



EUROPEAN PE MARKET – 2015: SUSPICIOUS COINCIDENCES

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Last year, the European PE market was very turbulent with prices falling in January and raising sharply in March on the back of acute shortages.

In early 2015 the prices for ethylene from European producers continued to drop due to seasonal decreases in demand and falling oil prices – which fell by 55% in six months, down to 47 dollars per barrel. Ethylene prices reached the bottom in February at a spot price of 700–710 euro, and a contract price of 819 euro per tonne. The prices for polymers followed ethylene.

As well as the fall of prices for petrochemical products, the currency market saw a devaluation of the euro which dropped 16% against the dollar during December–March when it reached the 1.05 mark. As a result of both of these factors, the European market saw relatively low prices for PE and significant product volume, which lead to a sharp increase in demand for European PE from domestic and foreign consumers. Russian producers of PE pipes were buying European black-filled PE 100 at average 1000–1100 euro per tonne on FCA terms.

However, the European market could not satisfy total consumer demand formed during the low prices period also due to reduced production volume. PE imports into Europe were significantly lower due to a weak euro and increased import duty on PE from the Middle East from 3% to 6.5% which came into effect from 1 January 2014. The European PE market therefore experienced unbalanced demand and supply.

Prices for ethylene in Europe began to stabilise after reaching a local minimum in February. Oil prices saw renewed growth in January which played a major role in increasing the price of monomers. Nevertheless, the key factor that promoted

ethylene and PE prices increase is the significant excess demand over supply in the European market.

Although European PE demand was quite high, some European plants began maintenance shutdowns or announced supply force-majeure in March. This led to a significant supply shortage in an under-served market. During March–April, spot prices for ethylene gained over 400 euro compared to the minimal index and reached 1000–1120 euro per tonne. Spot prices for blown PE grew by 350–400 euro to 1520–1530 euro per tonne within the same period (pic. 1). According to customs statistics, prices for European pipe PE grew by 150 euro for Russian consumers and reached 1150–1250 per tonne on FCA terms in March and 1280–1350 euro per tonne on FCA in April. It should be noted that a similar situation also occurred in other polymer markets including PP.

Initially, market participants assumed the various plant shutdowns were a coincidence and expected the situation to change within a couple of months, however, one after another closed and suspicions were raised. At the end of February, Total had shut down its petrochemical complex in France until 28 April – this included the new 250,000 tonnes pa ethylene cracking unit. In mid-March, Dow had stopped its plant in the Netherlands. Consumers of PE began to question whether the sequence of shutdowns of petrochemical companies really was a coincidence and filed an inquiry with the competition regulator. The producers explained the shutdowns as planned maintenance and equipment replacement. One of the explanations for the

shortage which developed was that a number of European plants had all been built 15–17 years ago and therefore required repairs simultaneously.

Despite all of this, the prices for ethylene and PE continued to grow and reached the maximum in the middle of June. Spot prices for monomer rose by 300–400 euro to 1250–1260 euro per tonne. By the end of May, the prices for blown PE had grown to 1580–1590 euro per tonne. The average price for European pipe HDPE in May was 1480–1550 euro on FCA terms. The prices for pipe PE reached their peak in June. According to Market Report analysis, negotiations regarding spot prices for black-filled PE 100 for the consumers from CIS countries were in the range of 1555–1635 per tonne on FCA terms, which is approximately 131–137 thousand roubles on CPT Moscow terms.

It is no secret that the major beneficiaries in the given market situation were European producers of monomers and polymers. According to Plastics Information Europe, the European manufacturers of HDPE had an average margin of 250–300 euros per tonne in relation to contract prices of ethylene in 2014. It grew to 400 euro in March–April during the shortage and reached a record 500–600 euro in June.

At the same time, consumers suffered from overinflated prices and an extreme shortage of raw materials. European

producers of plastic pipes therefore began to look for availability in other markets. Some were attracted to Russian PE whilst others purchased raw materials from Asia where the market was more relaxed compared to Europe.

The European market consumers were pleased in July when news of the petrochemical market shortages reached the EU Commissioner for Energy, who then asked the producers not to manipulate the market and reduce the prices. As a result, spot prices for monomers from the end of June to beginning of July were reduced by 80–90 euro, but the contract price for ethylene stayed at June’s level of 1105 euro per tonne (pic. 1). The prices for HDPE (including pipe grades) followed the trend down. Reduced petrochemical raw materials costs and supply growth from Asian and Middle Eastern manufacturers also contributed to the PE price drop.

Market shortages remained. One European producer received an order for 90,000 tonnes of pipe grade HDPE in July at the capacity of 25 thousand tonnes per month. It therefore looked likely that ethylene and PE prices would only fall a little in following months. Russian consumers should not expect the price fall for European HDPE in roubles due to the possible devaluation of national currency, which had become a subject of discussion amongst economic experts. In the best case scenario the price for pipe grades of PE remained static and in the worst case it will increase.

Pic. 1. Prices for ethylene and blown PE in 2014–2015, euro per tonne (data from ICIS)

