

Asian polyethylene margins mostly positive over Jan-May, outlook for H2 upbeat

Platts.com, 1st Jun 2017

Polyethylene margins for integrated producers using naphtha, coal and ethane as feedstock remained positive over January-May, according to producers and S&P Global Platts data Thursday.

The naphtha-based PE margin stood at \$162.625/mt based on Wednesday's assessments and a typical conversion cost of \$500/mt.

Ethane- and coal-based PE margins were estimated at \$400-\$700/mt, based on a feedstock plus associated co-product credit or ethylene derivatives calculation, according to producers and Platts data.

However, market sources said PE margins over January-May were lower than during the same period of 2016 as naphtha prices were comparatively higher this year due to Middle East plant outages in the early part of 2017.

More than 98% of the PE made by integrated producers uses naphtha, coal or LPG as feedstock, and less than 2% uses ethylene and methanol.

PE production margins are expected to remain positive for integrated producers for the time being amid weak feedstock markets, sources said.

"With a big buffer of price differentials at \$500-\$800/mt between the raw materials and polyethylene, I don't see integrated margins turning negative for a long time," a seller said.

Naphtha costs would be capped by bearish factors such as high deepsea supply and the greater use of competing LPG as feedstock, market sources said.

Views were mixed on the direction of coal and ethane pricing for the second half of the year, but sources said the wide margin between feedstock costs and PE prices was more than sufficient to withstand any increase in feedstock costs.

OUTLOOK FOR UNINTEGRATED PRODUCERS MIXED

For unintegrated producers, who form the minority of PE producers and mainly use ethylene as feedstock, both current PE margins and the outlook for H2 were more varied.

Asia's spot ethylene-based PE margin stood at minus \$75/mt Wednesday, based on a conversion cost of \$150/mt, Platts data showed.

The negative margin was due to a stronger feedstock ethylene market, sources said. However, it has recovered some ground due to a recent increase in feedstock supply, sources said.

Methanol-based PE margins in Asia stood at \$30/mt Wednesday. The calculation is based on market estimates of methanol feedstock consumption at a ratio of 3:1 methanol:olefins plus an estimated utility and ethylene conversion cost of \$290-\$300/mt to PE.

For H2, ethylene-based PE margins might turn positive, reversing six months of consistently negative margins since November 2016, while current positive methanol-based PE margins might not hold, sources said.

Ethylene costs are expected to trend lower in H2 as steam crackers resume normal operations after seasonal maintenance in H1, market sources said.

In addition, large volumes of ethylene from the US and Iran arriving in Asia in H2 should result in a fall in ethylene prices outpacing any fall in PE prices, and even flipping ethylene-based PE margins to positive, sources said.

For methanol-based polyethylene margins, the outlook was less positive amid expectations of a modest rise in methanol prices late in the third quarter. due to a likely increase in demand from the startup of new ethylene oxide, ethyl vinyl acetate and ethylene propylene diene monomer plants, sources said.

Only a few unintegrated plants use methanol as feedstock.

"Prices might drop back to negative margins like what they did during March, but since few plants produce PE through this route, it won't matter," a seller said.