Jan-Feb polyethylene margin falls 37% on year on poor PE demand, strong naphtha

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The polyethylene-naphtha margin averaged $159/mt over January-February, down a sharp $100/mt or almost 37% from the same period last year, S&P Global Platts calculations showed Wednesday.

Market sources attributed the slide to weak PE demand amid a strong feedstock naphtha market.

PE demand from the downstream plastics sector has taken a hit to date in 2017 due to a slowdown in China's GDP growth. PE inventory at Chinese ports is currently at a record high of around 500,000 mt, market sources said.

The CFR Japan naphtha price stood at $508.75/mt CFR Tuesday amid generally high petrochemical margins. The marker averaged around $100/mt lower over 2016.

The PE margin is based on a conversion cost of $500/mt.

Most Asian steam crackers use naphtha as feedstock for petrochemicals.

PE margins are likely to remain slim given the economic outlook in Asia, market sources said. The International Monetary Fund estimates Asian GDP growing at an estimated 2-3% year on year in 2017, 1-2% lower than in 2016.

Despite the persistent weakness in PE derivatives markets, tight PE supply during steam cracker turnaround season in the second quarter may lend short term support to PE prices and PE margins, market sources said.

Around 1 million mt/year of PE production capacity across the Middle East and Asia is scheduled to be shut for maintenance for varying periods in Q2, according to Platts.