

Asia ABS, PP block copolymer get support from firm Chinese auto demand

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The acrylonitrile-butadiene-styrene margin in Asia is holding near a four-year high despite the fall in prices last week, after riding on bullish Chinese automobile demand throughout the third quarter.

Asian spot prices for ABS, a polymer used in the manufacturing of automobiles and consumer electronics, fell below \$2,000/mt CFR China last week for the first time since early September, S&P Global Platts data showed.

ABS was assessed at \$1,980/mt CFR China Friday, down \$60/mt week on week on retreating feedstock styrene monomer and butadiene prices.

ABS margins averaged at \$290.82/mt in Q3, compared to an average of \$164.36/mt in Q2, and just \$5.02/mt in Q3 last year, Platts data showed.

This is in stark contrast to 2016, when sluggish downstream demand pushed ABS prices to below \$1,500/mt until November, resulting in negative margins for non-integrated ABS producers for pro-longed periods.

AUTOMOBILE SALES SHOW NO SIGN OF SLOWING DOWN

A large contributing factor is the increase in automobile sales in Asia, owing to robust demand from China -- the world's largest automobile market. China currently accounts for around half of global demand for ABS, according to market participants.

China's automobile demand is expected to rise 6% year on year from 2016, according to industry estimates.

China's ABS imports rose 4.2% month on month for August at 167,068 mt. This also represents a 14% rise year on year, reflecting the strong demand for ABS and its downstream sectors in Q3.

According to the latest statistics released by the China Association of Automobile Manufacturers, automobile sales were up 10.9% month on month to 2,186,000 units in August. This is a third consecutive month of growth and also represents a 5.3% increase in sales compared to the same period last year.

Production figures were equally positive, up 1.6% month on month to reach 2,093,000 units in August. Year-on-year, this figure represents a 4.8% increase.

Another contributing factor is the pickup in seasonal plastics demand ahead of the week-long National Day holidays in China that started October 1. During this week, downstream users of ABS typically observe a large spike in both consumer electronics and automobile sales.

This increase in manufacturing activity ahead of the National Day holidays was evident in China's latest Purchasing Managers' Index for September, which was up 0.7 points from August to 52.4 -- a year-to-date high.

PP BLOCK COPOLYMER HITS TWO-YEAR HIGH IN SEPTEMBER

The same trend could also be observed in the polypropylene market, especially block copolymers which are being used increasingly by Chinese manufacturers in automobile applications.

China's PP block copolymer import prices surged to two-year highs early September, as downstream demand from the automobile sector rose, according to industry sources.

The Platts CFR Far East Asia PP block copolymer assessment had risen 5% since the beginning of the year to \$1,180/mt on September 6, 2017 -- a price level not seen since July 15, 2015 -- with the industry expecting relatively firm demand in Q4. But since then the price has edged down to \$1,150/mt on September 27, down \$5/mt week on week ahead of the Chinese holidays.

PP copolymer imports into China are also on track to rise 15% to about 300,000 mt in Q3, compared with Q2, according to China customs statistics. Block copolymer, also known as impact copolymer, is used increasingly by the automobile industry to substitute metal components to build lighter cars and promote fuel efficiency -- an industry trend known as "lightweighting."

An average car used about 150 kg of plastics and polymer composites in 2014, according to the American Chemistry Council. This amount is expected to double by 2020, making it one of the most important growth sectors for PP producers, industry sources said.

Q4 ABS PRICES TO REMAIN SUPPORTED ON SUPPLY TIGHTNESS

Looking ahead to Q4, with no new ABS plants scheduled to begin production later this year, demand is expected to outstrip supply, sources said.

"Despite a fall in both feedstock butadiene and styrene monomers prices last week, the tightness in the Asian ABS market will likely continue to provide support to ABS prices in the short term," an ABS producer said.

Feedstock butadiene was assessed at \$1,450/mt CFR China on September 29, down \$150/mt week on week, while SM fell \$95.50/mt over the same period to \$1,263.50 CFR China. This represents a \$79.80/mt or 7.6% fall in feedstock costs week on week for non-integrated ABS producers, which will likely exert some pressure on producers to adjust offer prices lower when the market reopens after the National Day holidays, next week.

Meanwhile, European ABS prices in October are expected to be steady, tracking a stable outlook on costs, Platts reported earlier. The European ABS spot price was last assessed at Eur1,820/mt (\$2,180/mt) FD NWE Wednesday, up Eur90/mt over the month.

With the CFR China ABS spot price falling below \$2,000/mt last week, the import arbitrage from Asia into Europe may re-open in October, based on indicative freight

costs of around \$100/mt between the Far East Asia and Europe and additional inland freight costs of around Eur20-30/mt