

# BlueClover

All Things PP

Brainfood for the Plastics Industry

Issue 24.01 – Jan 2024



## Market Update

### Plastics Feedstocks (Oil, Naphtha, Propane)

- Since our last report in early December, oil prices, naphtha prices and propane prices are all about the same.
- WTI crude oil prices attempted to rally somewhat in December but were unable and they start out the first business day of the new year with a sharp decrease. WTI prices reached a high of \$75/barrel in late December but have since retreated all the way back to about \$71/barrel which is where prices were in early December. The 2023 calendar year saw crude oil prices decline by 10%. Much of this price decrease is due to significantly increasing oil production out of the USA which has greatly increased supplies of crude oil. The USA is estimated to be producing 13.3 million barrels/day of crude oil, which break previous production records after years of crude oil producers not turning on the spigots.
- Naphtha prices (CIF Japan) are unchanged these past four weeks around \$648/mt.
- Physical propane prices in Mont Belvieu, TX are also unchanged around 69 cents per gallon (cpg).

### Propylene

- Physical PGP prices are trading in the 43-44cpp range, which is slightly lower than the 45cpp from our last report on Dec 6<sup>th</sup>. It's important to remember that PGP prices were trading around 41-42cpp in late Nov/early December before popping up to 45cpp on Dec 5<sup>th</sup> as a result of an unexpected fire at a PDH unit. Physical PGP prices were consistently between 43.5cpp and 46cpp for most of December.
- In early December BlueClover was estimating the December contract PGP price to decrease by 3cpp to 45cpp. In reality, contract PGP for December remained flat at 48cpp. The December monthly average physical PGP price was 44.4cpp according to the PetroChem Wire.
- So where does PGP go from here? It's really a toss up. Bearish pressures include very cheap crude oil and propane pricing along with a very sluggish PP demand profile. Bullish pressures are tied to possibly not having enough physical PGP supply in the system resulting from the unexpected PDH outages.
- BlueClover is going to venture on the side that PGP pricing will push towards the upper 30s in the next 4-6 weeks versus the upper 40s. Many other commodities have had to take their medicine this past year but PGP has rallied from a contract PGP price of 34.5cpp in August to 48cpp in December without one month of lower pricing. We fully appreciate the other side of this guess and our conviction is a tad over 50-50, call it 51-49.

# Market Update

## Polypropylene

- The end of December did not see the fire sale that certain PP buyers may have been hoping for. Some buyers were looking back at the lowest prices of the year which they experienced last summer when PGP pricing was in the low 30s and tried to buy widespec PP at numbers like 38-41cpp. But prices did not get to that range for good widespec.
- Producers did a relatively good job moving product on numbers that started with a 4 for good widespec as these producers were trying to minimize the pain of selling PP at lower than contract PGP.
- Also producers strategically sold material consistently throughout the month and did not put themselves in a final week bind to offload product.
- According to American Chemistry Council, the demand for PP in Oct and Nov was 5% lower than compared to average demand in the May to September 2023 period. BlueClover would assume the demand for December 2023 was similar to the Oct and Nov levels. Post the covid commodity craziness, polypropylene is showing itself to be a relatively elastic product. When PP prices increase, demand wanes. This is evident in how PP demand was much lower in the 4<sup>th</sup> quarter of 2023 compared to the summer months. This was not the case during the 2021 and first half of 2022 period when rising commodity prices did not impact demand as much since consumers had more spending power, durable good orders were high, and international supply chains had not improved.



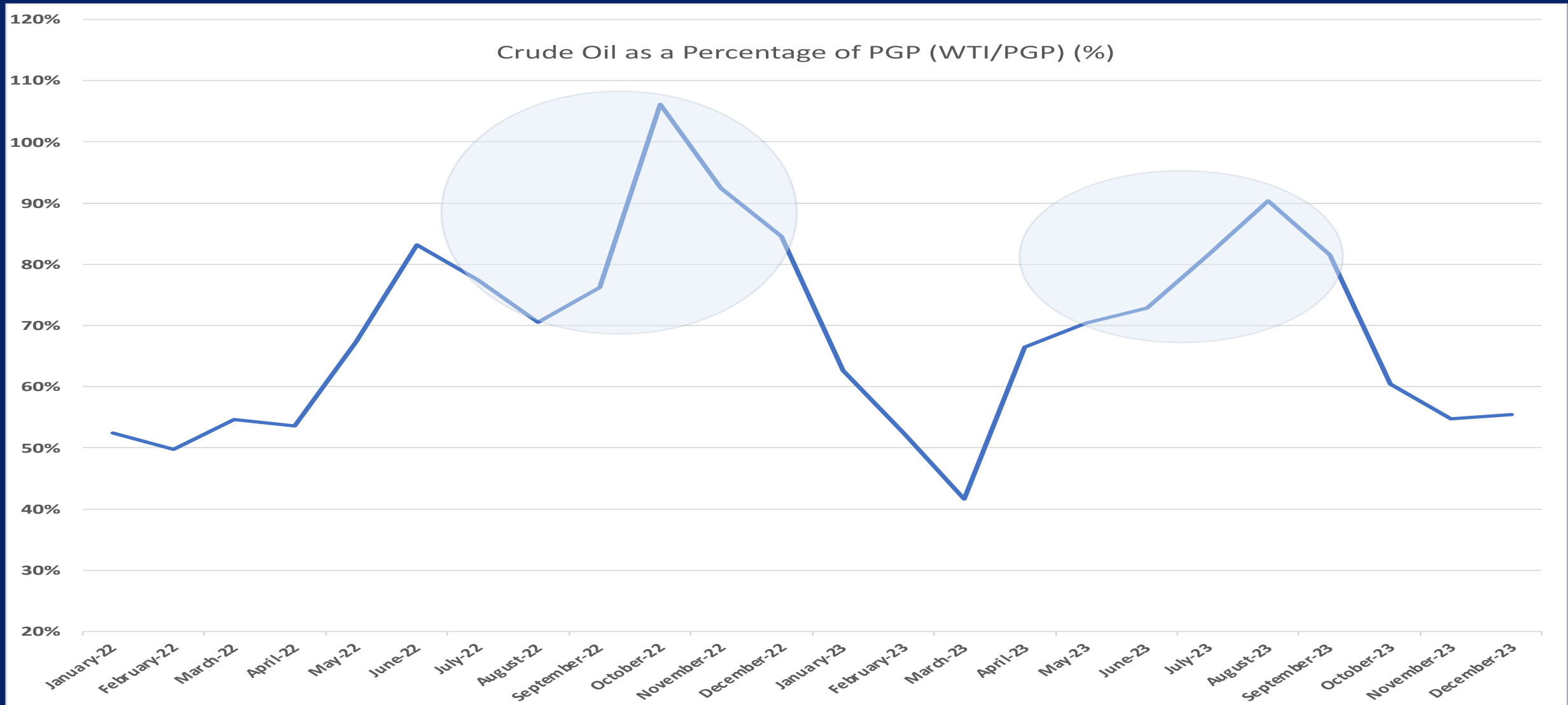
## Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Jan 2</u>	<u>Price as of Dec 6</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	76.29	76.55	USD/barrel
WTI Crude	Cushing, OK	70.71	71.70	USD/barrel
Natural Gas	Henry Hub, LA	2.55	2.74	USD/MMBtu
Naphtha	C&F Japan	648	640	USD/mt
Ethane	Mont Belvieu, TX	17.5	19.875	Cents/Gal
Propane	Mont Belvieu, TX	68.875	69.75	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	17.75	20.25	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	43.75	45	Cents/Lb

## HERO GREEN™ - PP Recycled Grades

Please click the link [here](#) to see the full line card.

# Trader Toolbox – PGP's price relationship to Crude Oil



## Trader Toolbox – PGP’s price relationship to Crude Oil (cont’d)

The chart on the previous page records the % relationship with WTI crude oil (converted into \$/lb) divided by monthly PGP in \$/lb. In almost all of the data points the price of WTI crude oil is less than PGP which is why this % relationship is usually less than a 100. The chart on the previous page is a two year chart going back to Jan 2022.

Some things to point out.

First, the average % over the past two years is 70%. Currently the price relationship is at 55%.

Secondly, I went back and looked at two distinct 5 month periods, the first from August – December 2022 and the second from May to September 2023. These areas are highlighted in the light blue circle on the chart. These two periods reflected cheap PGP pricing relative to crude oil over the past two years.

The % average from August – December 2022 is 86% and the % average from May to September 2023 is 79%.

So if this pricing relationship were to return to its 2 year average of 70% that would put PGP pricing at 34cpp assuming WTI pricing is unchanged.

If the PGP pricing were to return to its May to September 2023 crude oil to PGP pricing relationship this would put PGP pricing at 30cpp.



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