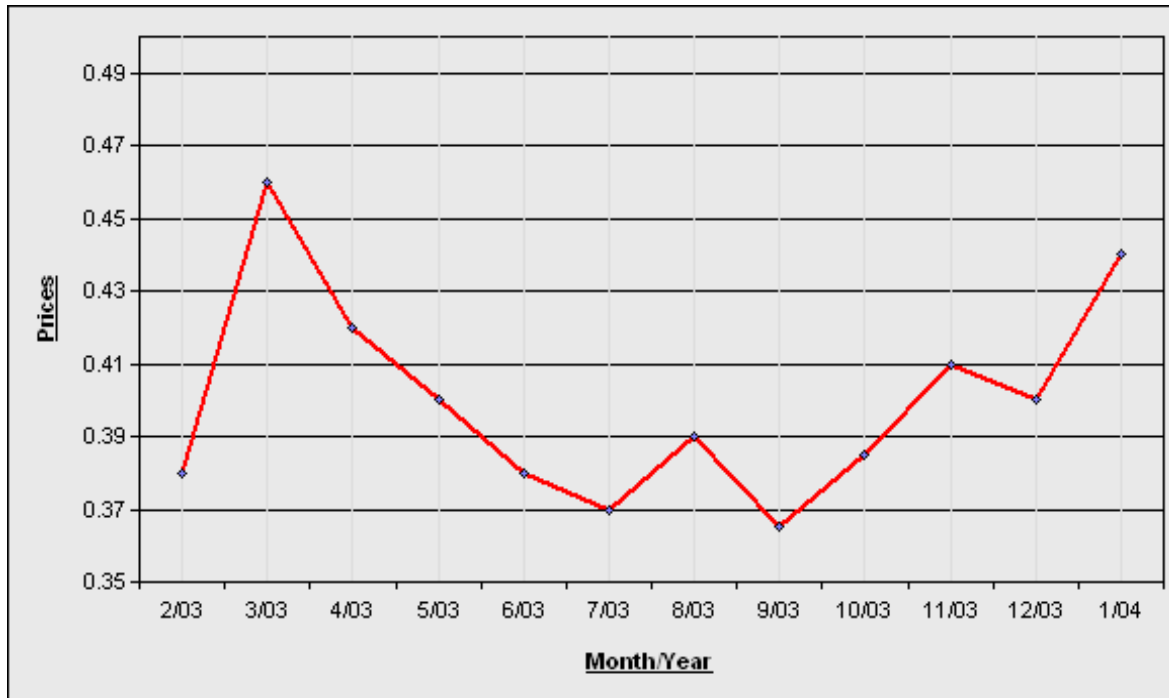


Polyethylene Prices Continue Climbing

(source www.theplasticsexchange.com)



Polyethylene prices have advanced firmly since the beginning of the year. Limited producer offerings, reinforced by higher energy/feedstock costs have influenced buyers to accept the December \$.04/lb contract price increase without great resistance. Spot PE prices have been moving about a penny higher in each of the last 4 weeks, now about equal to these higher contract prices. Producers have nominated another \$.05/lb price increase for February, all in this would total 14 cents of increases since the summer lows.

Our spot market continues to be very active, moving towards true liquidity. Railcars of prime HDPE injection grades are trading in the low-mid 40s. HIC blow molding supplies have tightened and after being a market laggard during the fall, prices have moved 3-4 cents higher; railcars are now priced around 40-41. LLDPE Film grades are trading in the low-mid 40s with premiums expanding between Butene, Hexene and Octene grades. LDPE film resin is trading in the mid-high 40s also with full premiums achieved for Liner, Clarity and EVA grades. Widespec PE is available at discounted prices but the price difference is not as large as in steady or falling resin markets.

Distributors and resellers smartly increased inventories pre-price increase. Since the price increase was cost-push rather than demand driven, their inventories increased nicely in value but not every pound necessarily had a purchase order against it. Processors have been good buyers during January and those looking for cheaper alternatives to their higher contracts were able to find supply in the secondary market. Then as the spot market moved higher, especially after the Feb price increase was announced, reseller replacement costs from producers increased and so did their selling prices. So while some good deals could still be found, these opportunities are now limited.

Crude oil has just made new highs for the season and is now trading around \$35/barrel. Natural gas has been extremely volatile ever since the winter weather became the market's focus. Those prices have twice shot up to \$7.50 m/Btu which is a full 50% higher than the \$5 prices during the fall. During the last couple of weeks, natural gas prices sold off sharply to under \$5.75...but that is still almost 3 times the prices during the 1990s, and we have often seen fast reversals in that market.

With natural gas and crude oil prices relatively strong, ethylene prices have increased as well. In the past 6-7 weeks, spot ethylene prices have rallied sharply from about \$.20/lb to \$.28-29/lb. These higher costs reduce plastics producers profit margin and subsequently their desire to manufacture and sell extra spot resin as they work to maintain higher resin prices.

US extruders have been complaining about imported bags flooding the market with non-competitive prices. They will now get some relief from a new punitive tariff imposed by the US Department of Commerce on bags made in China, Malaysia, and Thailand. This should increase resin demand have a real impact on the US film grade Polyethylene

market as US extruders regain their domestic market share. The tariffs are temporary, but could be made semi-permanent after the International Trade Commission performs an investigation.

Going forward into February, plastics producers will likely act in a similar fashion as they did in January. Expect them to begin by offering small volumes of spot resin at slightly higher prices, then if they get purchased, more small quantities will be offered at still high prices until the entire 5-cent February price increase has been reflected in the spot market.

The market will continue watching energy and feedstock costs to determine if the cost-push price increases are warranted. If we do not see the run-away natural gas market that we did last year, this next price increase will have trouble with implementation. Even though overall demand is better from a revived US economy, the commodity plastics market has a certain level of elasticity and could only handle a limited level of price increase. Many large quantity commodity applications just do not make sense with Polyethylene prices starting with a 5, and with another price increase, we will be approaching that level in the generic market.

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