, both in Lake Charles.

Market participants still expect Shintech's 500,000 mt/year cracker and Sasol's 1.5 million mt/year cracker to come on line during the summer, both of which are also located in Lake Charles. That leaves Formosa Plastics 1.5 million mt/year cracker in Point Comfort, Texas, which is expected to come on line by the end of the year, concluding this first wave of new ethylene cracker startups.

US ethylene exports is also likely to increase from later this year in line with the planned start up of a new ethylene export terminal.

Enterprise Products Partners and its project partner Navigator Gas is on schedule to complete its new 1 million mt/year ethylene export terminal at Morgan's Point, Texas, near the mouth of the Houston Ship Channel, by the end of 2019. Enterprise has already converted a 5.3 million-barrel ethane cavern to hold ethylene in the second quarter of this year at its operations in Mont Belvieu, the US natural gas liquids hub, east of Morgan's Point.

Asian supply set to rise in H2

Asian ethylene supplies are also expected to increase towards the end of this year as maintenance is completed at key steam crackers. Some steam crackers are scheduled to be shut for planned turnaround in H2, such as Formosa's No. 2 cracker and CPC's No.4 unit. Despite these turnarounds, supplies are still expected to increase in line with the planned start up of new steam crackers such as SP Chemical and RAPID.

SP Olefins (Taixing) Co. Ltd, a unit of Singapore-based SP Chemicals, will likely start test runs of its new steam cracker in Taixing, Jiangsu province, China, around August. The steam cracker is able to produce 650,000 mt/year of ethylene. SP Chem's ethylene imports is likely to decline once the steam cracker is up and running.

Malaysia's Pengerang Refining and Petrochemical, or PRefChem, is attempting to restart its new naphtha-fed steam cracker at the Pengerang Integrated Complex in the second-half of this year. The cracker, which is able to produce 1.2 million mt/year of ethylene, is part of the RAPID project in Malaysia's southern-most state of Johor.

Meanwhile, market participants in Asia are also keeping an eye on steam cracker operations as most of these crackers are running at full capacity despite the weak ethylene/naphtha price spread. These steam crackers are essentially

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**Europe Ethylene Highest Globally in Q2 Amid Tight Supplies**

<table>
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<th>Month</th>
<th>CIF NWE</th>
<th>CFR NE Asia</th>
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</table>

Source: S&P Global Platts
supported by the relatively positive propylene-butadiene/naphtha price spread.

“If other olefins start coming down, then steam cracker run cut may be likely. But still, spread between propylene-butadiene and naphtha is favourable for steam crackers,” a market source said.

So far in 2019, Asian ethylene has averaged $975.65/mt CFR Northeast Asia, $1,012.23/mt CIF Northwest Europe and $323.80/mt FD USG, S&P Global Platts data showed.

US ethylene prices may head lower in H2

US ethylene spot price is the lowest among the three regions and trade sources are of the opinion that with more startups expected to come on line, US spot prices are more than likely to continue to head south. Trade participants said that the new ethylene export terminal would likely make US ethylene prices even more competitive due to the potential demand from overseas. However, industry sources do not expect this scenario to pan out until later in 2020.

ADDITIONAL ETHYLENE SEEN AVAILABLE IN US DUE TO START-UPS

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<td>1,500</td>
<td>Q3-18</td>
</tr>
<tr>
<td>Indorama</td>
<td>Lake Charles, LA</td>
<td>440</td>
<td>H1-19</td>
</tr>
<tr>
<td>Westlake-Lotte</td>
<td>Lake Charles, LA</td>
<td>1,000</td>
<td>2019</td>
</tr>
<tr>
<td>Shintech</td>
<td>Lake Charles, LA</td>
<td>500</td>
<td>Mid-19</td>
</tr>
<tr>
<td>Sasol</td>
<td>Lake Charles, LA</td>
<td>1,500</td>
<td>Mid-19</td>
</tr>
<tr>
<td>Formosa Plastics</td>
<td>Point Comfort, TX</td>
<td>1,500</td>
<td>H2-19</td>
</tr>
<tr>
<td>Source: S&amp;P Global Platts</td>
<td></td>
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</tbody>
</table>

In Asia, some market sources do not expect CFR Northeast Asia ethylene to climb above $850/mt in the near-term given the high operational run rates at existing steam crackers as well as the planned start up of new steam crackers.

— Fumiko Dobashi, Brian Balboa, Ora Lazic

Global propylene supply to remain healthy on extra capacity, strong inventories

- US inventories establish records in 2019
- US-Europe arbitrage under pressure, but outlook mixed
- Asia likely to stay stable-to-soft as a result of additional PDH plants

Global propylene markets will continue to see healthy supply availability in the second half of 2019 as fresh capacity comes online in Asia and US inventory levels remain strong.
As for the rest of Southeast Asia, Northeast Asia and South Korea, there will be less turnarounds in H2 compared with the front half of the year, ensuring a relatively stable supply of propylene, especially in the final three months of the year. Three steam crackers in the region with a total propylene capacity of over 1.5 million mt/year were heard to have plans for turnarounds in the current quarter. Chandra Asia, the major player in Indonesia, is expected to shut down its cracker for turnaround by August 1, while Formosa Petrochemical’s No. 2 steam cracker unit will carry out scheduled maintenance by mid-August. Lotte Chemical is scheduled to shut its Daesan cracker by October 14.

Other market participants were keeping a close watch on the Malaysia’s Petronas–Aramco RAPID project, which has experienced delays in the startup of the cracker and refinery. The complex’s RFCC is now scheduled to produce 600,000 mt/year of propylene by the end of Q3, but is only due to produce on-spec propylene in Q4, according to a source with direct knowledge of the matter.

— Lara Berton, Melvin Yeo, Brian Balboa

US, Europe eyeing butadiene arb opportunities to Asia

- Europe bearish on weaker demand
- Tight Asia supplies to persist until new capacities start

Traders in the US and Europe would likely continue seeking arbitrage opportunities to Asia in an attempt to sell excess butadiene supplies to a tight Asian market, market sources said.

“The market [in Europe] is long and Europe relies on Asian market conditions,” one trader said. “They [European producers] will need to reduce either production or prices.”

Butadiene demand in Europe is also seen as bearish, following a 65-day turnaround at French adiponitrile (ADN) producer Butachimie, the largest butadiene buyer in Europe. The ADN plant at its Chalampe site will be shut between September 25 to mid-December.

Attention in Asia turns to new capacity

Meanwhile, the Asian market will focus on startups, with more than 1.2 million mt/year of extra propylene production capacity expected to come online in China by H2.

This includes China’s Fujian Meide Petrochemical’s 660,000 mt/year PDH plant in September and Dongguan Juzhengyuan’s 600,000 mt/year PDH plant by the end of H2. The additional capacity could reduce Chinese reliance on imported cargoes and exert pressure on spot price.

“We imported 600,000 mt of propylene feedstock for our two 500,000 mt/year polypropylene plants last year and will reduce the imports by 400,000 mt once our PDH plant is operating at full rate,” said a company source at Fujian Meide Petrochemical.
But it is unclear if Asia would be able to absorb arbitrage cargoes from Europe, should new capacity come online in the second half of 2019. Butadiene turnaround season is mostly due to end by December, while additional butadiene supplies are expected from new butadiene plants. Rising Iran supplies to China would likely curb China’s buying appetite as well.

According to estimates, butadiene’s production loss in Asia will be at 25,480 mt in July, 28,230 mt in August and 24,980 mt in September. Production loss is seen to ease in November and December because of fewer turnarounds during the period.

Two new butadiene units are due to start up in Asia. These two units are Malaysia PrefChem’s 185,000 mt/year butadiene unit under its RAPID project and China Zhejiang Rongsheng’s 200,000 mt/year unit. The exact startup dates for these units are still unclear. PrefChem does not have any butadiene downstream plants, which means the entire quantity from the new unit will be exported.

Butadiene from Iran would likely continue to head to China, amid the US sanctions on Iran. There has been an additional 11,000 mt monthly of Iranian spot cargoes available to China, reducing butadiene import demand from the country. Meanwhile, the US butadiene market would be stable to weaker in H2. While the US-China trade dispute continues to fuel an automotive slowdown to several ethane crackers scheduled to come online in H2, there is little expected to stem the tide of ample supply outweighing demand.

“Butadiene prices in America and Europe are expected to continue being pressured as deficit regions will come to a self-sufficiency balance derived from the new butadiene capacities in Asia, and the new ethane crackers in the US that will keep well-supplied co-products such as C4s needed to produce butadiene,” one source said.

New ethane crackers to be started up this year do not have butadiene capacities, meaning more crude C4 is being supplied to the market.

Another source conferred with the expectation of downward pressure, even with planned outages in Asia. Sources said an unforeseen event would need to manifest in order to boost US spot butadiene.

“Under normal circumstances, for the rest of the year the market will be rather weak,” the source said.

Bearish downstream synthetic rubber markets would likely pressure butadiene feedstock market as well, amid the ongoing US-China trade dispute. The trade tension particularly hit China’s automobile sector, which consequently slashed synthetic rubber demand.

Europe is also seen to be following the bearish global trend. “[We expect] flat demand, and a progressively weaker tyre sector. The Asian market is closed for us,” one producer said, adding that he foresees a bleak outlook for the rest of 2019.

So far in 2019, CFR China butadiene price averaged at $1,080.04/mt, FD Northwest Europe at $964.25/mt and CIF USG at $1,011.085/mt, according to S&P Global Platts data. While, styrene-butadiene-rubber price in Asia and Europe averaged $1,359.65/mt CFR Northeast Asia and $1,276.50/mt FOB NWE respectively, Platts data showed.

— Elizabeth Low, Luke Milner, MK Bower, Ora Lazic

**POLYMERS**

Global polyethylene market seen bearish amid weak demand, rising supply

- Demand growth for packaging seen lukewarm
- US-China trade tensions, weak currencies add further weight

The outlook for the polyethylene market globally is bearish for the remainder of the year due to a combination of weak feedstock costs, weak global demand and anticipated plant startups, according to market participants.

An estimated 4 million-5 million mt of new polyethylene supply is expected to come online by end December — 2.9 million mt of it in the US and the rest in Asia. However, the new polyethylene units are expected to contribute only around half their nameplate capacities initially due to the various delays in the typical ramp-up cycle before reaching on-specification resin, and due to potential delays in receiving on-site monomer from steam crackers.

Market sources were expecting more US shale-based PE to enter the market worldwide excluding China in H2, in regions such as Latin America, Europe and then Asia.
Producer sources in the key supply region of the Middle East estimated that around 12 million mt/year of PE in 2019 will continue to diversify end-product portfolios, where competition is less intense.

Weak ethylene feedstock markets were expected to weigh on PE buying ideas, while demand was expected to be generally more bearish in H2 than a year earlier due to uncertain macroeconomics, particularly resulting from the US-China trade tensions.

“Even if there is a resolution with China, there is still no guarantee that China will come back to the market,” a US PE distributor said. While US-China trade tensions continue to simmer heading into H2, PE market participants have been more concerned about the recent weakness in global demand. South Asia and Southeast Asia have not seen a rise in polymer finished orders from the US as their manufacturing capacities are not as big as China's, traders said.

The current PE surplus will continue to be absorbed by China's demand through some redirection of regional cargoes, sellers said. Some participants were expecting more Southeast Asian cargoes to be exported to China due to regional plant expansions and the ASEAN-China free trade agreement. Some small Chinese plastic recyclers have also relocated to Southeast Asian countries such as Cambodia and Myanmar due to cheaper labor costs, sources said.

US exports of high density polyethylene, linear low density PE and low density PE combined totaled 1.8 million mt over January-April, surging almost 50% from the same period a year earlier, according to US International Trade Commission data. However, with exports for some grades of PE to China impacted by a 25% tariff, specifically LLDPE and HDPE, US exporters have relied on Latin America as a key export destination.

With escalating tensions between the US and China, Europe has seen imports from the US increase this year, with market participants expecting this will continue into H2. According to latest Eurostat data, HDPE imports between January and April 2019 totaled 35,300 mt, up from 22,160 mt in the same period a year earlier.

The Asian PE market was forecast to be in net deficit of 14 million mt/year by end 2019, with a spike in demand expected in September during China's seasonal peak manufacturing period. India has also been importing and will need more PE, especially LDPE and HDPE grades, traders said.

An uptrend in PE packaging demand in the long term driven by the global e-commerce boom, consumer convenience and portion control, is expected to drive demand, although at a slower pace than earlier expected, sources said.

Market participants in China said demand was growing and coal-based expansions have slowed, leading to an import dependency.

Virgin PE was likely to remain the preferred substitute despite the recent government push for recycling; recycled resins account for around 3%-4% of the volume of production used in polymer resins. Recycled material is still less easily available and requires a large capital outlay.

The performance of recycled material was also generally not up to expectations, and a lack of financial incentives to collect and sort waste and a fragmented industry comprising mostly small players continued to constrain development, market sources said. Some traders were not optimistic that...
recycled PE could replace virgin PE, noting that virgin resin made from ethane was currently very cheap.

Currency depreciation against the US dollar has also dampened imports to several countries.

In one of the leading polymer markets, Turkey, the weak US dollar-Turkish lira exchange rate continues to hamper selling into the Turkish market, as imported material is purchased in US dollars and then sold into the market in the local currency.

"Turkey is going through difficult times and businesses are squeezed," one trader said.

— Fumiko Dobashi, Hui Heng, Brian Balboa, Lara Berton, Luke Milner

Asia copolymer PP seen buoyed, US/Europe PP grades under pressure

- US arb to Europe closes
- Asia copolymer grade remains net short

Asia’s polypropylene is expected to reach self-sufficiency in the second half of 2019, particularly for homopolymers grade, while propylene and PP in Europe will be under pressure amid weaker upstream markets. The PP market in the US is also set to decline on limited domestic demand and restrained export opportunities as abundant inventory keeps the market long.

Polypropylene players will continue to eye developments in the derivatives markets, following bearish automotive and construction sectors in the first half of 2019. With many parts of the world experiencing an economic slowdown, buyers have adopted a wait-and-see approach throughout the year, and market players worry this trend will continue during H2.

“It all depends on the [automotive and construction] demand pattern and if demand picks up...but I don’t see big changes in prices [globally] in the coming months," one buyer said.

Globally, market sources were taking cues from Asia’s demand as the region accounts for 60% of global demand. Despite the current demand lull, average demand growth for PP at 7%-8% in 2019 is anticipated to rise in line with GDP growth forecasts this year across most parts of Asia, with China and India seen outperforming the rest of Asia.

The PP market in the US is facing high inventories and bereft of sudden growth in demand, according to trade participants. Unplanned turnarounds could yield some balance, but seasonal fluctuations in demand should not offset what market sources anticipate unfolding, which is price decline led by feedstock propylene, followed by PP.

While there were still offers of US cargoes to Europe for exports, limited interest in Europe should suppress arbitrage opportunities, sources said. Supply shortages in Europe during H1 2019 have prompted some US cargoes to flow into Europe, sources said.

“It doesn’t make sense to export and there's too much [US propylene] monomer in the chain and there isn't enough [PP] demand to soak that up," one source said.

However, despite the signs of market weakness, Europe remains the most expensive region amid a heavy steam cracker turnaround schedule this year, adding to the upward pressure on feedstock propylene prices.

Sources said Europe has been attracting more imports so far this year, as participants struggled to send volumes to China. Between January and April 2019, European imports stood at 167,910 mt, up 102% from the same period in 2018, latest data from Eurostat showed. Imports from South Korea rose 53%, averaging 20,430 mt per month so far in 2019, up from 13,900 mt in 2018, the data showed. Market participants have already noticed more offers of non-European origin PP and they expect this trend to continue, unless Asia’s demand picks up.
Meanwhile, some traders estimated that Asia will be net short of 2-3 million mt/year of PP by the end of 2019, particularly in South Asia, and this is expected despite a boost in production capacity, as demand particularly of copolymer grade is set to improve significantly.

Copolymer supply will remain tight even with an anticipated 3 million mt/year of PP capacity by the end of this year, mainly in China, as it was largely of the homopolymers grade.

The capacity boost is expected to open arbitrage opportunities for exporting Chinese homopolymer PP to Southeast Asia and Latin America, industry sources said.

No new capacity was seen coming online in the Middle East — a key supply region — by the end of this year, sources said. The Middle East exports around 4 million mt/year of PP, according to S&P Global Platts Analytics.

Market participants expect Asian PP production costs and possibly prices to rise in H2 2019, due to increases in feedstock Asian naphtha and dry bulk container freight shipping, although the latter to a much lesser extent.

Refiners have started reconfiguring their output to change fluid catalytic cracker yields to maximize distillate production for low sulfur bunker fuels ahead of IMO’s 2020 regulation, resulting in less feedstock into the cracker unit, market sources said. This would translate into a tighter feedstock naphtha market. Asian naphtha “cost push” would result in higher PP production cash costs, and consequently higher PP prices during H2 2019, market sources added.

Although currently most of PP in Asia is produced from steam crackers, at about 43%, followed by fluid catalytic units, the percentage mix could change as more propane dehydrogenation-based PP in Asia is produced through new startups in China in H2, a few market participants said.

This could lead to a weaker correlation of PP prices against any feedstock towards the year-end, sources said. Observers said Asian PP had also started to become closely related to the movement in coal and methanol as more coal-based and methanol-based PP is being produced in Asia.

— Fumiko Dobashi, Heng, MK Bower, Lara Berton

Latin American PE under pressure from international markets

Latin America will likely see mixed polyethylene pricing during the second half of 2019, driven by the same low international prices that have kept pressure on regional prices since the second half of 2018.

Traders had hoped the downtrend from 2018 would shift in the first quarter of 2019, supported by expected global demand that never arrived. But buyers were expecting that with the addition of the US incremental production, pricing would continue trending down. Latin America continued to be a natural destination for US resin coming from new production capacity added in 2018 and 2019. This new US production capacity was relying on increased Asia demand, but US producers have seen an incentive to send product in Latin America in the absence of Chinese demand due to tariffs imposed on resins. The trade tensions brought price volatility, which prompted buyers to change restocking cycle and inventory strategies, putting extra pressure on regional producers in Argentina, Brazil, Colombia and Mexico.

LATIN AMERICAN HDPE FILM SLUMPS AMID TRADE WAR

Source: S&P Global Platts

H1 2019 drivers continue in second half

The Latin American PE industry is expected to continue to be directed by international prices, mainly impacted by the US market, as this will continue to be the benchmark for regional producers in determining pricing. South American pricing is largely more correlated to Houston pricing moves than to Asia or Northwest Europe, S&P Global Platts data showed.

In domestic markets, the trend appeared to be more relevant to the Mexican market due to its proximity to the US, while it shows less relevance for Argentina’s domestic market.
Another driver of price movements in the region is exchange-rate devaluation, sources said.

However, lately, the decrease in the international pricing has been offset by the depreciation of Latin American currencies against the US dollar.

“It’s a shame we do not benefit from the low prices seen in the international market, due to currency depreciation and price volatility,” a buyer in Colombia said.

With the exception of Venezuela, Argentina faced the highest depreciation of its currency in the region at 14%, followed by Brazil at 0.81% and Colombia 0.42%. For buyers in Latin America, price volatility and devaluation of the currency against the US dollar drove down buying.

“Very difficult for you to see someone buying large volumes in Argentina nowadays. Credit is not available and general interest rates in the country reached levels higher than 60%, the highest worldwide,” a domestic participant in Argentina said. The sharp devaluation of both currencies has also factored in prices movements and trends.

Also driving down prices is poor demand in all sectors. Most economies in Latin America are not now expected to grow, as they were forecast to during the first days of 2019. Global economic growth is expected to ease to a weaker 2.6% from 3% previously forecast, the World Bank Organization said.

Growth rates, at both corporate and government levels, have shrunken in Latin America. This prompted producers in Latin America to reconsider investment plans and demand growth for the second half of 2019.

There are no expectations for the second half of 2019 not influenced by pension and tax reforms in Brazil, while the rest of South America rely on elections promises and foreign investments for economic recovery.

Global and regional market fundamentals are expected to continue to influence polyethylene pricing in Latin America during the second half of 2019. Market players believe that, even under the scenario of an agreement between the US and China, Latin American pricing will continue at a very competitive levels amid healthy availability from different origins.

Tariff threats will continue bringing pressure to price volatility as concerns remained that the US would levy tariffs on Mexico, despite a recent deal to avoid escalating trade tensions. For Latin America buyers, the only way to protect against price volatility is the short-term purchase cycle. Short-term inventory is becoming the industry trend, as much as pricing volatility continues in H2 2019. Regional producers in Latin America will continue facing the challenge to find the right equilibrium between pricing and market share. The challenge intensifies as international price volatility and exchange-rate fluctuations continue in H2 2019. They will add to other pressures the Latin America plastic industry is facing, such as a decline in demand over public concerns about the environmental impact of plastics that end up in the ocean.

**Latin American PE prices mixed across the region in H1 2019**

The Latin America high density polyethylene market continued to come under downward pressure on spot prices during the first half of 2019, amid limited demand and healthy of availability. Pricing for HDPE film along West Coast South America trended mostly stable to lower, from $1,150/mt in January to a record low at $1,000/mt in June. In Brazil, HDPE film import pricing was at $1,135/mt in the first week of January and later saw a record low in June, at $950/mt. The delivery Mexico City HDPE film trended stable to lower, moving from $1,050/mt in January to its lowest level in May at $965/mt before trending stable in June at $990/mt. The delivered Buenos Aires HDPE pricing moved from $1,550/mt in January to its lowest level in May at $965/mt before trending stable in June at $990/mt. The delivered Buenos Aires HDPE pricing moved from $1,550/mt in January to end June at $1,460/mt, almost 6% lower. Sources in Latin America said that demand for HDPE film sector was curbed by a lack of clear environmental regulations toward the use of plastic bags, political uncertainty and currency woes.

Latin America saw mixed low density polyethylene pricing before moving to record lows in June. Along the West...
Coast of South America LDPE pricing started the year at $1,020/mt, moving later to a low of $970/mt in March before rebounding in June to $1,000/mt, supported by a shortage in regional production. In Brazil, LDPE import pricing tended mostly stable to lower, from $1,010/mt in January to a record low in June at $950/mt. Mexico also saw a decline in LDPE pricing, starting the year at $995/mt and ending June at $970/mt, amid a lack of domestic production that supported import pricing. The delivered Buenos Aires trended mostly lower from $1,475/mt in January to $1,350/mt in April, when prices hit their lowest level, before finding stability in June to $1,410/mt. Import LDPE pricing in Latin America was supported by regional production hiccups, however, political uncertainty and depreciation of local currencies against the US dollars were factors affecting the import activity.

While linear low density polyethylene pricing in Latin America had mixed moves during the first half of 2019, this was the first grade that rebounded against the downturn trend seen since Q4 2018. Along the West Coast of South America LLDPE pricing hovered around $940-$980/mt during the first quarter of 2019, moving later higher to the range $1,000-$1,030/mt. However, pricing started to retreat again in June to $980/mt, pressured by global weak demand and healthy availability. In Brazil, market participants saw record lows in the LLDPE import pricing during February and June, both at $920/mt CFR Brazil, Platts reported earlier. The decrease was driven by Brazilian domestic producer to maintain market share, pressured mainly by healthy imports from US and Middle East. The delivered-Mexico pricing started the year at $925/mt to a record low in May at $880/mt, before finding stability in June to $950/mt.

The Delivered Buenos Aires pricing trended mostly lower, from $1,420/mt in January to a record low in March at $1,300/mt, before rebounding to end June at $1,360/mt. LLDPE pricing in Latin America found support on lack of availability from regional producers and import sources, as more US-origin LLDPE ended up in other markets such as Europe and South East Asia, where traders found better economic incentives.

Latin American PP sector to look for direction from Asian, US markets

The Latin American polypropylene market will continue to look toward Asian and US markets for direction for the remainder of 2019 amid weak global demand, according to market participants.

In recent years, US and Asian markets have become important for Latin American buyers as the former is now the region’s main source for propylene feedstock while the Asian product, which is impacted by oil and naphtha prices, ultimately ends up competing in Latin American markets.

Latin American market players had entered the year with a positive outlook amid political stability that brought waves of change. However, no changes have been seen to stimulate industrial sectors and demand in the H1 2019, sources said.

Latin American producers, who had to keep their prices down in the first quarter to retain their market share, did not fare well in the second quarter too due to limited demand and healthy imports. While they struggle to find the right equilibrium between pricing and market share, the situation is expected to intensify with continued price volatility and exchange rate fluctuations.

In Brazil, petrochemical giant Braskem revised its outlook from cautious to pessimistic, given local and global economic events. The company is bearish about the spreads due to higher supply coming from new refineries in Asia.

The Mexican market in the second half of the year will continue to be the main destination for US-origin PP, given the competitive advantages of the shared logistic capabilities between the two markets. Along the West Coast of South America, regional producers will continue
the battle to retain customers and to be the preferred source over imports. Weak domestic demand in WCSA is expected to motivate regional producers to look for other opportunities in the export markets, including other Latin American and American markets.

PP markets may face higher supply, particularly in Brazil — Latin America’s leading economy. Demand hasn’t picked up as expected and market players believe the remainder of the year will not bring many changes in the scenario.

The PP consumption, however, may increase seasonally through the year but it would still remain stable when compared to year-ago levels, sources believed.

Regarding pricing outlook, the region has been closely watching the international markets of the US, Asia and Europe. According to pricing data from S&P Global Platts from January 2018 to June 2019, Brazilian PP copolymer film and homo-polymer CFR prices and US Houston FAS are positively correlated, while Brazilian prices move in tandem with Northwest European prices.

“We are expanding with all the polyethylene projects,” a US market source said. “This year will be much worse than last year in terms of the amount of resources needed.”

More than $200 billion in new petrochemical infrastructure has started up, is under construction, or planned in Texas, Louisiana, Pennsylvania and Ohio amid the US natural gas shale boom that has unearthed unprecedented access to cheap ethane feedstock.

New polyethylene resin production dominates the expansion renaissance, with capacity set to rise by 13.67 million mt/year, more than 50%, from 2017 through the next decade if all known projects reach fruition.

That new production is targeted for export, although 29% of new capacity that is operational already has taxed supply chains that move resin from producers to docks. Another 17% of the total slated to start up in the second half of 2019 is expected to bring at least a repeat of holdups that delayed resin exports for up to two months or more.

Some resin packagers are expanding capacity to place PE and other resins in bags and then containers to ship out from ports, but multiple market participants expect the same pinch points to emerge — loaded railcar storage-in-transit yards, long wait times to get resin packaged, warehouse-to-port flows hindered by regulations that limit drive time for trucks and, in New Orleans, a chronic shortage of empty containers.

“IT will be very, very tight,” a veteran resin trader said.

US resin export logistics face more logjams amid growing output

Logjams that hindered moving resin out of US ports from late 2018 through April have lightened up, but market participants expect the same problems to re-emerge later this year and into early 2020 as more polyethylene capacity comes online.

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The delayed surge

Hurricane Harvey’s assault on the Texas Coast in August 2017 delayed the expected surge of new exports from new PE startups as producers focused on domestic demand for months after the storm.

But in the second half of 2018, PE inventories were high after producers held back volumes through late summer to protect thick margins. Prices began to retreat and export-bound volumes grew amid higher overall production, loading up Houston-area supply chain stops between plants and docks that did not meaningfully begin to clear until late April 2019.

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The delayed surge

Hurricane Harvey’s assault on the Texas Coast in August 2017 delayed the expected surge of new exports from new PE startups as producers focused on domestic demand for months after the storm.

But in the second half of 2018, PE inventories were high after producers held back volumes through late summer to protect thick margins. Prices began to retreat and export-bound volumes grew amid higher overall production, loading up Houston-area supply chain stops between plants and docks that did not meaningfully begin to clear until late April 2019.
Polyvinyl chloride volumes were mired in in the pileups as well, held up so long at times that customers canceled shipments, according to multiple traders.

The lack of consistent empty container availability in New Orleans also prompted Louisiana PE and PVC output to flow to Houston for packaging and export, exacerbating delays.

**Packaging expansions coming**

More than 5 million mt/year of new PE packaging capacity added in the US as the first wave of new PE production began starting up in 2017 and 2018 got a hefty workout after the Harvey-related lull, and more additions are coming alongside more PE startups. Resin buyers have pushed for producers to sell prepackaged material so they could bypass SIT yard holdups, and more packaging expansions are starting up or planned.

“We had a lot more packaging than packaging need — too many hunters looking for that one skinny rabbit,” said Marc Levine, CEO of resin packager Plantgistix, regarding the lull that left some expansions underused. “But now, for producers and resellers, the demand for our services is way high.”

Plantgistix will add capacity to handle up to 300 more resin-filled rail cars a month, or more than 310,000 mt/year, in Baytown just east of Houston, Levine said.

Global logistics company Katoen Natie also will add 1.35 million mt/year of packaging capacity in July at its massive Baytown site and expand rail capacity 22% to 915 spots for hopper cars, according to Brandon Huynh, vice president of sales at KTN.

KTN also may expand its 270,000 mt/year packaging facility in Dallas, which opened in October as an option for producers and traders to move pellets there for packaging before transport through Union Pacific to Los Angeles for export to Asia.

Frontier Logistics, which has packaging operations in Houston, near Dallas and at Charleston, South Carolina, recently broke ground on a nearly 415,000 mt/year expansion in Charleston, the top resin export point on the US East Coast. That facility will open in about a year, said Paul McClintock, senior vice president at the South Carolina State Ports Authority. Mid-States Packaging also aims to expand packaging in Charleston this fall, he said.

While Houston easily dominates waterborne US resin exports, given its proximity to the largest cluster of new production, ports in Charleston, New Orleans, Los Angeles, and Savannah, Georgia, are gaining larger chunks of that growing pie. Moving pellets adds an average cost of 3 cents/lb, or $5,700 per loaded rail car, but those expenses can be balanced by more frequent loadings on container ships, consistent empty container availability, cheaper rates to move containers between warehouses and docks and other savings.

After the 2018-2019 backups, producers and traders that had been skeptical of such alternative export points are showing more interest, McClintock said.

“We're not going out begging customers to pay attention,” he said. “Everybody's looking this way.”

While market sources appreciate such efforts to accommodate more PE output, many remain convinced that backups will be the norm as exports keep growing.

“At best it’s going to stay the same,” a resin trader said. “With all the effort they are making, it might offset some of the extra volume that is coming.”

— Kristen Hays

**Global PVC facing headwinds in H2 2019**

Global polyvinyl chloride markets are seen largely flat to lower through the latter half of 2019, with economic uncertainty prompting buyers to proceed with caution.

“So many buts and ifs, US-China trade tensions, Iran and Brexit,” a European market source said. “The key factor is the economy in Europe is not doing very well — that is the defining factor at the moment.”

Market sources in Asia and the US have voiced similar views, with signs of slowing global economic growth tempering enthusiasm for stocking up on PVC, a construction staple closely tied to GDP movements.

The International Monetary Fund’s World Economic Outlook in April noted that, after strong growth in 2017 and early 2018, global economic activity had slowed, reflecting a retreat in China’s growth amid the US-China trade tensions. Europe lost momentum amid weaker consumer and business confidence.

**WEAKER TURKEY PULLS DOWN EUROPEAN PVC EXPORT PRICES**

<table>
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<tr>
<th>Source: S&amp;P Global Platts</th>
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<tr>
<td>CFR Turkey</td>
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In the US, Federal Reserve Chairman Jerome Powell in June noted first-quarter gains in domestic economic growth from higher exports and inventories, but said those factors “are not generally reliable indicators of ongoing momentum.”

However, potential bright spots have emerged as key global markets lift or consider lifting anti-dumping duties that have largely shut out major global suppliers.

**India**

More than a decade ago, India imposed anti-dumping duties on suspension-grade PVC from Taiwan, China, Indonesia, Japan, South Korea, Malaysia, Thailand and the US. Such duties on EU material followed. Late last year, India’s Bureau of Indian Standards (BIS) launched a review of those duties, which were slated to expire on June 12 this year.

The day before the expiry, India’s Ministry of Finance issued a notice extending the expiration of duties on material from the US, China and Thailand to August 12, effectively lifting duties on PVC produced in the other countries and the EU.

However, India acted early. In July, this month India lowered anti-dumping duties on PVC imports from China and the US, and eliminated those on material from Thailand. Previously, India imposed up to $147.96/mt duty on Chinese PVC, and reduced that amount from certain companies to $61.14/mt. Those companies include Tianjin LG Bohai, Tanneng Chemical, Tianjin Dagu, Xinjiang Shengxiong Chlor-Alkali, Chiping Xinfu PVC, CNSG Jilantai Salt Chlori-Alkali Chemical and Yiben Haifeng Herui.

Meanwhile, India kept its $29.99/mt anti-dumping duty on Westlake Chemical, and reduced the duty on OxyChem to $49.10/mt. Previously, India’s duties on US PVC were $115.54/mt except for Westlake.

India’s PVC production capacity is 1.45 million mt/year, but estimated demand surpasses 3 million mt/year. That demand is expected to increase in tandem with India’s growing economy, with expectations of sharp construction growth in the coming years.

**Brazil**

Brazil also could lift duties on material from the US and other countries amid supply concerns stemming from Brazilian petrochemical producer Braskem’s issues.

In May, Braskem shut its salt mining operation in the Brazilian state of Alagoas, as well as a chlor-alkali plant and its sole ethylene dichloride facility in Brazil, after a government report linked the company’s salt extraction to geological damage in nearby neighborhoods.

Those shutdowns prompted Braskem to reduce rates at its two PVC plants in Brazil, and on June 14 the company went to court to challenge the report’s conclusions. Braskem is also continuing negotiations with the government to resume salt mining in another location in Alagoas, which would allow the chlor-alkali and EDC plants.

Abiplast, Brazil’s plastics industry trade group, in May asked the Brazilian government to lift anti-dumping duties on all PVC imports amid supply concerns given the “probable consequences of this paralysis and shortage of PVC in the Brazilian market.”

The Brazilian government has yet to respond, and immediate concerns about supply have begun to soften as regular incoming EDC imports have allowed the company to increase PVC production rates in July. However, US market sources have voiced growing concerns that another court’s freeze of up to R$3.7 billion ($973 million) in Braskem’s financial assets to potentially pay for the geological damage could hamper the company’s ability to pay for future imports, which could refuel supply concerns.

**Supply additions**

PVC has not seen the same kind of exponential production capacity growth as polyethylene, particularly in the US as a
result of unprecedented access to cheap feedstock ethane amid its natural gas shale boom. However, some capacity additions are coming later this year.

In Asia, new PVC capacity slated to start up in the second half of 2019 includes 150,000 mt/year at UPC Technology’s site in Taizhou, China, and a 100,000 mt/year unit by Japan’s Tosoh in the Philippines. Tosoh’s new unit is among PVC projects without integrated upstream units that will need to buy PVC feedstocks. James Varilek, chief operating officer at Olin, the world’s largest chlor-alkali producer, said earlier this year that such additions without corresponding upstream capacity increases open more opportunity for merchant ethylene dichloride and possibly vinyl chloride monomer sales.

In the US, Westlake Chemical also aims to start up new PVC capacity at its 331,122 mt/year facility in Geismar, Louisiana, and its plant in Burghausen, Germany, with a third debottlenecking project on tap at its second German PVC plant in Gendorf next year.

The company has not said how much of its overall 340,195 mt/year capacity breaks down among the three plants. However, most is slated for Geismar and is expected to largely fill a void left when building products company CertainTeed shut its 220,000 PVC plant in January this year, leaving overall US PVC capacity of 8 million mt/year largely unchanged until Shintech’s expansion of its integrated PVC operations in Louisiana starts up in 2020.

Shintech’s project involves increasing PVC output at the complex by 58% to more than 1 million mt/year, adding a new 1 million mt/year VCM unit, and another 680,388 mt/year of EDC, 635,029 mt/year of chlorine, and 725,747 mt/year of caustic soda.

Cautious buying
PVC makers expect demand growth to largely track GDP growth, but expect buyers to be more judicious with rising uncertainty regarding economic growth and trade tensions.

PVC buyers in Europe are more often heard not pre-buying volumes, as they are confident that supply will be available with possibly better prices later in the year.

In the US, a temporary supply squeeze from turnarounds and higher domestic demand gave export PVC prices a jolt in June, but prices held steady for July despite continued supply availability issues because global demand remains lukewarm. And enthusiasm for higher August pricing during July talks in Asia has since abated, with market participants expecting prices to be flat to lower.

“The market is very soft everywhere,” a US PVC trader said.

— Kristen Hays, Ora Lazic, Fumiko Dobashi

Unfavorable economics will test the markets real appetite for sustainability

Increased media coverage on the environmental impacts of single-use plastics has fueled huge demand growth in recycled plastics, particularly of polyethylene terephthalate (PET) - used to make plastic beverage bottles - and also more recently high density polyethylene (HDPE), used for a plethora of other consumer goods packaging. Demand for recycled plastics over the longer term is expected to grow due in part to European Union policy initiatives. The second half of the year, however, will test the markets true commitment to using recycled plastics when it looks as though the economics will not be favorable.

The virgin vs recycled disconnect
There has been much talk about a growing disconnect between the recycled food-grade PET flakes market and the virgin PET market. Once flake prices tracked the more expensive virgin market, making using flakes economical as well as being a win-win for marketing. The end of H1 2019 saw virgin resin prices sink, at first to parity with flake prices, and then below.

Virgin PET spot prices have never before fallen as low as spot flake prices since at least February 2008, when S&P Global Platts first assessed flake prices. In December of that year, virgin spot prices fell to their lowest premium over flakes — Eur10/mt — but that is as close as they have come to parity. Since February 2008, spot virgin PET has, on average, been Eur214/mt higher than flake prices. But, a combination of high stocks, bearish feedstock prices and a delayed start to the summer season this year saw demand for virgin resin fall.

Recycled flakes, on the other hand, have proved more resilient.

On the surface, this looks positive for food-grade R-PET demand growth but it may have a less positive impact in the second half of the year.

Converters have been eyeing the possibility of switching much of their flake buying capacity into cheaper virgin resin. However, this is easier said than done.

R-PET FOOD-GRAGE PELLETS IMMUNE TO VIRGIN DROPS
Will switching work?
The continued strength in the European R-PET market, led by a structural supply and demand imbalance, could test consumers’ real appetite for supporting sustainability drives.

“It comes down to whether the consumer is really willing to pay substantially more for a 100% recycled bottle or not,” a source said, adding that there comes a price point at which it is not economically sustainable.

However, the market is skeptical about the ease with which companies can quickly switch their buying activities away from R-PET to virgin resin. In part, this is down to the difficulty in running different formulas of virgin resin and R-PET blends for individual packaging through existing machinery. More importantly, it may prove difficult to reverse big brands’ decisions of increased recycled content, set to last over many decades, just because of poor economics over a relatively short time frame, such as are expected for the rest of the year.

New pledges
Far from looking to switch to cheap virgin, further recycling pledges are expected to drive some growth in the market in H2 2019.

Coca-Cola is to launch 100% recycled R-PET bottles for its Glaceau bottled water brand and is switching its Sprite branded bottles from light green to clear, in order to boost recyclability and make it easier to incorporate 50% R-PET in their manufacture.

Evian launched 100% recycled plastic bottles at this year’s Wimbledon tennis tournament.

This level of demand is what has kept R-PET food-grade pellet pricing high while virgin pricing has fallen. And, perhaps more importantly for recyclers, has kept margins over their feedstock - post-consumer bottle bales - at high levels. The gross margin, around Eur425-Eur450/mt from bales to recycled flakes since June 5, is far higher than source estimates of break even costs at around Eur150/mt.

It is not just the bottle industry making gains in their use of recycled plastics. Footwear brand Converse are set to launch shoes made partly from recycled PET bottles, while sustainability and recycled polyester has come to the fore in other fashion brands.

Certainly, it seems impetus is still growing in the recycled market, but it points to an issue the market has been toying with for a while: to meet this demand, there needs to be an increase in supply and an increase in recycling capacity.

Recycling capacity and collection rates
In late March 2018, the UK government proposed the introduction of a deposit return scheme as a means of increasing collection rates within the UK. According to the government’s Commons Select Committee environmental audit, a deposit return scheme in the UK could significantly increase recycling rates to between 80%-90%, as in countries with successful deposit return schemes. An open consultation closed on May 12 and so far, it is unclear what form, if any, a deposit return scheme in the UK will take.

In continental Europe, many countries remain ahead of the curve on deposit return schemes and there are plans to further increase their scope, particularly in Germany.

While increasing collection rates is an important factor and, perhaps more crucially, the quality of the waste that is being collected, it is only half the battle. To process increased recycled material, more recycling infrastructure will be needed, particularly considering the growing refusal by many Asian countries to take Europe’s waste.

Away from the bottle-to-bottle market, developments in both mechanical and chemical recycling infrastructure, are gaining momentum. New polymer recycling facilities are due to come online in H2 2019 and could help to relieve strains on supply.

But there is still the real possibility that demand will continue to outstrip supply in H2 2019, particularly in the recycled PET food-grade market. New plants planned for the coming years, while significant, are not yet of comparable capacity to virgin plastic production. As a result, recyclers recognize that big brands have few other options for securing good quality supply, and remain in a strong position to keep pricing high.

To conclude, recycled plastics markets will continue to gain momentum in the second half of the year, despite unfavorable economics for bottle makers. Investments in new capacity, including by household consumer goods names - such as Ikea Group’s investment in the Morssinkhof Rymoplast new polyolefin recycling site – as well as brands’ commitments to exceed European Union targets on recycled content will continue to be the main drivers.

— Benjamin Brooks, Luke Milner
SOLVENTS AND INTERMEDIATES

Asian acrylonitrile seen soft, Europe remains tight on turnaround

- China to seek export opportunities
- West-East trade flow unlikely to change

The Asian acrylonitrile market is likely to soften in the second-half of the year, in line with rising supply, while the prevailing tightness in European availabilities is expected to continue into H2 on the back of plant maintenance.

However, it does not change the current West-East trade flow. “Asia is moving down, but I don’t see product coming to Europe. Only a small amount from South Korea, but it has not increased,” one market source said, adding that weak Asian demand has not led to a diversion in trade flows.

Asia’s ACN supplies are likely to increase after deepsea supplies from Ineos return to normal by September. Ineos declared force majeure on three acrylonitrile plants in America and Europe in H1 due to hiccups at the plants, which pushed the Asian ACN price to a seven-month high.

In addition, new ACN capacities are due to come online in China in H2, and coupled with fewer maintenance expected in South Korea, would likely slash the buying appetite for ACN in H2.

In China, around 520,000 mt/year new ACN capacities are due to come online in H2, while only two plants, each with capacity of over 500,000 mt/year, were heard to have scheduled a turnaround in H2.

Industry participants now expect the acrylonitrile market to fall back below the $1,500/mt level, especially towards the end of H2.

“China is getting more and more self-sufficient in terms of acrylonitrile production. I believe more Chinese producers are ready to sell to other regions in Asia by H2, especially after the production capacities come online in H2,” a producer in Northeast Asia said.

Jiangsu Sailboat sold at least two cargoes of ACN to a buyer in South Korea in H1, marking the first time China has sold a cargo to its Northeast Asian neighbor.

Adding to the supply glut are idled plants returning to production. China’s Shandong Haili is expected to restart its 130,000 mt/year ACN plant by July or August after the plant was shuttered in H1 due to technical reasons, market sources said.

Maintenance at plants in Europe continues in Q3

In Europe, planned maintenance at units will continue into the third quarter, with market participants expecting availability to remain tight. Market sources said Europe’s supplies would increase in the fourth quarter, when maintenance season ends in October.

On the demand side in Europe, production of ABS and acrylic fiber derivatives have been running at healthy rates, with the bullish trend in the region likely to continue into H2.

In the US, market participants are eyeing downstream market development.

“ABS [acrylonitrile-butadiene-styrene] demand is seasonally slow,” one market source said. “This end-use, second to acrylic fiber, could shift the balance if ABS demand remains mixed like the month of June.”

“However, that seems unlikely with interest rates being cut and other financial stimulus provided by global central banks. Auto demand is the driver here. If you watch auto sales, you will have a reasonable gauge to discuss the ABS end-use,” an industry source said.

— Melvin Yeo, Lara Berton, MK Bower

<table>
<thead>
<tr>
<th>Company</th>
<th>Area</th>
<th>Capacity (’000 mt/yr)</th>
<th>Planned turnaround</th>
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<td>150</td>
<td>Sep</td>
<td>4 weeks</td>
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Source: S&P Global Platts
Brazil lift has not overcome global caustic soda weakness

May 2019 marked what many global caustic soda market participants thought could be a major turning point for prices that weakened in 2018 after enjoying two years of gains, and it came down to events in Brazil.

First, Brazilian petrochemical producer Braskem faced a government report on May 8 that linked its salt mining operations in Alagoas to geological damage in the area, including fissures and a minor earthquake recorded in March 2018. The next day Braskem shut its salt mining operation as well as chlor-alkali and ethylene dichloride plants in Alagoas, leaving the company dependent on imports to supply caustic soda customers and of EDC to produce downstream polyvinyl chloride.

Second, on May 20, a federal court in Brazil lifted the second of two embargoes that had halved output at Norsk Hydro’s 6.3 million mt/year Alunorte alumina refinery’s output since March 2018, allowing Norsk Hydro to ramp up to 75% to 85% capacity by July.

Both events were seen as potential uplifts for caustic soda prices in the US, Asia and Europe that by the first half of 2019 had reached lows not seen since all were on the rise in 2016.

However, Brazil’s events have not been able to overcome caustic soda weakness elsewhere.

“I expected a bigger price jump,” a US caustic soda trader said of prices that have risen more than 9% to $350/mt FOB USG from $320/mt FOB USG from April 23 through June 21 this year, their lowest point since September 6, 2016.

Brazil is the top export market for US caustic soda, and Alunorte’s lengthy rate cut drove exports to Brazil down by 21% last year. At the same time, US export caustic soda prices fell 47% from May 1 to October 20 as chlor-alkali producers, expecting Alunorte to be able to resume normal rates within a few months, built inventories with rates higher than 90% through the summer and in December.

Global caustic soda weakness lingers into 2019

The muted price spike after the May events reflected how efforts to work off those inventories were still underway, market sources said.

US-based Olin, the world’s largest chlor-alkali producer, said in July that the company expects a net loss of up to $22 million in the second quarter, in part because of lower-than-expected caustic soda prices. The company said in August that prices for caustic soda, a byproduct of chlorine production and key feedstock for alumina and pulp and paper industries, have fallen about 3% from first-quarter levels.

While Olin said the company expects better caustic soda prices in the second half of 2019, market sources said the muted Brazil bump indicates prices likely will not improve as much as market participants had hoped.

Asia weakness

The Asian caustic soda market saw some rebound in the first quarter of the year after 2018’s dive driven by weak demand. The Indian government exacerbated that weakness by restricting caustic soda imports in April last year, requiring all companies to obtain licenses to resume inflows, which built inventories elsewhere in Asia and pressured prices.

In addition, downstream market demand eroded after the US in May increased tariffs on $200 billion in Chinese products to 25% from 10%, exacerbating a trade war that had been brewing for more than a year. Alumina, the largest downstream market for caustic soda, saw weaker prices in this period, with thin aluminum margins and lower automobile production and sales.

Alumina’s H2 outlook this year remains soft with Alunorte ramping back up, adding supply, as continued US-China trade tensions are seen pressuring aluminum and alumina prices.

Overall in Asia, many international producers such as Tianjin Dagu, Shin-etsu and Hanwha Chemical received their Bureau of Indian Standards licensing in April and thereafter, allowing them to resume exports to India. However, those increased flows failed to lift pricing, sending further indications that demand may continue to be weak this year.

Some market sources said India's caustic soda demand was not as strong as previously expected as they managed to satisfy local demand by increasing caustic soda production there.

“Even after the BIS clearance, India end-users may not actively import caustic soda,” said a market source.

Market sources said caustic soda production would also high in the second-half of this year as low ethylene price
would likely keep output of ethylene dichloride high. Market sources said Asian ethylene would unlikely increase more than $850/mt CFR NE Asia for the near term considering rising steam cracker operations after turnaround.

Europe to rebalance
In Europe, caustic soda market will be significantly impacted through the second half of the year by international events led by Brazil and India and will set itself for re-balancing of stocks and margin recovery.

However, while the European industry looked overall positively on the remainder of the year, caution remained the main sentiment, as the gap between spot and contract prices stayed wide and the buyers were expected to push for bigger discounts in the coming months, market sources said.

Alunorte’s ramp-up will return balance to Europe’s market, and could potentially open arbitrage from Asia to Latin America, though not for big tonnage.

“Last couple of months the market was on longer side in Europe, due to high run rates and an influx of imports” a producer said. “Now we have come to a turning point.”

FOB Rotterdam export spot prices gradually fell more than 33% to $415/mt in January from $620/mt in May 2018 after the influx of additional US imports weighed on the market. Then in 2019, the lowest price from Northwest Europe so far this year was seen at $250/mt in April, with prices picking up gradually thereafter - a trend expected to continue.

That upward trend also is attributed to major plant turnarounds in Northwest Europe from April to mid-summer, as well as decreasing imports into the Mediterranean from the US after the Alunorte announcements in May, began to affect the regional market.

For instance, in Italy, a notable European consumer market and an indicative pricing region, May contract prices rose by around Eur30/mt and June was also heard agreed at around Eur 40-60/mt increases, with July following this trend.

“We expect spot markets to gain upward momentum and time will tell to what level,” another producer said.

— Kristen Hays, Ora Lazic, Fumiko Dobashi, Elizabeth Low