

BlueClover

All Things PP

Brainfood for the Plastics Industry

Issue 24.04 – Feb 2024



Market Update

Plastics Feedstocks (Oil, Naphtha, Propane)

- Since our last report two weeks ago, oil, naphtha and propane prices are all pretty much flat.
- WTI crude oil prices are around \$78/barrel versus \$77/barrel two weeks ago.
- Naphtha prices (CIF Japan) are the same at \$690/mt.
- Physical propane prices in Mont Belvieu, TX are up a little over 4% from 88 cents per gallon (cpg) to 92 cpg. Propane prices are up about 34% from the start of the year. Propane prices are much higher because of the massive inventory draws this winter. According to some analysts, the expected winter season draw (meaning demand is pulling from inventory stocks) for 2023-24 will be twice as much as last winter and 1.4X as much the 5 year average. Two reasons for such strong demand has been cold weather in the USA in January and strong export volumes since propane started the year around 65cpg giving it an export arbitrage to regions like Asia.

Propylene

- Physical PGP prices are trading at 54cpp, up 4cpp from two weeks ago . Prior to this pickup to 54cpp, PGP prices reached a previous high of 52cpp on Jan 18th, then retreated down to 47cpp only to rally back up to a new high price of 54cpp for the year. Physical PGP prices are now the highest they have been since March of 2023 when they averaged around 60cpp. Clearly the sustained issues coming from PDH production has greatly impacted the supply of PGP available to the market.
- In our report four weeks ago, Brainfood 24.02, we wrote that while we ultimately expected prices to decline we knew prices could break into the low 50s. And pricing did indeed go up to about 50-52cpp. So in that report our hedge stating that spot prices may still rally came true. In our report two weeks ago, Brainfood 24.03, we took less of a hedged stance by stating, *“We now expect physical PGP prices to push into the low to mid 40s over the next 2 to 4 weeks.”* Physical PGP was 50cpp at the time of this call. Well its been 2 weeks and physical PGP is trading at 54cpp with a very real chance it may move higher over the next week or so. Each day buyers come to the market for PGP and entertain offer prices that continue to walk the price up forcing buyers to pay up. Clearly, we were wrong with the call for lower pricing over the past two weeks.

Market Update

Propylene (cont'd)

- The current expected February 2023 monthly average for physical PGP is 52.8cpp according to the Chicago Mercantile Exchange. As a result of being wrong, BlueClover is revising its estimate for February contract PGP to up 4cpp to a contract price of 55cpp. BlueClover had previously been estimating Feb contract PGP in the 46-49cpp range. BlueClover is estimating March contract PGP in the 43-46cpp range (up from 41-43pp in our last report) and April in the 40-43cpp range.
- While PGP pricing has increased and there are few signs of when this increasing pricing pressure will stop, let's take a quick look at what happened last March, April, May. In March 2023 physical PGP prices averaged 60cpp, in April the average decreased by 19cpp to 41cpp, and in May decreased an additional 6 cpp to 35cpp. Also important to note that between March and April 2023 the propane price actually increased ever so slightly from 79 cpg to 81cpg. So historically, PGP does not need the propane shoe to drop first.
- While our estimates above are calling for Feb 2024 contract PGP price to be the high point, this is incredibly difficult. It may end up that March 2024 pricing is even higher. What we are keener to point out is that there is recent precedent for price drops of greater than 20cpp over a two-month period. The question is if we are at the top now?

Polypropylene

- It's a tough market for PP at this moment, specifically pricing for export and widespec. PP producers are increasing prices as feedstock costs continue to rise. The pricing increases can be realized to a much greater extent for prime PP. However exports need to compete with low pricing out of China. Widespec needs to compete with areas such as repro and substitution type products. In many cases it's more cost efficient for a compounder/convertor to not buy widespec if the price is too high because the item they are producing does not have enough margin in it. For all these reasons pricing into export and widespec continues to trade either a discount or slight premium (1-3cpp) to contract PGP for the month of business. This pricing range depends on the type and quality of the PP grades.



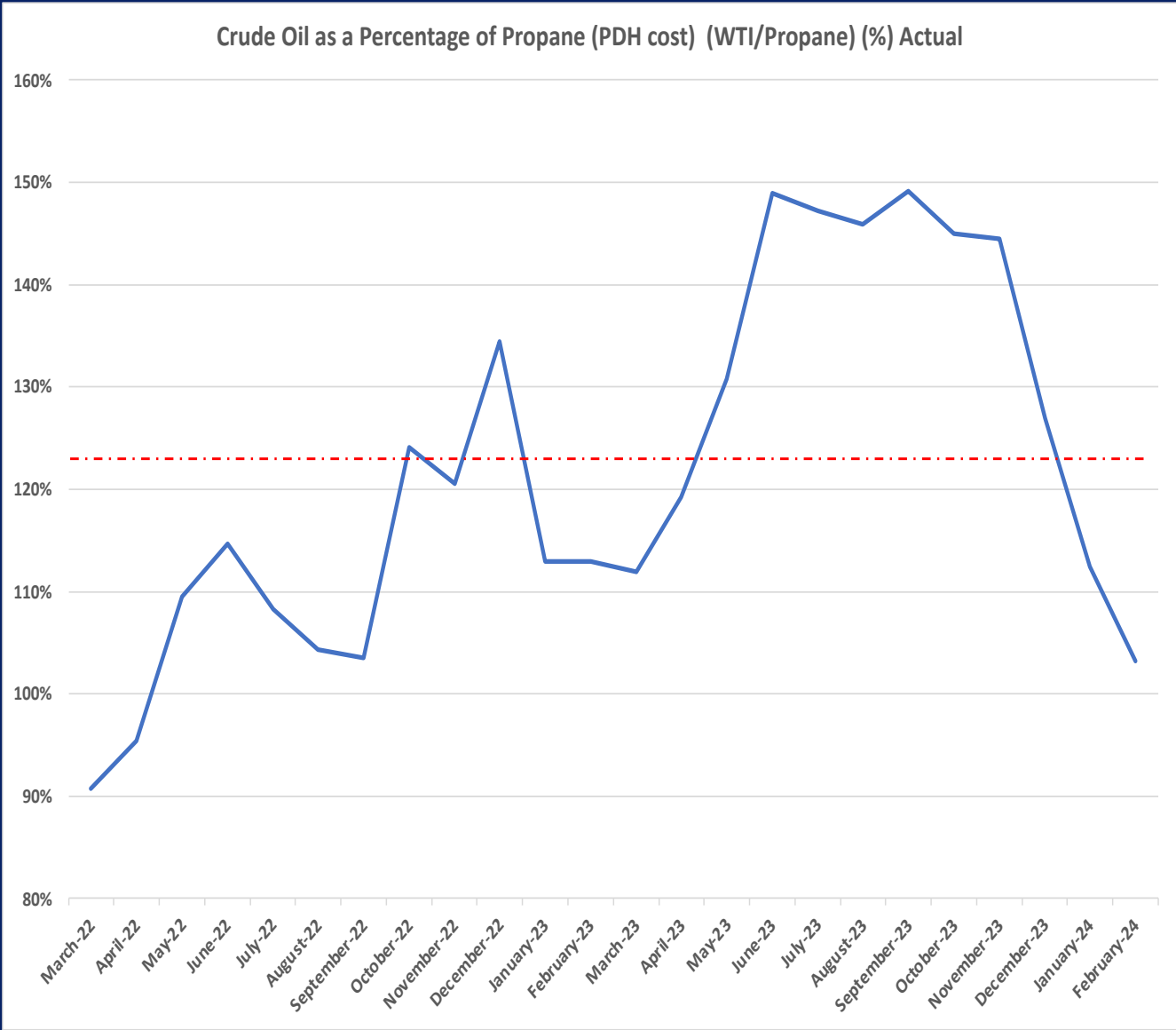
Feedstock “Spot” Prices:

<u>Product</u>	<u>Location</u>	<u>Price as of Feb 14</u>	<u>Price as of Jan 31</u>	<u>Unit</u>
Brent Crude	North Sea, Europe	83.25	82.07	USD/barrel
WTI Crude	Cushing, OK	78.32	76.61	USD/barrel
Natural Gas	Henry Hub, LA	1.67	2.14	USD/MMBtu
Naphtha	C&F Japan	690	690	USD/mt
Ethane	Mont Belvieu, TX	19	19.75	Cents/Gal
Propane	Mont Belvieu, TX	92	88	Cents/Gal
Ethylene (Enterprise system)	Mont Belvieu, TX	19.375	19.5	Cents/Lb
PG Propylene (Enterprise)	Mont Belvieu, TX	54	50	Cents/Lb

HERO GREEN™ - PP Recycled Grades

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

Trader Toolbox – Propane pricing may have some room to drop



The chart shows the % relationship with WTI crude oil (in \$/lb) divided by Mont Belvieu propane (in \$/lb). If you hold crude oil as the constant, then when this % is high (say north of 130%) propane would be considered cheap. Again holding crude constant, when this % is low (say south of 110%), then propane would be considered expensive.

The two year historical average is 122% (the dotted red line). We mentioned in the Propylene commentary that last year PGP prices fell 19cpp from March to April while propane prices actually ticked up from 79cpg to 81cpg.

Well if propane pricing were to return to its 122% average relationship with crude (and holding crude prices steady) that would take spot propane from 92cpg to 77cpg. Having a view on propane pricing is just something to consider when looking at the two to three month outlook for PGP.



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