Global ethylene prices have seen a stark divergence recently, with the Atlantic Basin coming under increased pressure amid capacity additions in the US while the Asia-Pacific region has been strong on the back of outages.

- US ethylene prices at record lows
- 50,000-60,000 mt fixed out of Europe
- Asia tight amid heavy outages

Also in the US, only one 365,000 mt/year ethylene export terminal was operating, on the Houston Ship Channel, which was insufficient to ship all the US surplus to the deficit region of Asia and rebalance the global market. The terminal is contracted by Mitsubishi Chemical.

US ETHYLENE AT LOWS AMID SUPPLY GLUT

US ethane cracker margins have been hovering near long-term lows as US spot ethylene slipped amid an abundance of supply.

US ethane cracker margins were estimated at 7.14 cents/lb ($157/mt) Thursday, 0.33 cent above the level seen on April 9 which was the lowest since S&P Global Platts began publishing cracker margins in January 2011.

Spot ethylene traded Thursday at 14 cents/lb as the cornucopia of supply continued to pressure the price lower.

Fueled by the shale gas boom in North America, the US ethylene market stands to see a more than 35% increase in production capacity by 2019.

More than 3.5 million mt/year of new capacity has been added in the past 12 months, with players including Ingleside -- a joint venture between Mexichem and Occidental Chemicals -- DowDupon, and Chevron Phillips Chemical starting new crackers in Texas.

Another 4 million mt/year of ethylene capacity was slated to come online this year, with more expansions expected in 2019 and beyond.

North America's ethylene production during the next decade was expected to climb from approximately 33.7 million mt in 2017 to nearly 49 million mt in 2026, according to estimates from S&P Global Platts Analytics.

US LENGTH SENDS JITTERS ACROSS THE ATLANTIC

Meanwhile in Europe, crackers were bracing for a choppy rest of the year, with expectations of margins setting on a downward spiral sooner or later.

Following a sudden drop in crude prices from mid-2014, European producers have been enjoying healthy margins. But things are about to change with new capacity coming on stream around the world, in particular in the US.
"The anticipation of the new US capacities is weighing on the demand [in Europe]. They keep on being delayed. Now they say it will be second half of the year. But nevertheless the pressure is there," a producer said.

The turnaround season this spring has been lighter than initially planned, with some producers said to be choosing to delay maintenance to take advantage of the last opportunity to make good margins for the next few years.

"It is not sustainable to have negative margins in the US and positive ones in Europe. There will be more pressure from the US, with exports of polyethylene to Europe. Over the past 3-4 years, the market was tight but the new cycle has started now," the trader said.

European producers were said to be ready to fight for their market share in the face of rising imports and, hence, crackers' operating rates were still high. As a result, stock levels of both ethylene and polyethylene have been swelling, putting further pressure on spot prices.

In order to clear the surplus of the material, traders have fixed around 50,000-60,000 mt of ethylene to ship out of the region, mainly to Asia, where prices remained at a healthy premium.

Spot ethylene prices in Europe were assessed at $1,261.50/mt CIF ARA Thursday.

"There is no more space to store [polyethylene] as all storage is full. They need to do something on the production side," a source said. "There is brand new capacity in Emirates, in India and other places. It is not only the US."

As a result of increased arbitrage interest, freight rates to Asia from Europe have risen around 10% to above $300/mt, according to shipping reports.

**ASIAN ETHYLENE SUPPORTED BY TURNAroundS, SM MARGIn**

The Asian ethylene market came under some pressure this week, dragged down by an influx of European cargoes.

The CFR Northeast Asia ethylene price slid $20/mt day on day to $1,340/mt Friday.

At the same time, Asian ethylene remained stronger than Europe or the US, supported by healthy demand during a heavy steam cracker turnaround season as well as positive styrene monomer production margins.

Japan will shut seven steam crackers out of a total 12 in 2018, which accounts for 53% of its total ethylene production capacity.

According to customs data, Japan's ethylene exports in February fell 29% month on month earlier to 39,902 mt.
"An influx from Europe is quite a big negative factor in Asia but such supplies are offset by production shortfall amid steam cracker turnarounds here," a market source in Asia said.

Spot ethylene demand was also healthy, especially in China due to positive margins for styrene monomer. According to Platts data, styrene monomer margin has been hovering at around $130-$150/mt.

"I do not think the ethylene market will go up because of deepsea supplies. But at the same time, it would unlikely plunge either because of healthy demand," a market source said.