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31 March 2020

Update: Coronavirus impact on European petrochemical market

The number of infections and deaths from coronavirus in Europe continues to grow. The number of deaths has passed 10,000 in Italy and 6,000 in Spain, and both tolls are now greater than the reported total in China. There are some indications that the rate of increase in new infections in these countries is starting to slow as stricter lockdown measures take effect, but other countries are still on steep upward curves. Increasingly stricter lockdown measures will remain in place for the foreseeable future.

Operations and logistics update

- Petrochemical plants and logistics operators are continuing to manage the challenges of operating close to normal under difficult circumstances. Supply chains are vulnerable to interruptions and delays, but these have been manageable.
- Cracker operating rates — which were in the high 80s as a percentage of nameplate capacity prior to the coronavirus outbreak — have not been hit as hard as refinery operating rates. There are indications that cracker operating rates will begin to drop in April because of slowing demand, but the impact is not felt evenly across cracker products or producers.
- Refineries have been under greater pressure as a result of the collapse in demand for gasoline and middle distillates, including diesel and jet fuel.
- Including 16 refineries in Europe shut or partially shut for maintenance, average run cuts across the refinery fleet are estimated at around 30pc, but could continue to deepen. Estimates of the loss of gasoline demand across Europe range from 30-50pc, but in the most affected areas, such as Italy, it is as high as 90pc. The Mediterranean region has been most affected so far, but road fuel demand in parts of northern Europe is likely to decline further as stricter lockdown measures are implemented.
- Reduced refinery operations are not expected to threaten supply of feedstock to crackers in general, but individual petrochemical crackers could be exposed where refinery integration is deepest and for units that have less feedstock flexibility.
- There is a mixed picture with regard to the impact on maintenance plans, with some scheduled works postponed but others going ahead. For those that are going ahead, timelines have been lengthened, although the scope of the works may be reduced in some cases.
- Planned maintenance has started at one German cracker, but is expected to take significantly longer to complete than previously planned. Scheduled works at a second German cracker are now expected to be delayed until later in the year. The process to bring up a cracker in Italy that has been off line since late 2019 is continuing.
- Logistics continue to hold up relatively well in the polymer industry — where most deliveries are made by road — with buyers reporting “more flexibility” with delivery dates, but nothing more serious.

MARKETS

Feedstocks

North Sea Dated crude fell by another $4.29/bl over the past week to $17.75.95/bl on 30 March, under pressure from the continuing collapse in demand and an imminent rise in supply as the Opec+ output agreement expires at the end of this month, while tightening storage capacity is a further bearish infuence. Naphtha fell to $150/t from $185.29/t over the same period, but saw some support towards the end of the week in European terms from a weaker euro against the dollar and from the petrochemical sector, as naphtha moved to a discount to alternative feedstock propane.

Chemicals

Petrochemical prices have remained under pressure from the decline in feedstock costs in the past week. This will be reflected in more April monthly contract prices settlements as they emerge in the next week. The majority of the European market is based on monthly contract pricing, rather than spot pricing.

- Ethylene demand into April remains firm for many producers, supported by demand into essential food, hygiene and medical products and associated packaging, as well as stronger local demand as downstream consumers prioritise local supply chains over imports. This is offset by weakness in engineering plastics and the construction sector.
- Monthly contract prices (MCPs) for ethylene and propylene in April have been settled down €200/t and €175, respectively. The decrease in cracker feedstock costs has supported healthy margins in March and even with the significant decrease lower, contract margins will remain strong. The main challenge for crackers will be the loss of demand and maintaining the fragile equilibrium between cracker products.
- Propylene demand has softened, relative to ethylene, because of its greater exposure to the automotive and other engineering plastics markets. This has taken some pressure off a previously tight market balance, along with imports that continue to be fixed, although this is partially offset by the exposure to reduced refinery production. Spot discounts to the relative MCP have widened in some cases but are still in line with average contract discounts.
- With poor regional demand for butadiene, Europe has exported a sizable amount of butadiene to northeast Asia. In April about 30,000t of BD will arrive in Asia-Pacific and an additional 50,000t will land in May.
- Benzene demand has fallen more sharply than most petrochemicals, leaving the market oversupplied. Around 40pc of benzene demand is linked to engineering plastics, which have been exposed to the shutdowns in the automotive and other non-essential engineering markets.
- The steep losses in benzene, triggered by industry participants rushing to unload in the spot market, opened the arbitrage to the US, based on freights rates of $38-45/t for 5,000-10,000t cargoes. Export opportunities, along with the cutback in refinery operating rates, will provide some relief in an oversupplied European market.
- Margins strengthened for styrene, with the $200/t benzene-styrene spread supporting continued production, particularly for non-integrated units, although at reduced operating rates. SMPO/POSM units are generally running at minimum operating rates because of weak propylene oxide demand for polyurethane following the shutdown of automotive manufacturing across Europe.
- Outright toluene prices have been buoyed slightly by the switch to higher-priced summer-grade gasoline specifications in the past week. But chemical demand remains weak, as the automotive shutdowns across Europe impact demand for TDI. The April toluene contract price will be settled later this week, with expectations for a steep triple-digit decrease based on current spot prices.
- The drop in toluene demand has been more than offset by lower aromatics production from refineries. STDP margins remain positive, with some operators likely to ramp up rates as paraxylene has been supported by relatively healthy PET demand.
- The European methanol contract price was settled at €255/t fob Europe last week, a decrease of €15/t, owing to a continued softening in demand. This is the lowest quarterly contract price posting since the fourth quarter of 2016, when the methanol market was heavily oversupplied. Producer Methanex posted its second-quarter 2020 European Contract

Price at €260/t, down by €15/t from its previous quarterly contract price. Weakening European prices could begin to discourage imports to the region. Downstream of methanol, operations are currently unchanged from last week.

- Liquidity was extremely limited in the MTBE market, with ullage in Rotterdam at limited levels. Buying interest was sustained at a low level from the previous week, with a depressed and long gasoline market weighing on trading activity.
- Northwest European caustic soda producers have come forward with price increase proposals from April, mainly in the €60-80/dmt range. Chlorine offtake into the vinyls and isocyanates sectors is seeing substantial reductions following the coronavirus outbreak, which has forced chlor-alkali producers to revise their chlorine balances from April. Their order intake so far suggests that a tightening of the caustic soda market is imminent, with caustic soda consumption holding up better than that for chlorine. The seaborne markets have already reacted to the shifting market fundamentals as northwest European export prices have risen to $260-290/dmt fob. Import prices in the Mediterranean and Black Sea area have moved up to $360-390/dmt cfr, including import duty where applicable.

Downstream and consumer demand

The ever-stricter lockdowns across Europe continue to take their toll on the economy. Demand for essentials, particularly health, hygiene and food, has surged, but the temporary shutdowns affecting non-essential sectors are not ending anytime soon. The longer they continue, the greater the risk of more permanent harm being inflicted on the economy, and this could be even more damaging as a loss of jobs reinforces reductions in consumer spending and consumption. Relatively high value durables such as vehicles and household goods will be particularly exposed.

- Polymer demand from the food, pharmaceutical and consumer packaging industries has remained robust. An initial surge as consumers stockpiled home essential has passed, but demand should remain at least in line with seasonal norms in April and beyond, as long as the virus does not fundamentally limit downstream production too greatly. Packaging companies may struggle in some cases to maintain full production rates while observing social distancing regulations.
- But polymer producers are steeling themselves for a significant downturn in certain industries during the second quarter — the temporary idling of automotive plants has significantly affected plastic demand from the automotive industry. Compounders selling into the industry are severely curtailing or stopping production, and polymer production sites that supply them are also expecting to cut back rates in April and May. The auto industry is the third-largest consumer of plastic in Europe, at around 10pc of the total. Among commodity thermoplastics, polypropylene (PP) is most exposed.
- Buyers will favour local supply over imports in the coming months, because of concerns about anti-coronavirus measures affecting long-range supply chains. This could bolster order entry for European producers in markets where Europe is a net importer, such as high-density polyethylene (HDPE) and linear-low density polyethylene (LLDPE). But higher freight costs and logistics complications will be a hinderance for European producers in markets such as PVC, where Europe is a net exporter.
- Shutdowns of automotive and tyre plants continue. Even when coronavirus restriction ease, consumers will not feel in a position to go out and buy new cars. Polymer producers and manufacturers of automotive compounds began receiving cancellations in mid-March .
- Formaldehyde producers in Europe are sustaining operations as close to normal as possible, with no major changes reported from the previous week. Supply chains may be liable to interruptions owing to restrictions on movement across the EU.

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