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Argus Chlor-Alkali and Derivatives

Weekly price supplement and market update

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MARKET UPDATE

Americas

- US freeze had limited impact
- Caustic soda prices stable
- HCl demand takes a holiday

Europe

- Discussions on price decreases continue
- Excess supply persists
- Caustic soda stocks rise sharply

Asia Pacific

- Caustic soda export prices fell further
- Increased export availability emerged from China
- Northeast Asian PVC prices rebounded

AMERICAS

Most of the US and parts of Canada experienced severe cold weather over the Christmas holiday. This resulted in a number of plants reducing rates in preparation for the freezing weather. The impact of the freeze varied by plant and location. Caustic soda prices appear to be stable as in the spot market, although buyers are asking for price relief. HCl demand is at seasonal lows, although the cold weather and plant shutdowns reduced supply, tightening the market.

The chlor-alkali market was affected by the severe winter weather as several plants reduced rates in advance of the cold. Some regional plants in the northern portions of the US were forced to shut down, some for a day, while others took longer to recover. The major chlor-alkali plants along the US Gulf coast also took precautionary measures. Some had minor effects, while others were forced to wait for ethylene supplies to resume. The cold weather event was not as severe as in February 2021 and no long-term operating effects have been reported. Argus estimates the lost production from the event to be 110,000dmt. Caustic soda demand was also lost, but not as much as production.

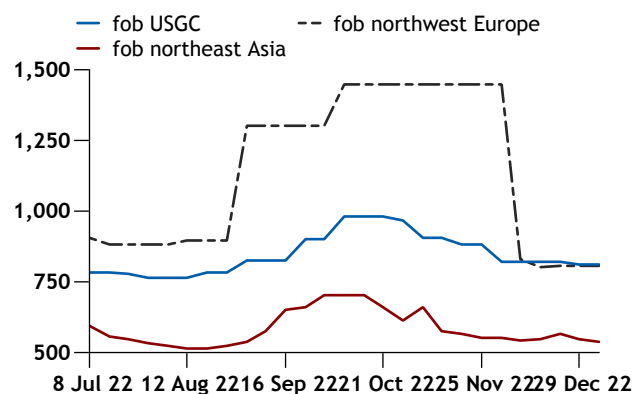
Even with the lost production from the winter weather, the market does not appear to be significantly affected. Producers and buyers are in the middle of January negotiations. Buyers are hopeful that international price declines

MARKET PRICES

Key prices						
		Units	Timing	Low	High	±
Americas						
Caustic soda (23 Dec)	fob USGC contract	\$/dst	Dec 22	1,025	1,110	na
Caustic soda	fob USGC export	\$/dmt	week 1	720	900	nc
Caustic soda	North America barge	\$/dst	week 1	870	930	nc
Europe						
Caustic soda (23 Dec)	fd northwest Europe contract	€/dmt	4Q22	2,200	2,600	na
Caustic soda	fob northwest Europe export	\$/dmt	week 1	765	850	nc
Caustic soda	cfr Med and Black Sea import	\$/dmt	week 1	870	920	nc
Asia-Pacific						
Caustic soda export	fob northeast Asia	\$/dmt	week 1	530	550	-5.00
Caustic soda import	cfr southeast Asia	\$/dmt	week 1	630	650	-5.00
Caustic soda 50pc	ex-factory China	Yn/dmt	week 1	3,360	3,440	-190.00
Caustic soda 50pc month range (23 Dec)	ex-factory China	Yn/dmt	Dec 22	3,660	4,050	na
Caustic soda solid export	fob China	\$/t	week 1	650	660	-5.00

Global caustic soda export prices

\$/dmt

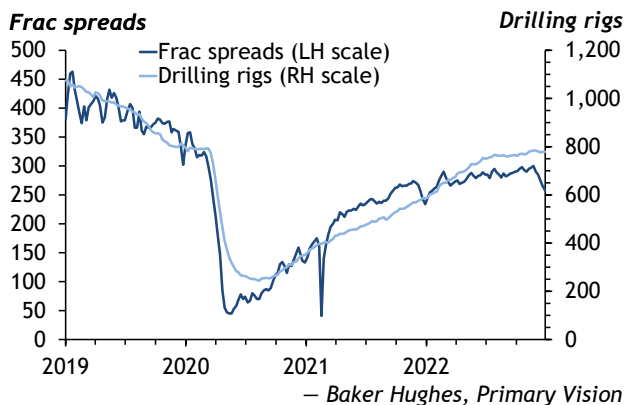


will start to reduce domestic prices, while producers are pointing to the significant decline in domestic PVC sales and expect caustic soda to become tight in the near term to potentially support higher prices. Only one price increase has been announced for the west coast for \$100/dst, but it seems to have limited support.

In the barge market, some inquiries have been heard with buyers expecting lower prices. The recent winter storm essentially delayed barge traffic on the river for a week. Barge companies are busy attempting to recover as quickly as possible, but low water levels and icy conditions are slowing the recovery until mid-January. The Argus caustic soda barge price range is stable at \$870-930/dst fob US Gulf coast.

The seaborne market saw some activity at the end of last year as producers quietly liquidated some inventories under contract extensions or contracted some non-recurring business against an index. No new inquiries have been heard as some buyers are evaluating lower-priced caustic soda offers from Europe. The Argus caustic soda export price range rolled over at \$720-900/dmt fob US Gulf coast.

Frack spreads



The HCl market tightened up over the past couple of weeks as many on-purpose and by-product acid producers reduced operating rates in advance of the severe winter weather that blanketed most of the US. A couple of rail embargoes were lifted last week and should aid product movement. Demand into the oilfield continues to remain subdued as the number of frac spreads has declined owing to holiday breaks and oil company budgets running dry. The new year presents renewed exploration budgets and potentially stronger demand. Last year, it was February before demand recovered to pre-holiday levels. This year, market participants expect demand to recover more quickly. The steel market is also showing signs of improving demand, although from low levels. One market participant is attempting to implement a \$35/sst price increase, but buyers are hopeful of some price

relief.

The Blue Water Alliance joint venture between US chemicals producer Olin and Japanese trading house Mitsui, announced last year, began operations on 4 January following regulatory approval. The venture has an initial focus on the global trade of caustic soda and ethylene dichloride but may expand into other chlorine and caustic soda derivatives in the future. Blue Water Alliance intends to provide customers with wider access to the global market, offering enhanced supply reliability. The companies have said this would be achieved by combining their “complementary geographic and functional strengths” - Olin’s production portfolio, North American export availability, South American import ability and Mitsui’s place on the global trading stage. The venture also has the potential to support the decarbonisation goals of both companies through optimising their global trade networks.

EUROPE

This year is starting on the same note that last year ended on. Caustic soda prices are under downward pressure in all markets because of weak demand, plentiful availability and manageable costs at the producer level. Producers in northwest Europe are discussing significant price decreases for first-quarter business, but a large proportion of business has yet to be finalised. With plenty of product available and prices under downward pressure, customers are in no rush to conclude sales, hoping to achieve a more favourable outcome in a week or two. There are some fixtures in the mid to high €1,000s/dmt (\$1000s/dmt) fd for the current quarter, but producers are still working to mitigate price reductions and it is premature to draw conclusions for the overall outcome. Monthly prices in Germany are also under pressure as customers push for reductions below December’s €1,900-2,300/dmt fd.

For now, the region is waiting to see whether January will bring an uptick in chlorine and caustic soda consumption after order intake has been initially healthier than in November and December. November chlorine operating rates stood at just 57.2pc, with an average daily chlorine output of 18,336t, according to the latest data by industry association EuroChlor. This was down by 1.5pc from October, while caustic soda stocks rose by 23.1pc to a comfortable 229,496dmt. The sharp rise in stocks highlights an accelerating decline in caustic soda demand, but also shows the effect of overseas imports into Europe, as they are eating away at local producers’ market share.

In central and eastern Europe, caustic soda demand remains on the low side in the first week of 2023, as some

customers postponed restarting after the Christmas break. Some suppliers have dropped pricing intentions for early-January business to promote buying interest. January price ideas are starting to emerge in the low to mid-€1,000s/dmt fd, as several local suppliers offer triple-digit decreases from December's €1,550-1,800/dmt fd. Softer demand in neighbouring markets has also prompted some German sellers to offer additional volumes to central and eastern Europe in the mid-€1000s/dmt fd. Most buyers are not rushing to close deals as they consider the growing number of offers a sign that supply is increasing in the market, and many are optimistic that further price decreases could materialise.

The southern European market is generally still waking up to the New Year. January offers so far in Italy are stable in the mid-€1,100s to low-€1,200s/dmt fd, as most suppliers are seeking to roll over prices following decreases of up to €400/dmt last month. Meanwhile, some Iberian suppliers have indicated that decreases could be offered from December's prices in the €1,400s/dmt fd, but the extent of any decrease is not yet clear. Buying interest remains limited across southern Europe and some consumers, particularly in the pulp and paper sector, are exploring the possibility of replacing caustic soda with cheaper viable chemicals. Customers are hopeful that prices in the region will continue their downward trend, particularly as suppliers come under pressure to move product.

Activity has yet to resume in the seaborne markets. A small number of northwest European exporters are indicating availability for January lifting, but pricing has yet to be discussed. We are rolling over last week's range of \$765-850/dmt fob northwest Europe in the absence of new activity and overall stable conditions. Importers in the Mediterranean and Black Sea area are carrying sufficient stock and so are under no pressure to finalise new deals. Import prices are unchanged at \$870-920/dmt cfr, including duty where applicable.

ASIA PACIFIC

Notional fob prices were assessed at \$530-550/dmt fob for February loading in the absence of new fob fixtures in northeast Asia, reflecting prevailing fob offers, especially of Chinese and Japanese origin. While some producers were taking a firmer stance on their offers, some were also trying to liquidate the remaining inventories for February loading before the lunar new year holidays, resulting a wider range of offers that emerged in northeast Asia. A sale tender was also issued from China this week for 8,000dmt for February loading.

Prevailing low prices have attracted buying support. But

buyers were cautious and adopted a wait-and-see approach in response to increased export offers, with many producers trying to offload their remaining cargoes before the holidays. This depressed buying ideas to a low \$500s/dmt fob.

There are indications that Japanese chlor-alkali producers may reduce their caustic soda exports by 5-10pc in 2023 because of the uncertainty of production and expected sharp rise in electricity grid tariffs this year that will render Japanese exports uncompetitive.

Southeast Asian notional import prices were assessed at \$630-650/dmt cfr as no new fixtures emerged, reflecting the prevailing range of offers as the market remained muted. Several negotiations emerged but buying ideas remained low at around \$620/dmt cfr in response to the fall in northeast Asian export prices. This resulted in a wider price gap between buying and selling ideas.

Buyers remained cautious as more offers of Chinese and Japanese origin for February-loading cargoes emerged. Freight for southeast Asia-bound cargoes saw some downwards adjustment, especially for larger size cargoes. The impact on cfr offers for smaller size cargoes to southeast Asia remained largely unchanged.

The domestic caustic soda market in China remained largely subdued with an increasing number of downstream producers starting to wind down operations prior to the extended lunar new year holidays, which weakened caustic consumption across most of the country.

China's surge in Covid cases in some provinces after the lifting of restrictions and quarantine measures affected some downstream manufacturing activity, especially a shortage of workers, although the effect on the chlor-alkali supply chain was not critical.

The market is expected to return to normal after the lunar new year holidays. But upstream chlor-alkali manufacturing activity remained intact after the lifting of Covid restrictions. Overall run rates have reached a high of around 87-88pc.

The latest contractual ex-plant prices for the 32pc grade with the alumina sector for January delivery in Shandong province settled lower by 30yuan/lmt to Yn1,020/lmt. Delivered contractual prices of the 32pc grade for Henan alumina refineries were unchanged at Yn3,790-3,890/dmt. Contractual delivered prices of the 50pc grade for Shanxi refineries were also unchanged at Yn3,740/dmt. Steady consumption from the alumina sector helped to sustain the prevailing price trend despite the current ample supply position, especially in north China.

Mainstream spot ex-tank prices of the 50pc grade in Shandong fell further to Yn3,380-3,420/dmt with rising inventory pressure, coupled with slowing demand especially from

the export market that further dampened market sentiment.

Muted sentiment in Shandong depressed the east China market. Slowing export demand, coupled with a weaker offtake from the broader downstream industry, dragged Jiangsu prices down as well. Ex-tank prices of the 32pc and 50pc grades in Jiangsu fell further to Yn1,090-1,260/lmt and Yn1,800-1,900/lmt, almost the same level as in Shandong.

Mainstream ex-tank prices of the 32pc grade in Anhui and Zhejiang were largely unchanged at Yn1,150-1,250/lmt and Yn1,350-1,400/lmt respectively. The market is expected to quieten further as the lunar new year holiday approaches.

The domestic merchant liquid chlorine market in China remained subdued as spot prices were rangebound and remained deep in negative territory. Mainstream ex-tank prices in Shandong for truck delivery remained low in a negative Yn800/t to negative Yn600/t range. Ex-tank prices in Jiangsu also remained in similar negative range.

The lower prices attracted some buying interest, but the overall offtake of merchant chlorine remained soft, with an increasing number of downstream manufacturers winding down operations ahead of the lunar new year holidays.

India's merchant chlorine prices rebounded to around negative 2,000 rupees/t ex-plant in response to rapidly falling domestic caustic soda prices, as producers have to lift chlorine prices to sustain more positive returns.

FPC released its price nomination for its February-loading cargoes early on 4 January with a hike of \$70-90/t from the previous month because of buying support from India, especially from the pipe sector. Prices were settled at \$885/t cif China, \$880/t cif in southeast Asia and \$930/t cif in India.

India's domestic liquid caustic soda prices remained under pressure and fell further to around Rs43,000-44,000/dmt (\$526/dmt), excluding tax and delivery, with a worsening domestic offtake, especially from the non-alumina industry.

The continuous fall in northeast Asian prices also dampened price sentiment in India and a lack of firm buying support from the export market. A small export cargo of 4,000dmt for February loading was fixed at around \$540-550/dmt fob but was still unable to balance the supply-demand position in the country. This cargo is likely heading to the Middle East.

China's flake export prices remained low at \$650-660/t fob. Export prices remain under pressure because of softer export demand and intense price competition with smaller producers in northeast Asia and south Asia. Traders and producers continued to liquidate remaining inventories before the lunar new year holidays.

Some of the cfr prices offered into the southeast Asian market dropped further to around \$720-725/t. Southeast Asian flake producers further reduced their flake exports

into neighbouring markets because of higher domestic parity prices and lower priced imports.

Domestic flake prices in China were relatively stable despite a slowing offtake. An increasing number of small- and medium-size downstream manufacturers wound down operations as the lunar new year approaches. Flake producers were also scaling down their operations, which resulted in a more balanced supply-demand situation in the country.

Mainstream ex-plant prices in Inner Mongolia and Ningxia were unchanged at around Yn4,350/t, while Xinjiang prices remained at around Yn4,100-4,150/t. Ex-plant prices in Shandong remained firm at Yn4,750-4,850/t. But ex-plant prices will fall in the coming weeks as the holiday approaches with more downstream consumers shutting down operations.



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