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28 April 2020

Update:

Coronavirus impact on European petrochemical market

The rate of new Covid-19 infections, intensive care admissions and deaths fell across most of western Europe during the past week. The sustained decline encouraged some governments to cautiously begin to ease lockdown measures, notably in Germany, but the picture remains mixed. Others have announced their plans to begin easing restrictions in the first half of May, and even in Italy the government plans to allow non-essential factories and building sites to reopen from next week. The easing of restrictions will be gradual and subject to social distancing measures that may continue for a long time, to avoid the risk of a second wave of infections emerging.

Operations and logistics update

There has been no significant change in petrochemical plant and logistical operations in the past week. Measures put in place to manage key staffing are working, with minimal disruption emerging.

- Ethylene operating rates are stable at 85-90pc on average, supported by demand for PE into packaging, a reduction in PE imports and demand for ethylene oxide used for surfactant cleaning products. Producers are managing the balances of different cracker products through feedstock selection, cracker operating conditions, some co-cracking and sales where they still exist, including exports. Ethylene exports have become more difficult with cfr prices in Asia plus freight from Europe making the fob Europe price unattractive to sellers.
- Some refineries are restarting from maintenance, adding to oversupply in the oil products markets. Nine plants now have units undergoing work, according to Argus research, down from 15 in late March, with recent restarts including the Lavera refinery on France's Mediterranean coast. Some restarts have been delayed, either because of the lack of fuel demand or Covid-19 related safety measures.
- In addition to maintenance, Argus research has identified around 1.6mn b/d of discretionary refinery throughput cuts, equivalent to 10pc of regional capacity. Euroilstock data suggest overall refinery utilisation was 75pc or lower in March. The number for April will be lower still.
- Storage for oil products is filling up rapidly in northwest Europe, with some traders looking to barges as a storage option to supplement onshore tank space. Tank operators in the Mediterranean say clean product storage capacity could be filled by mid-May. This may lead to more pressure on refinery run rates, which could be partially offset if fuel demand begins to rise in May as lockdown restrictions ease.
- No significant risk is seen to petrochemical feedstock supply from the reduction in refinery run rates. Naphtha and LPG markets remain well supplied and accessible for most crackers.

Markets

Feedstocks

Global crude markets were relatively stable compared with the previous week's collapse of US oil prices, but remain under pressure. Prompt physical prices in Europe are close to the low seen after the US price crash, at $13.75/bl on 27 April. The Ice June Brent contract retreated by a similar amount to the prompt market, but retained a $5-6/bl premium to prompt prices at $19.99/bl on 27 April, down from $25.57/bl a week earlier. Naphtha prices recovered from below €100/t on 21 April, but were still down over the week and the average is now €92/t lower in April compared with March. Butane is priced at a discount to naphtha, but propane is at a significant premium with demand still supported by residential heating and other uses. The premium may narrow as temperatures rise across Europe, reducing residential demand for propane, and as petrochemical users adjust to the current cracker economics.

Chemicals

European chemical prices remain under pressure from the falls in upstream costs and weaker demand owing to Covid-19 lockdowns, offset partly by firm demand into certain segments and a reduction in derivative imports. Margins across the chain remain healthy because of the fall in feedstock costs, while exports, particularly to Asia-Pacific, are helping to manage otherwise longer balances in ethylene, butadiene, benzene, toluene and mixed aromatics. The decline in naphtha costs of €90-100/t over the past month will be the main driver for May monthly contract price (MCP) discussions in the coming week.

- Negotiations for the May MCP will start next week and, like last month, they will revolve around the major fall in feedstock costs and the market balance. Naphtha costs have dropped by an average of €92/t this month compared with March and could fall further in the coming days. In addition, the market balance is likely to lengthen, as a result of unplanned shutdowns on at least two PE units, reduced contract volumes to PVC buyers and a spot price in Asia-Pacific that barely covers shipping costs.
- The ethylene spot market was relatively active in the past week, an indicator of the increasing difficulty of exporting to Asia-Pacific, but also of strong local demand and margins. Discounts to the MCP have been in a wide range of 45-58pc, depending on geography and timing. The spot market is likely to come under further pressure in the next week for any producer that needs to sell. The alternative is likely to be a cut to cracker operating rates, with producers making different choices based on their own economic assessments.
- The propylene market has fragmented. It remains well-supplied in some regions, particularly for polymer grade at the coast, where recent imports form the US are still being absorbed and where demand is most exposed to the weak demand from automotive and other sectors. Other locations are relatively tighter because of exposure to lower refinery fluid catalytic cracker propylene production and planned maintenance. Rising US prices have closed the arbitrage from the US.
- The butadiene market remains long. The synthetic rubber industry continues to suffer, with Chinese demand yet to resurface and the slow restart of automotive and tire facilities. Many rubber manufacturers were unable to participate in the butadiene MCP negotiations for May, because they declared force majeure on production.
- Oversupply and significantly reduced domestic demand kept Europe the lowest priced region globally for benzene. Interest in exports persisted, with arbitrage possibilities to the US and China providing a floor to the market and tempering the impact on spot prices of recent steep falls in crude. Styrene lost momentum after four straight weeks of increases. Overall supply is abundant, although length has been curbed by domestic production cutbacks and exports to China, where arbitrage economics remain viable.
- Toluene prices have remained relatively flat, with weak domestic chemical demand offset by an increase in exports to China and some interest in the transatlantic arbitrage. The gradual restart of automotive manufacturing across Europe is providing some support to downstream TDI demand, but social distancing measures are expected to keep demand well below pre-coronavirus levels in the near term. Negotiations for the May toluene contract price will begin towards the end of this week.

- Exports of mixed aromatics and reformate to Asia are continuing, despite a sharp rise in freight rates, as the lifting of travel restrictions in China has led to an increase in demand for gasoline and octane components. Around 150,000t of reformate was fixed to load from northwest Europe to China last week, with over 700,000t fixed for export to Asia-Pacific so far in April, well above the 52,000 t/month exported during 2019.
- Exports of purified terephthalic acid (PTA) and toluene to India could be further impacted this year as the country is considering imposing a 15pc Covid-19 tax on some petrochemical imports to help protect its domestic industry. Export interest had already been restricted following the country-wide shutdown from 25 March. A government sub-committee under the chemicals ministry has proposed the new tax, which would be in place from 1 May to 31 March 2021. The 15pc tax, which requires government approval, would be applied in addition to existing import duties. The recommendation covers all petrochemicals imported by India, but a supplementary letter states there could be exemptions for paraxylene, ethylene, ethylene dichloride and vinyl chloride monomer.
- Methanol barge prices softened by around €10/t last week to a €147-148/t fob Rotterdam range, as the slowdown in automotive and construction demand continues to put pressure on the largest derivative in Europe, formaldehyde.
- Northwest European caustic soda contract prices have settled at an average €65/dmt rise at €520-575/dmt fd following sustained chlorine demand losses and caustic soda supply tightness. The seaborne markets have also seen continuing upward price pressure. Northwest European export prices have increased to around $300/dmt fob, while import prices in the Mediterranean and Black Sea area have settled at around $400/dmt cfr, including import duty where applicable. The beginning of the easing of lockdown restrictions in many European countries has yet to translate into chlorine and/or caustic soda demand recovery.

Downstream and consumer demand

Visibility over short-term demand remains weak. There is optimism that a gradual relaxing of lockdown restrictions could support higher demand and restocking through the supply chain where it has been weakest. Shops reopening will support consumer demand, a pick up in construction activity will support PVC and other markets, and a restart of factories will help demand for engineering polymers recover. But the reality is that any recovery will be gradual while social distancing measures remain in place and business and consumer confidence is low. Production rates in many downstream areas will remain well below pre-coronavirus levels, although a few sectors will remain strong.

- PE producers are seeing solid order entry for May after high sales in March and April. Food packaging and hygiene are driving the trend, but robust volumes are reported almost across the board. There are some early signs of a slowdown at the end-consumer level, which is starting to filter up to some converters, but this may simply be a lack of confidence, and producers are yet to see an impact on their order entry, with solid demand supported by a reduction in imports of commodity grades.
- Construction activity may increase in May as sites in some parts of southern Europe are allowed to reopen after six weeks of almost complete shutdown across the sector in France, Italy and Spain. The recovery will be slow but will provide some cause for optimism for PVC producers, many of which reduced operating rates in April as demand fell by an estimated 20-30pc across Europe on average. Any increase in construction activity will benefit the formaldehyde industry but concerns remain amongst producers as to whether this will represent a significant improvement in real demand in 2020.
- Methanol demand in Europe has reduced heading into the second quarter but there is some support for the silicones segment, making adhesives for healthcare applications, and the pMMA industry making protective screens. In addition, acetic anhydride demand has been supported by pharmaceuticals, where it is used to make medications.
- PP demand is being supported by the packaging and textile industries, despite the impact of Covid-19 on construction and — particularly — on the automotive industry. Producers are seeing a varying impact on overall sales, depending on their location and exposure to different industries, and the estimated demand loss ranges from less than 10pc to up to 40pc.

- PS demand is being supported by food packaging, particularly for dairy products that are being consumed in large numbers because of people spending much more time at home. This has been offset by weakness in the construction and home appliance sectors.
- Automotive and tire manufacturers across Europe are planning to gradually re-open plants that have not already re-opened in the coming weeks. But social distancing and weak demand will keep production rates low. Volkswagen restarted production at its largest plant in Germany, but only at 10-15pc of pre-coronavirus capacity initially, rising to 40pc of capacity from next week.
- European aerospace manufacturer Airbus is slashing production by a third owing to the crisis in the airline sector.

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