

**Standard Thermoplastics July 2016: Polyethylene notations cave in / PP declines moderately / PVC under pressure / Styrenics notations in free fall / PET continues to erode / Stabilisation expected for August**

**PE:** "All good things come to an end," European PE producers were reminded in July after having enjoyed 15 months of high-flying margins. For the first time since April 2015, significant price cuts drove down the nominal margins over ethylene to a level of about EUR 500/t and less. For many long-term customers, the shift in the direction of the once widespread levels of EUR 300-400/t was a welcome sight – after all, that alone suffices to allow producers to make a good living. The price decline was set against the backdrop of the undeniable tendency towards a surplus across all market segments, which the small rise in the ethylene contract was unable to offset. The market was awash with material from European production lines, output of which has stabilised, and imported material, which had been attracted by the previous high price level. Even grades not usually imported – including bimodal types – appeared in large volumes. For many converters, who underwent a long period of frustration, this has made life significantly easier. Some among them even started building up stocks ahead of producers' widely expected tit-for-tat response, while others did so with a view to their annual balance. The situation is expected to stabilise in August. Following the EUR 20/t decline in the monthly ethylene, producers will seek a rollover. At the same time, cracker maintenance downtimes will reduce polymer availability. On the other hand, demand tends to hit a low point in the central European summer holiday month of August. All considered, these differing trends could balance each other out.

**PP:** At the beginning of July, some European PP producers still hoped to be able to pass on the EUR 17.50 rise in the propylene reference contract. Reports of tighter supply from various production facilities were supposed to help their case, but as the month progressed it became clear that fears of a bottleneck proved unfounded. Most supply gaps were filled by imports streaming in from the Middle East and Asia. At the same time, numerous potential buyers held back orders in expectation of falling prices. Thanks to the summer lull in much of Europe, this was no hard task. Producers' margins fell back to the level that in May 2015 was defined as the "new normal." Business in the compounding segment was relatively quiet except for the ongoing discussion about indexing prices to standard PP. It will be interesting to see to what extent the new structure will result in the price decline being passed on and what effect it will have on the market as a whole. Apart from this, all PP products are likely to see stability in August. There is no impulse from C3, imports are slackening, and European production appears to be moving into holiday mode. Demand will also be quiet throughout Europe, as French and Italian converters will be in their annual summer hiatus.

**PVC:** True to its recent efforts, the European PVC market leader kept up its battle to safeguard margins. The struggles were of no avail, as in the end PVC base material suppliers mostly settled on a rollover, which took a small bite out of their margins. After years of comparative calm, the steady and steep rise in titanium dioxide notations has meanwhile continued to drive up the price of both rigid PVC dry blends and compounds. Notations for the white pigment have almost doubled since the autumn of last year, impacting the price of blends, too. Demand proved disappointing to many producers, who had hoped for a certain catch-up effect from the pipe segment. The current order situation is not expected to change in the coming weeks, not least since demand in many consumer markets – France and Italy among them – will decline over the course of the summer holidays. With the monthly ethylene contract having been settled slightly lower, notations will probably erode. The only

exception to the downtrend is PVC (U) blends, which remain under upward pressure as a result of the rise in TiO<sub>2</sub>.

**Styrenics:** Styrenics prices gave way across the board in July, following the steep EUR 125/t drop in the monthly styrene contract. In the end, transactions spanned a rather large price range because negotiations tended to be based on the already very heterogeneous price levels of the previous month. Those who had managed to obtain reductions in June only succeeded at pocketing a small share in July, while buyers who had paid the entire cost increase in June were generally granted larger discounts. In the case of PS and EPS especially, some of the declines actually exceeded the cost reduction, not least since the widespread reluctance to buy in June meant there was a lot of material up for grabs. With regard to ABS, by contrast, some suppliers were able to pocket a share of the EUR 68/t cost decline. Following the rollover in August's monthly SM price, most players expect notations to hold largely stable. With demand likely to be rather weak in the main central European holiday month, PS and EPS prices especially could slip slightly.

**PET:** As in previous months, the European PET market was highly heterogeneous in July. Numerous buyers were able to obtain material at lower prices, while others only achieved a rollover. Most of the latter had, however, been able to gain rebates earlier, usually towards the end of June. However, the price of bulk orders for commodities dropped slightly, driven down by the unusually high number of import volumes this year. The difference to notations for smaller lots can reach up to EUR 200/t – not exactly a healthy or sustainable situation. European producers are only fanning the flames by lowering output rates and focusing on speciality grades. In August, the overall picture will probably tend towards price erosions. With few impulses on either the supply or demand side, most players are keeping track of cost developments to provide further guidance.

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**Engineering Thermoplastics July 2016: Prices mostly stable / POM slumps / Latent rumbling on polyamide and PMMA cost front / Holiday month of August likely to remain calm / More intensive discussions expected in autumn**

It was mostly smooth sailing for classic engineering thermoplastics prices in Europe in July. The exception were notations for POM natural, which fell slightly as a result of at times bitter struggles with imports of basic material. There was almost no movement for the other grades covered in this report. Even the commodity-related PP compounds held largely stable. ABS, on the other hand, slipped significantly following the decline in the styrene reference price.

The superficial calm on the engineering thermoplastic market, however, belies the underlying movement in the respective cost chains. PC notations, for example, only held stable because producers stepped up their export activities. The market situation itself is comparatively weak. While demand for polyamides is not exactly over-boarding either, in this case the feedstock chain holds the potential for upheaval. Caprolactam is pushing PA 6 base polymer upwards, and, in the case of PA 6.6, availability of both HMDA and ADN has tightened in both Europe and the US. Restrictions along the feedstock chain were also palpable in the case of PMMA, while discussions about the cost of flame retardants are holding PBT especially in their grasp.

There is no denying that a number of factors point towards an upward price trend for many engineering thermoplastic grades in the coming weeks and months. However, with demand expected to remain subdued as a result of the holidays, the market will probably remain mostly calm in August. In addition, oil is pointing down, which in and of itself could suffice to rob producers' of any reason to hike prices. As a result of their proximity to commodity products, PP compounds and ABS remain under downward pressure.

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