Key markets covered:

Acids
Alcohols
Aromatics
Base Oils
Fibre Chains
Intermediates
Olefins
Oleochemicals
Plastics/Polymers
Solvents
Surfactants
And so much more...

EUROPE CHEMICALS OUTLOOK

2016

QUICK NAVIGATION

ACIDS
- ACETIC ACID/VAM
- ACYLATE ESTERS
  ACRYLIC ACID
- HCL

ALCOHOLS
- ETHANOL/FUEL ETHANOL
- ETHANOLAMINES
- METHANOL

AROMATICS
- BENZENE AND STYRENE
- CYCLOHEXANE
- XYLENES AND TOLUENE

BASE OILS
- BASE OILS

FIBRE CHAINS
- PET/MEG/PTA
- R-PET

INTERMEDIATES
- CAPROLACTAM
- MA/PA
- MELAMINE
- MMA
- MPG/PO
- MTBE/ETBE

OLEFINS
- BUTADIENE/C4S
- ETHYLENE AND PROPYLENE

OTHER COVERAGE
- TI02

PLASTICS/POLYMERS
- AFRICA POLYMERS
- CHLORVINYLS - CAUSTIC SODA/
  PVC
- EPS/PS
- POLYETHYLENE AND
  POLYPROPYLENE
- PLASTICIZERS/OXO - ALCOHOLS
- SAN, ABS
- TURKEY POLYMERS

PU CHAIN
- ISOCYNATES - MDI, TDI

SOLVENTS
- BUTAC/ETAC
- EPOXY/ECH
- IPA, MEK, MIBK
- PHENOL/ACETONE

SURFACTANTS AND OLECHEMICALS
- FATTY ACIDS/ALCOHOLS

UPSTREAM FEEDSTOCK
- CRUDE
- NAPHTHA

NO BIG GAME-CHANGERS EXPECTED FOR EUROPE ACETIC ACID

By: Peter Gerrard | 04 January 2016 12:00

LONDON (ICIS)--The evolution of Europe's acetic acid market appears somewhat impenetrable going into the New Year. In the last few months of 2015, it was relatively balanced and that possibly gives the closest thing to a clue to its behaviour over the next 12 months.

So far as is known, there are no plans regarding major changes to capacity during the course of 2016. Neither significant additions nor any programme of plant closure have been publicised.

Towards the end of 2015, the Serbian plant at Kikinda, MSK, resumed output after a lengthy interruption to production. It was said to be running well after restart and the operator was finding customers willing to buy.

However, it is not certain that the facility's previous capacity of 100,000 tonnes/year has fully come back on stream. Even that amount would not critically affect the balance of the European market going forward, especially as Russian producer, Eurochem, has now withdrawn from export sales.

Taken together, these changes in eastern Europe may account for ripples rather than waves.

Therefore, from the supply side of the equation, only occasional turnarounds will offer variations. Maintenance shutdowns are planned in advance and generally well-managed, so there is nothing that should turn minor ebbs and flows into substantial dislocations.

Of course, temporary, but not always particularly brief, disruptions can be caused by force majeures, as has been seen in 2014 and 2015 but, by their very nature, they are not predictable events.

On the demand side, consumption has been healthy and there is no reason to apprehend a substantial deviation from recent patterns. The European economies have generally returned to gentle growth, and that should at least underpin volumes.

Buyers often state that their requirements are steady and there is not much variation throughout the year, although the usual seasonality can be expected in respect of purchases by purified teraphthalic acid (PTA) producers (which supply the plastic bottles market) and by makers of de-icing products, unless there should be either a very poor summer or exceptionally mild winter, respectively.

The one factor that might make an important difference to the dynamics of the market in 2016 is the arrival, or not, of Chinese suppliers on the scene in a bigger way than has occurred up to now.

That applies not only directly in the case of acetic acid but also indirectly and, given the logistical issues of transporting and storing large quantities of acetic acid, perhaps more significantly, in the case of vinyl acetate monomer (VAM) imports from east Asia.

Acetic acid is used in the manufacture of VAM and, should large volumes of that material start to enter Europe, there could be a corresponding reduction in sales of acetic acid to the established VAM suppliers, which are often the same company as the maker of the precursor.

ACRYLATES OVERSUPPLY TO REMAIN, BUT MODEST GROWTH POSSIBLE

By: Helena Strathearn |
23 December 2015 12:00

LONDON (ICIS)--The dynamics in the European acrylic acid (AA) and acrylates esters market in 2016 are likely to largely mirror those that framed 2015, with the market remaining extremely oversupplied, stable to modest growth possible, and a continued determined push by producers for margin improvement.

Any potential growth is expected to be in line with GDP moves of a few percentage points.

Acrylate esters include methyl acrylate (methyl-A), ethyl acrylate (ethyl-A), butyl-A and 2-ethylhexyl acrylate (2-EHA), and are used to make paints, coatings, textiles, adhesives, polishes and plastics.

Demand for these products, and from the construction industry is closely linked with GDP.

However, any uptick in demand will still not be sufficient to absorb the excess material in the market, and the question of how sustainable the current situation is remains at the forefront of many participants' discussions.

Average AA spot prices started the year just shy of €1,300/tonne FD (free delivered) NWE (northwest Europe), but continued on a downtrend that was evident at the close of 2014. Prices fell to €1,070/tonne FD NWE in February before steadily rising through spring as a spate of turnarounds reduced availability, amid a subtle pick up in demand.

Prices peaked at €1,365/tonne in July, but as supply constraints eased and demand began to gradually soften, so did feedstock costs.

AA and acrylate esters are principally propylene derivatives.

Propylene contract prices were at €1,030/tonne in June, and since then have fallen month on month. December propylene contract prices were agreed at €670/tonne.

In addition to these factors, a swathe of imports entered Europe, supplier competition intensified and the result was steep price decreases, which for the past few months have surpassed the typical propylene cost pass-through, because of weak dynamics.

The slip in AA spot pricing since the end of July until now equates to €445/tonne.

Losses have also been extended to AA contract prices. July contracts averaged at €1,815/tonne and settled at €1,450/tonne in December, which brought prices down to a level last seen in the first quarter of 2010.

Acrylic acid is used as a raw material to make superabsorbent polymers (SAP) for the manufacture of disposable nappies (diapers), surgical pads and other personal care items.

It has been a similar case for the acrylate esters, where average prices for ethyl-A have dropped by €400/tonne since the end of July, while butyl-A spot prices have slumped by €555/tonne in the same period. The butyl-A fall shows a 40% drop in pricing during that time.

The concern on both sides of the market is that if fundamentals continue as they are, it could have a negative impact on the manufacturing base.

It is the potential repercussions of that that concerns players, with the question looming: Will a producer close down if there is still too much material, and, if so, who?

REGIONAL SUPPLY, DEMAND IMBALANCES FOR EUROPE HCL

By: Melissa Bartlett | 29 December 2015

LONDON (ICIS)--Northwest Europe (NWE) 2016 contract prices for hydrochloric acid (HCl) could see decreases on the back of increased availability and stable demand, meanwhile tight conditions in Spain are expected to continue into the New Year.

Negotiations for 2016 annual contracts have been taking place throughout the fourth quarter of 2015, with the majority of players expecting to settle by the start of the first quarter of 2016.

Players have said that decreases are likely for NWE contracts on the back of expected increases in availability due to new capacity coming online and stable demand conditions expected to continue into 2016. BASF inaugurated its 300,000 tonne/year toluene diisocyanate (TDI) plant in Ludwigshafen, Germany, on 17 November 2015.

HCl is produced as a by-product of several chemical processes including those used to make caustic soda, polyvinyl chloride (PVC) and isocyanates. The chloralkali production processes often recycle HCl, while isocyanate producers are key sellers in the European market.

One producer has spoken of €30/tonne decreases on contracts in Germany which are currently assessed at €45-70/tonne FD (free delivered) Germany, adding that despite originally targeting rollovers to small decreases it felt “we learnt very fast that with these prices we would not be competitive.” Later saying “…you do it or you lose business, this is clear, it is for sure that if you do not make these price levels then you are out.”

A broker based in Belgium, where prices are currently €60-80/tonne FD Belgium, has also said: “Certainly we hear €20-30 [decreases] for Belgium as well.”

Early in negotiations, players on both the buy and sell side of the market have spoken of rollovers to small decreases. Many said it was unclear what effect the additional capacity would have on annual contract negotiations.

A producer said: “They have to bring onstream of HCl, okay [the] question is how much more will come, but more will come that’s for sure, more than today.”

However more recently a distributor added: “The prices are very, very, very under pressure in this moment for HCl.” The source also said: “The problem is there is too much material, now and next year, and they expect prices are decreasing.”

The HCl market, which was already considered structurally oversupplied in northwest Europe, has been hit by a succession of capacity increases against steady demand conditions in recent years.

“I’m a little surprised. This is the third year in a row we see decreases,” a buyer said. “We still see the effects of the big producers.”

Players have, however, said that these low prices are not expected to last into 2017.

The new plant at Ludwigshaven is not thought to be running at full capacity, but production rates are expected to be ramped up. The company also operates a plant in Schwarzheide, Germany, which it said will be taken out of operation as production at the Ludwigshafen unit ramps up.

Further to this downstream developments are expected to balance the northwest European market. Phosphate producer Ecophos is currently building a di-calcium phosphate (DCP) plant in Dunkirk, France.

A source from the company confirmed the project was progressing as planned and the plant is on track to open at the end of 2017.

Ecophos is looking to use a combination of HCL and phosphate as feedstocks, and forecast the plant could create a demand of up to 660,000 tonnes of HCL per year, vastly increasing its demand in the European market when it comes online in 2017.

Elsewhere tight conditions in some regions of the Mediterranean are expected to continue into 2016. HCl is highly corrosive, making it difficult and costly to transport, meaning it is largely traded within its region of origin. It is therefore commonplace to see differing conditions and prices within the European markets.

Mixed supply of HCl in the Mediterranean has been noted by several European players during the latter half of 2015, with particularly tight conditions seen in Spain.

A producer active in Spain said: “I think its a structural situation in Spain overall, so [a] limitation in regards of supply, and stable demand, but I could not name one specific cause.”

The producer added: “I think this is a situation which we can see as a long-term [situation]… that the Spanish market will be on the tighter side.”

Germany-based Covestro is to close its 170,000 tonne/year methyl di-p-phenylene isocyanate (MDI) plant in Tarragona, Spain, by the end of 2017, the company announced in early December; however the company’s supervisory board said production of polyurethane and hydrochloric acid at the firm’s other facilities in Tarragona would remain unchanged.

A source at the company also said: “The chemical park will have new opportunities for development as a hydrochloric acid logistics centre for Spain.” It is yet unclear what affect this move will have on market conditions in Spain going forward.

UNCERTAINTY CLOUDS HORIZON FOR EUROPE ETHANOL MARKET

By: Vicky Ellis | 23 December 2015 16:00

LONDON (ICIS)--Uncertainty looms on the horizon for the European ethanol market in 2016, from capacity changes to regulatory issues. It will be a year with much change.

Changes include the extra capacity coming online such as Cargill's Barby plant, mothballed plants like that of CropEnergies' Ensus, and Abengoa's performance, which faces a tough financial situation which may impact its European network of ethanol plants.

On the regulatory side, there is also much to ponder - particularly its potential for scandal. There is the EU's formal investigation into three ethanol producers, and its examination of whether Spain's Abengoa, Belgium's Alcogroup and Sweden's Lantmannen colluded to manipulate pricing benchmarks.

Elsewhere, there is talk behind the scenes of a change in import duties for denatured ethanol, which is clouded by the fact that a formal consultation into something similar is also underway.

The market is also anticipating changes in Europe's sugar market: the system of Europe's sugar quotas ends in 2017. Producers will have to adapt and prepare for this.

For both fuel ethanol and traditional, eyes are fixed on Abengoa: Spain's ethanol producer filed for insolvency protection at the end of November after a hoped-for investor backed away. Theories abound about the future of the big swing producer but whether it continues in its current form or is broken up and the ethanol part of the business is bought, market players see it as holding value, particularly with the way margins are currently.

And for the moment, the sprawling Abengoa crisis is not expected to affect its production in Europe.

At the end of November, a source said: "They do seem to be selling and are able to buy grain. We heard they pay cash up front... The medium term is the big question. They'll either keep on working or somebody will buy them."

Another factor is the surprisingly strong price which is making ethanol unattractive as a blending component.

One fuel ethanol buyer said: "Ethanol is an extremely expensive component of gasoline. Whereas ETBE (ethyl tertiary butyl ether) is [around] €600/tonne, ethanol is close to €900 per tonne. It's driven by demand and the mandate. Without the mandate, I think nobody else would use it right now."

Some believe the entrance of Barby, Cargill's beverage and technical 96% grade plant, will take the edge off any upward pressure in Q2. But there are big question marks, not least over the outcome of the EU's formal investigation.

As one European producer said of such a bearish medium-term outlook: "Que sera sera. If I had a crystal ball, I would be millionaire. with the [political situation of the EU, it's not too ideal, you cannot forecast. That's why we're a bit reluctant to conclude year contracts unless for very particular customers."

Various factors could see the supply-demand balance swing in different directions.

As one European buyer said of first quarter discussions: "The [selling] players all have the same focus to increase price, but when you ask on the long term, [they talk] not the future but about today."

On one hand, there is Grangemouth and upcoming ethane supplies at the INEOS petrochemical site in the longer term, when it receives shale gas from the US. This could provide a steady feedstock (ethylene) for the producer, alongside extra capacity at Cargill's Barby in the much shorter term. Still, there are concerns for the future of Abengoa, Europe's big swing producer.

Said the buyer: "There are many new ethanol production capacities coming into market, maybe next year it could look totally different. Today we have Abengoa, but then there is Barby and INEOS, it could change next quarter, maybe the middle of next year. We see it as stable."

One question is how the synthetic vs fermentation grade ethanol relationship will progress. Will there be a period of alignment in price, or divergence, as is seen by some in the market to have been in place since early 2015 when crashing crude meant Europe's sole synthetic producer was believed to have hoovered up market share. With stronger fermentation grade ethanol values, there is interest in how this will pan out.

Elsewhere, as the weak euro-dollar and soft prices had put off imports in 2015, some expect sellers to have a wary eye on price levels, so that European producers don't suddenly face a deluge of imports.

Another trend which has emerged over the past few years is diversification, said one source.

After a turbulent second half of 2015 – a series of disruptions include a Czech Republic plant explosion, French strike at Tereos, force majeure at INEOS thanks to upstream troubles, delayed new capacity at Cargill, financial troubles at Abengoa, not to mention CropEnergies' Ensus closing indefinitely.

Medium and large scale buyers may continue to be wary of putting all their eggs in one basket, while uncertainty continues on the horizon.

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EUROPE ETHANOLAMINE PLAYERS WEIGH UP ECONOMIC, CAPACITY EFFECTS

By: Heidi Finch | 23 December 2015 14:30

LONDON (ICIS)--European ethanolamine demand is likely to be at least steady, if not improve slightly in 2016, provided the exchange rate and crude oil prices remain favourable and economic recovery in Europe continues, according to market players.

However, emerging growth potential in other regions in contrast to the mature European market and Sadara Chemical Co's (Sadara's) new ethanolamines capacity in the Middle East, provided it comes on stream in the second half of 2016, are likely to be other possible considerations next year and beyond.

Nevertheless, trading and buying sources are hopeful the European ethanolamines market is competitive in 2016, if the euro remains weak against the US dollar. This will help support exporting outside of the region, while competition from imports is expected to remain challenging.

There was also evidence of volume constraints from one US exporter into Europe during the fourth quarter of 2015 because of additional demand in the country, although the importer declined to comment on how long this was likely to last.

One trader, which typically imports ethanolamines into Europe from US dollar regions, said it expects to bring normal import volumes into the region in 2016, although it acknowledges that the situation could continue to be tough if the euro remains weak. It added that it will be a matter of "give and take with the customers."

On top of exchange rate factors, crude oil prices, if they remain low in 2016, are expected to underpin the competitiveness of European players against historically low cost producing regions.

One trader said it had already seen an improvement in demand in Europe in the second half of 2015, which it attributed to the combination of the weak euro and cheap crude oil prices. It expects the improvement in activity to continue into 2016.

However, there is also some talk that low crude oil prices may be a mixed blessing for mono-ethanolamine (MEA) demand in certain cases. This is because MEA is often used downstream in the US, in particular shale gas exploration, which is being adversely affected by the increased competitiveness of crude oil.

There is some optimism, however, that there will be some restocking in the early part of 2016, as buyers will need to refill to some extent after the New Year holidays.
Nevertheless, a few traders suggest that buying sentiment is likely to be cautious in 2016, with one trader stating that demand is likely to remain in line with GDP and not more.

In terms of economic recovery in Europe, one producer said it is likely to buoy a slight growth in demand in the chemical industry, although a buyer said it is less optimistic, after what it considered to be some patchy economic recovery in 2015.

"We don't expect demand to grow in Europe in 2016," said the buyer, considering that any structural improvement is likely to be offset by the mature nature of the ethanolamines market in Europe.

As a result, any new downstream production in main end sectors such as surfactants is more likely to be focused on the emerging markets, such as parts of Asia and Latin America, said the buyer. It added growth estimates, for example in parts of Asia, were around 5% if not more and production costs were historically lower when compared to Europe.

It makes sense to have local production to serve the growth potential domestically in the emerging markets which will also reduce freight costs, noted the buyer. It added demand in Europe could therefore be displaced to emerging markets to some extent, although it said that this will probably take some time to have any effect.

The general feeling among players is that the European ethanolamines market will remain well-supplied in 2016, provided there are no major production problems.
There are some mixed views on the possible effects on European supply and pricing in 2016 of Sadara's new ethanolamine capacity in the Middle East.

Some sources said they do not expect any real effect of the volumes in the Middle East on the European market next year, suggesting that these are likely to be more focused on the emerging markets.

A Dow company source stressed that while the new ethanolamines plant in the Middle East will increase its supply flexibility, it said the new capacity will serve the markets in Asia and the Middle East for the most part.

A few European producers said they do not expect to see any volumes ex-Middle East in Europe until the end of 2016 at the least earliest.

Nevertheless, a few buying and selling sources said the ethanolamine capacity in the Middle East could potentially mean more material is available in Europe, at least initially, and therefore could exert some downward pressure on prices.

A few suppliers are hopeful that prices in Europe are already showing signs of bottoming out and could move up in 2016, if demand continues to pick up and provided that the new Middle East supply is mainly used in the local or Asian markets.

Another trader, by contrast, suggested there is some room for European producers to be flexible on price, if crude oil costs remain low, although this remains to be seen.

However, one supplier said it will resist any possible downward pressure for ethanaolamines, particularly in the first quarter of 2016, even if upstream costs were to come off. It added there is an underlying need to recoup lost margins and it has no pressure to sell amid its forthcoming maintenance plans.

Overall, players said it is difficult to gauge how the market is likely to play out next year because there are a number of variables to be considered.

One reseller said: “We think 2016 will be similar to this year, with high expectations and quite a lot going on all fronts.”

CRUDE TO DICTATE GLOBAL METHANOL MORE THAN EVER

By: Ross Yeo | 06 January 2016

LONDON (ICIS)--One year ago, with Brent crude oil prices having slipped below $60/bbl for the first time since 2009, the ICIS outlook for methanol in 2015 highlighted the growing link between crude oil and methanol as an increasingly important factor when considering how the coming year would unfold.

Now, with Brent below $40/bbl and the link with methanol even stronger, crude oil prices will be more influential than ever as 2016 develops.

Not being downstream of crude, methanol was once left largely to its own devices, much less affected than true petrochemicals by their feedstock's peaks and troughs. But the methanol market is now more closely connected than ever before to the energy complex through the emergence and growth of the methanol-to-olefins (MTO) industry in China.

Already the largest methanol consumer in the world, MTO now makes up around a third of the China market's demand, accounting for approximately 17m tonnes/year.

Plants that produce ethylene and propylene (MTO) as well as some that produce only propylene (MTP) compete with traditional naphtha crackers in the olefins market. When crude oil prices decrease, so too do those of ethylene and propylene, and methanol must also compete with a cheaper naphtha feedstock.

This competition creates a ceiling price for methanol in China, above which the increasingly important MTO demand will disappear. And while MTO only currently exists in China, the huge size and influence of the Chinese market means that the link created by it between methanol and crude oil effectively also holds true for the rest of the global market.

Crude oil has thus become what is essentially a proxy feedstock for methanol. Yet it also has the ability to influence the methanol market by impacting demand.
Normally, of course, lower feedstock prices will widen production margins, unless there is an exactly corresponding price decrease in the downstream product in question. But given that crude is not feedstock for MTO, rather for MTO's rival production process, improved cracker economics that arise through low crude oil prices can have a detrimental impact on MTO economics.

It is important to note that the viability of MTO/MTP depends not just on the price of crude oil and naphtha but also of methanol, ethylene and propylene. Indeed, MTO/MTP economics have actually just improved at the time of writing because of increased olefins prices as a result of Shell's cracker outage in Singapore.

Nevertheless, there are some serious question marks over how demand from the China MTO/MTP sector will be affected by the currently weak crude markets.

MTP units are economically underwater, despite the recent improvement in margins, but are still being run, according to many sources, while MTO plants continue to break even.

The real question marks, however, are not in regard to existing units but the new ones that are due to start up in 2016 and how this new demand will stack up against new production capacity in the US.

China has approximately 1.8m tonnes/year of MTO capacity under construction and slated for 2016 delivery, which would mean around 3.7m tonnes/year of methanol demand, assuming they are run at full rates.
Meanwhile, in the US, the shale gas revolution has led to a rapid expansion of domestic methanol production. In fact, during 2015, the country nearly doubled its capacity, raising it from 3.4m tonnes/year to 6.0m tonnes/year with the addition of three new plants over 1m tonnes/year or more and the expansion of another to just under 1m tonnes/year.

The effect of this expansion on the US methanol market has seen prices drop to six-and-a-half-year lows in early December. The extent of the oversupply is more evident when considering the fact that exports to Europe from the US Gulf Coast have taken place regularly during the second half of 2015, largely to plug the gap left by the inactivity of the 1.3m tonne/year plant in Egypt (and which is now running, albeit at unclear rates).

With the US market becoming increasingly self-sufficient for methanol, capacity in Trinidad, which stands at over 6.5m tonnes/year, may have to be rerouted to other regions, spreading the oversupply globally.

Increased demand in China resulting from new MTO/MTP units had been expected to go a long way to absorbing the new US production and rebalancing the global market, but that is appearing increasingly less certain amid weakening crude prices.

Some players are more bearish than others, with one methanol consumer for global derivatives production saying: "There is pressure on [crude] oil, will it go further [down]? MTO will be under extreme pressure, the new ones won't run at all. And what level will the existing ones run at?"

Others have pointed to the fact that, while MTP economics are not healthy, MTO currently remains viable, and suggested that despite the low crude and naphtha levels, existing MTO rates appear safe.

While admitting that that the run rates of the new plants are a big uncertainty, some sources did point out that these units are often run even if they are below the break-even point, as is currently happening with many MTP units.

According to one trader, new plants are usually run for a few months at least after commissioning for guarantee purposes, irrespective of profitability. That said, if a plant is experiencing negative margins, its rates are likely to be minimised, at least.

At the end of the day, no can predict exactly what the prices of crude oil, naphtha, methanol ethylene and propylene will all do in 2016, and how MTO and MTP production rates will fare. What is clear, however, is that the poster boy of the new, energy-linked methanol sector is not as robust as was once assumed, and that collapsing crude values are perhaps having some unanticipated effects.

EUROPE AROMATICS FACE CHALLENGES OF LOW OIL, DEMAND

By: Truong Mellor | 23 December 2015 13:00

Crude oil being pumped out LONDON (ICIS)--With crude oil prices dropping to seven-year lows as 2015 comes to an end, players in the European aromatics sector are facing an uncertain landscape for the upcoming year. Combined with a generally lacklustre sentiment in the derivative markets, this is expected to weigh down on benzene pricing and demand.

Given the uncertainty in the global economy, benzene players are already reporting some hesitation among consumers in committing to purchases in January 2016.

One trader commented that December usually sees an influx of orders for the first quarter, but this year has seen buyers a little more averse to forward purchasing. As the slump in upstream oil and energy numbers continues to unfold, there is no clear indication where the bottom of the market might be.

There have been forecasts for crude oil moving as low as $20/bbl in 2016, and while many believe that this is overstated, there is a widespread sense that prices will get worse before they show any real signs of getting better.

The OPEC meeting in late 2014 and the subsequent drop in crude oil pricing after it was decided to leave output rates unchanged back then saw benzene prices slump as 2015 opened. At the time, there was still a great deal of uncertainty about how deep the downward slide on pricing would be.

However, looking into 2016 now, there is a sense that crude oil prices anywhere between $40-60/bbl is the new market reality at least until 2017. This might make benzene price forecasting slightly less precarious, although there are still many questions hanging over the European market.

The graph above shows some mid-year recovery in 2015, with benzene prices in Europe following the US market higher. There was some stronger derivative demand in the Middle East and China at the time, but the upward movement was largely driven by increasing US gasoline demand.

Though few predicted it ahead of time, it looks perfectly logical in hindsight. With the drop in crude oil prices, the US market saw a sharp rise in gasoline demand as motorists opted to fill up their tanks and drive more.

US benzene prices were under pressure during the first half of 2015, not only from lower oil costs but through various derivative shutdowns limiting consumption. With prices for the preferred octane blender toluene pushing upward as the summer approached, this saw more demand for benzene, which can be converted into cumene and used as an octane booster in fuels.

In 2016, the key global development for benzene supply is the new capacity coming online in both India and the Middle East. It is the former that is likely to prove influential: The Middle Eastern benzene will be largely consumed locally through an integrated production chain, although the impact this has on global styrene supply may prove considerable.

The global shift towards lighter feedstocks in cracker operations will continue next year, despite the slump in oil pricing making naphtha cracking more economically viable, which will mean that the European benzene market will still be reliant on imported volumes.

On paper, the material is there, but the challenge is that Europe is a structurally backwardated market on benzene. Given the lead time for imports, this makes it difficult for the European market to pull substantial volumes. Parcel sizes up 15,000 tonnes and upwards also makes the US Gulf a more viable destination for this material.

Throughout the fourth quarter of 2015, European benzene prices have been carefully tracking developments in the US market. This seems likely to continue next year, with the region acting as a swing arbitrage exporter across the Atlantic.

Certainly, the outlooks for key aromatics derivative markets in Europe like phenol and styrene next year are far from bullish. Phenol operating rates are poised to be kept low, limiting offtake of benzene in Europe. There is some sense that the anticipated Moerdijk restart by January 2016 could see more benzene demand from the styrene sector, but there is still some uncertainty about whether the styrenics chain needs all this capacity.

With the growing bearishness in China, this has also foiled the potential for the region to push global benzene pricing up through limiting exports to the US in 2016. Despite the swathe of new capacities, sluggish demand will keep downstream run rates low and limit internal benzene consumption.

As the Chinese move away from the stimulus-driven policies of recent years, this means that the rest of the world will have to focus on their own regional dynamics to support growth. Looking at the key indicators as 2015 comes to an end, there is little to support a view of any great leap forward.

2016 THE POINT OF RECKONING IN EUROPE CX MARKET

By: Katherine Sweeney | 05 January 2016

LONDON (ICIS)--The European cyclohexane (CX) market will meet a point of reckoning in 2016, with any further changes to the European framework expected to happen then, according to market participants.

A number of sources have said they expect 2016 to be an extremely competitive year, as market players work hard to affirm relationships ready for 2017.

The reason for this is the upcoming changes to European CX production with CEPSA reducing its CX output by 50,000 tonnes/year from the start of 2016 and SABIC closing its Wilton CX facility in 2017.

SABIC have a nameplate capacity of 195,000-330,000 tonnes/year, according to ICIS data.

The combined loss of material to the market means that 2016 will be a time when buyers begin to assess where their future material will come from.

Some sellers have said they are seeing higher levels of discounts being added to contracts than ever before.

Although a trader said it is seeing discounts, it said it is not seeing this on an individual truck basis.

A producer said it the extent to the discounts could be linked to the amount of product in the market, highlighting 2016 is likely to be a competitive year as sellers fight for market share.

With demand expectations for 2016 said by buyers and sellers to be stable, actual demand isn't expected to change, just who is expected to supply the required material.

With SABIC only leaving the market in 2017, some sources said they expected the producer to be fairly active in 2016. However, this could not be confirmed by SABIC at the time of writing.

There is also talk that if any further announcements are to be made on a change to production output, sources expect them to be done so in 2016.

In 2015, two producers confirmed a change of production, first SABIC with the closure of its Wilton, Teesside facility, and then CEPSA reducing output at its Huelva plant in Spain.

CEPSA said it took the decision to reduce CX output by 50,000 tonnes/year as there is more value in producing benzene for the cumene chain business, rather than CX.

Benzene is upstream to both CX and cumene. Reducing CX output will leave more benzene for the producer to direct into the cumene value chain.

Given these changes in production, imports are expected to play a bigger part in the market in 2016 and more importantly in 2017.

With the closure of Invista's adipic acid facility in Orange, Texas, this could free up a substantial amount of CX supply. At full capacity, the facility can produce 200,000 tonnes/year of adipic acid, which would require 140,000 tonnes of CX.

With the changes to the market dynamics, one producer said it is now considering entering the quarterly CX delta contract negotiations process.

Because of consolidation in the market since 2012, a number of producers exited the settlement process, namely Total in 2012 and SABIC in 2014.

The CX quarterly delta is a market reference price, whereby a limited pool of producers and buyers are actively involved in the contract process and the bulk of the market benchmarking against the settled price, which is reached when two producers and two buyers independently confirm the settlement.

EUROPE TOLUENE AND XYLENES STILL RULED BY GASOLINE

By: Rhian O'Connor | 06 January 2016

LONDON (ICIS)--European toluene and xylenes markets should continue to be dominated by gasoline blending in 2016, with downstream chemical buyers still limited in their volumes and largely contract based.

Toluene and xylenes are used as octane boosters in gasoline. Often they are blended within the refinery, either themselves or as mixed aromatics or reformate.

However, they are occasionally bought on the spot markets by gasoline blenders who are short of octane-boosting components.

2015 marked strong demand for gasoline, with low crude prices stimulating US demand. West African purchases were also high, with a growing car pool and technical problems preventing local refineries from running. Finally Asian demand is high, with the switch to new Euro V fuel standards in China, growing demand in India and diesel losing market share.

This has led to a strong pull for gasoline itself and the octane-boosting components out of Europe. As a result, toluene and xylenes have been in good demand. None of this looks likely to change for 2016, with low crude prices and changes in the diesel market likely to further boost gasoline and aromatics demand.

Pricing has been increasingly focused on the gasoline market, with spot prices most usually quoted in the relation to the Eurobob gasoline price. The blend premium, or mark-up over gasoline, has been above $100/tonne for most of the second half of the year, normally a quieter time of year for the gasoline market.

The pull for aromatics into gasoline has come at the same time as a slow-down in the more traditional chemical end markets.

Europe toluene and MX spot vs Eurobob gasoline

Mixed xylene (MX) is separated into its three isomers of paraxylene (PX), orthoxylene (OX) and metaxylene, with catalysts maximising PX production and minimising metaxylene.

PX demand in Europe has been in structural decline for over a decade, as polyester fibre and fabrics have moved to Asia. European PX now largely goes into purified terephthalic acid (PTA) which is made into polyethylene terephthalate (PET) for drinks bottles.

PTA production in Europe is down, thanks to industry consolidation. 2015 capacity is 18% lower than in 2013, according to ICIS supply demand database data. New global capacity, particularly in Korea, has led to cheap-priced Asian product penetrating the European market, and further denting demand.

As a result PX demand has fallen with production down 12% from 2013-15, according to ICIS data.

2016 is not likely to see a resurgence of the PX market in Europe, with global oversupply likely to keep imports of PTA strong, and exports of PX limited. No demand pick-up is foreseen. PX activity in Europe should thus remain focused on contract volumes, with spot markets thin.

OX has long been short in Europe, with imports from Russia key to balancing the market. However, Asian demand has been weak. With the stronger euro any European seasonal demand pick-up in 2016 could be met with stronger imports of product both from Russia and from Asia itself.

Similarly, toluene downstream production has been limited.

Toluene can be converted into benzene either through the toluene hydrodealkylation (HDA) or toluene disproportionation (TDP) routes. In 2014, 50% of European toluene went to make benzene, according to ICIS data. However, in recent times benzene has been priced more or less in line with toluene, making HDA in particular unprofitable.

For 2016, much will depend on the relative pricing of benzene and toluene. According to one HDA producer, a spread

Europe toluene spot vs benzene spot

of around $200/tonne is needed to make it profitable. Low crude values, uncertain derivative demand and new Asian supply, mean few are expecting a resurgence of benzene.

New downstream toluene di-isocyanate (TDI) capacity is also unlikely to make a huge impact on toluene demand. Two new TDI units have come on-stream in Europe during 2015.

However, the actual pick-up in volumes should be relatively limited, with TDI demand seen flat and new capacity taking some time to pick-up. A toluene buyer for TDI production explained that any increase in toluene demand was already included in contract volumes, with little impact seen on spot.

EUROPE GROUP I BASE OIL REFINERY CLOSURES TO CHANGE MARKET

By: Ross Yeo (Additional reporting by Sarah Trinder) | 04 January 2016 10:47

LONDON (ICIS)--The European base oil market in 2016 will be defined, at least in the first half of the year, by two refinery closures in northwest Europe that were scheduled to take place at the end of 2015.

Kuwait Petroleum has sold its Europoort refinery in Rotterdam to Gunvor, which will have ceased operating the site's base oil, wax and bitumen production by the end of December 2015. The refinery has a base oil capacity of 235,000 tonnes/year.

Shell will have also closed the base oil unit at its Pernis refinery, also in the Netherlands, which has a capacity of 370,000 tonnes/year, at the same time.

While the Shell closure has been known since April 2014, the sale of Kuwait Petroleum's refinery and the news of the base oil closure was only announced at the beginning of the fourth quarter of 2015.

The late notice means customers have had less time to arrange alternative supplies for 2016, and so the disruption to the market will be greater.

Indeed, the impact was already seen in the closing stages of 2015 in the complete absence of the usual end-of-year price drop. Normally, many market players try to end the New Year with low working capital and so reduce their demand or offer bigger discounts on sales, and the result is that prices fall.

Yet in 2015, the uncertainty over supply in the early stages of 2016 prevented this from happening. Either consumers had already sought out new suppliers, meaning any excess supply needed to be retained for the additional demand in 2016, or players with spare volumes decided to hold on to them in expectation of tightness to come.

Conversely, some sources have also suggested that in the early stages of 2016 there could actually be an oversupply, albeit a brief one, as Shell and Kuwait Petroleum look to offload their last remaining volumes. As the year unfolds, however, there will be a sizable chunk of supply missing that needs to be replaced.

Firstly, increased imports of Group II base oils from the US will arrive, with a portion of the existing Group I demand in Europe expected to switch over. The switch from Group I to Group II has long been happening at a gradual pace, and the closures have merely served to accelerate that process.

Secondly, the volume of Group I imports from Russia will increase, with Russian producers looking set to capitalise on the closures in northwest Europe.

One producer said that while Europe looks to expand and develop Group II and Group III capacities, Russian producers can satisfy customers with Group I product and therefore expects its sales to remain robust in 2016.

Another source said that European blenders will be key customers in 2016 as they are likely to pay a substantially higher price for base oils than the regular buyers in the Baltic.

Although supply in the Baltic Sea export market improved towards the end of 2015, sources said that producers have sold a lot of inventory for December and even a portion for January and that the year could get off to a tight start as a result.
In addition, buying interest is expected to be healthy as buyers look to replenish stocks following efforts to maintain low inventories ahead of year end.

Demand in the Baltic Sea export market has remained healthy despite the approach of year end, with sources suggesting there is little excess product in the market.
With the Russian New Year holiday lasting until mid-January, market players are under pressure to secure volumes now as if they do not, they will have difficulty procuring product until the second half of the month.

Lower crude oil prices are not expected to have any immediate effect on base oil values, although some suggest that it could exert some downward pressure in the coming months.

One source said that base oil values are already at their lowest possible level and that as a result, it saw no influence from lower upstream costs.

Elsewhere, other sources believed stability on the pricing of heavier grades was likely in the New Year as they were in less plentiful supply than lighter grades.

There was potential for downward pressure on SN150 values according to one source, which said that lower demand and healthier supply for this product amid lower crude oils made its pricing outlook more bearish than for heavier grades.

Quiet conditions are likely in the Black Sea base oils export market at the start of the year as Turkish players look to renew their import licences.

STABILITY IN EUROPE PET MARKET CHALLENGED BY GLOBAL UNKNOWNS

By: Caroline Murray | 07 January 2016

LONDON (ICIS)--Any expectations of stability in the European polyethylene terephthalate (PET) market are sure to be challenged by the continued volatility in global matters.

After a year as surprising as 2015, geopolitically, economically and of course, with the shocking crash in crude oil values, few are prepared to head forth into the New Year with a clear idea of what will happen with PET. This is a market that rarely fails to surprise, notwithstanding turmoil beyond its control.

PET-related plants seem to come and go, sometimes disappearing indefinitely and other times returning under new ownership.

To the delight of customers in north Europe, there are new, competitive PET lines in Belgium (JBF) and the UK (Lotte Chemicals UK).

In the south, Indorama Ventures is taking over Spain's Cepsa, creating interest as to how traditional dynamics in the region may change under the ownership of an Asian company.

"…[Cepsa] will keep the same commercial structure, but would need to start to work under a different mentality and different targets," a producer said.

EIPET in Egypt, the new plant seen as a threat to European manufacturers, partially started up but soon shut down for commercial reasons, so has not been in the picture as planned.

"2016 depends on who will disappear and who will still be around," a reseller said, referring to the questionable survival of certain PET plants.

Even upstream purified terephthalic acid (PTA) has its share of producer drama. Artlant PTA in Sines, Portugal – will it stay or will it go? Another brand new plant that hiccupped its way out of the old year, is shut down and still there is no official news of what lies ahead not just in terms of output but of ownership, too.

A recent technology refit at BP's Belgian PTA unit may have quashed rumours of its potential sale, but some people say it is still possible the plant will follow in the steps of its US counterpart.

Despite plentiful domestic PET capacity, imports form an integral part of the European psyche, as decisions are made almost daily, according to the arbitrage with Asia.

"In this business we [used to] talk about years, then seasons, then months and now we talk in weeks. Things change very fast. It's not just PET, it's the chemical industry," the producer said.

The euro:US dollar exchange rate and downbeat sentiment in Asia will help mould the European market in 2016.

Global demand is expected to rise on average by around 5%, although a lower figure is anticipated for developed countries, sources said.

Apart from the matter of demand, it is the behaviour of buyers that impacted 2015 and may do so in 2016, as uncertainty causes hesitation that keeps them away.

This degree of nervousness, coupled with poor margins could see risk-averse PET producers maintaining low operating rates and reducing availability.

After an extraordinary year that saw PET feedstock on monoethylene glycol (MEG) go short, the market paints a different picture for 2016.

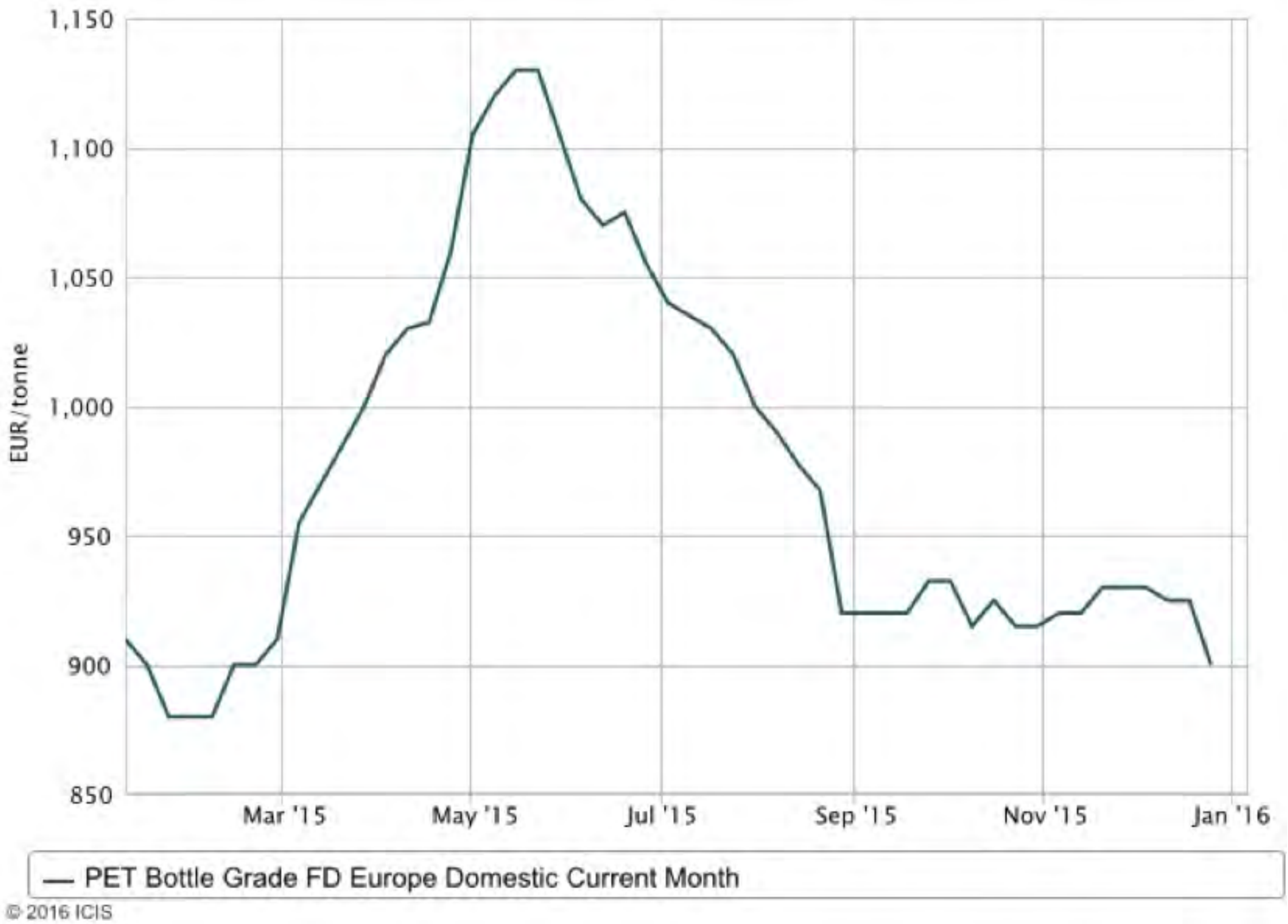
"It is very, very likely MEG supply will increase [in 2016]," a producer said, echoing comments made by others across the chain.

Production issues that dogged MEG in 2015 have been fixed, and if Asia does not suck up the product from the Middle East, it will likely shift to European shores, particularly if Iran has renewed access to Europe. An extra 10,000 tonnes on the MEG spot market could cause havoc.

Paraxylene (PX) should continue to follow Asian trends, which at the moment do not look particularly upbeat.

So, on average, PET prices may hover in a wide range either side of €900/tonne FD (free delivered) Europe, but the year could be peppered with price spikes as the market responds to global volatility, according to sources.

The chart below shows the average free delivered price for domestic PET in 2015.



All this comes with a caveat: "In 2016 we will have the same mess we had all of 2015! I think it's completely unpredictable," as one participant so eloquently put it, echoing comments by others.

FIBRE CHAINS
RECYCLED POLYETHYLENE TEREPHTHALATE

VIRGIN PET LENDS INSTABILITY TO R-PET FUTURE

By: Luke Milner | 28 December 2015 16:30

LONDON (ICIS)--The European recycled polyethylene terephthalate (R-PET) market is entering 2016 with the expectation of initial stability.

Prices slowly weakened throughout the latter half of 2015, following declining virgin polyethylene terephthalate (PET) prices. Virgin PET competes directly with R-PET in certain applications.

R-PET will enter 2016 with continued pressure for low prices as virgin PET prices remain low and the latter's outlook remains uncertain, which hampers the R-PET market from developing greater certainty over future price trends.

In supply and demand terms, the R-PET market will enter 2016 in a healthy position, thanks to post-consumer PET bottle availability.

In 2015, large parts of Europe enjoyed long periods of warm weather which led to an increase in PET bottle consumption and as a result better post-consumer PET bottle availability.

Although this availability declined in November and December, it remained stronger than in analogous periods in previous years.

Post-consumer PET bottle availability generally improves after the winter holiday period and should lead to the continuation of the good supply seen in the latter half of 2015 and into the early phases of 2016.

However, one German recycler said that rising prices during tenders was pushing up bottle prices for early 2016 and said that this would, in turn, lead to higher R-PET prices.

Although this opinion was echoed by other German market participants, R-PET sources in other European markets said that they expected to see pricing stability in early 2016.

However, the expectation of continued stability is based on the assumption that virgin PET prices will remain stable in early 2016 and, as stated above, this remains an unknown.

Falling raw material prices in the virgin PET chain in December are leading some market participants to expect further drops in virgin PET in early 2016.

Although there is some expectation that R-PET flake prices will remain stable from December into January, several market participants expect rising prices in the first quarter of 2016 should post-consumer PET bottle prices rise.

R-PET flake availability in early 2016 is expected to remain healthy, as in late 2015, however, this will be dependent on the continuation of good post-consumer PET bottle supplies.

The supply and demand dynamics on the R-PET mixed-coloured flake market in late 2015 were tighter than on the R-PET colourless flake market. This led to R-PET mixed-coloured flake pricing being better protected from the declining virgin PET price and seeing more limited drops that R-PET colourless flakes, which had good availability in 2015.

It remains to be seen whether these two dynamics will remain on the market in 2016.

The R-PET food grade pellet market expects to see price stability in early 2016, despite facing competition from low virgin PET prices.

However, companies with political and environmental commitments to purchasing R-PET food grade pellet prices have helped the R-PET food grade pellet market to reduce its exposure to fluctuating virgin PET prices and demand for R-PET food grade pellets is expected to remain healthy in early 2016.

EUROPE CAPRO DEMAND TO BE STRONG IN Q1 AMID CRUDE CONCERNS

By: Vasiliki Parapouli | 30 December 2015 15:30

LONDON (ICIS)--The European caprolactam (capro) market is widely concerned over the evolution of crude oil prices in 2016 and the possible impact on benzene, capro's key feedstock.

"I do not see a chance for a price hike in capro in 2016 since crude prices are falling and this could also affect benzene. I expect no big changes mainly on the back of raw material costs and supply/ demand balance," a producer said.

According to a buyer: "My feeling is that 2016 will be a tougher year due to the fact that benzene prices are crude oil driven and crude keeps going down."

However, a second producer said crude oil prices are difficult to predict: "Crude prices might be going down at the moment but they could also increase quite quickly. For example, if there will be another incident linked to terrorism, prices will go up again."

"I would say that we will see some calmness in the Asian market until the Chinese New Year but this is normal. Europe itself is not doing so badly so I expect the first quarter of 2016 to be quite stable," the source said.

A great concern among capro producers in 2016 will be weak margins, a major problem the market was also facing in 2015.

"If both capro and nylon 6 margins remain as they were in the last two months of 2015, then the situation will not be sustainable in the long term," a producer said.

The outlook on demand seems positive for 2016 with market players expecting order intake to be strong at least for the first quarter of the year.

"I think that demand will pick up both in January and February because people will need to restock; therefore I believe the market will look bullish for the first quarter. Capro demand is supported by the positive trend seen in downstream nylon 6 demand; from the carpet sector to the automotive and even textiles we see a good performance," a capro producer said.

"The trend could continue in 2016 but maybe not in the same pace as in 2015; I think it will be around 2-3% whereas in 2015 it was 5-10%," the source added.

A capro buyer said 2016 will probably prove similar to 2015 in order volumes: "I do not expect a big growth of the capro market. My feeling is that the situation will be quite balanced."

The capro market is structurally oversupplied by around 300,000 tonnes/ year, according to market estimates. There has been talk of the need for rationalisation for several years.

"If a new polyamide project in Poland goes on stream in 2016, it will further harm both nylon and capro," a producer said.

A capro buyer seemed to share this concern: "No doubt there is too much capro in the market and of course too much nylon. The producers do not seem capable of controlling the downstream nylon 6 market and have let the situation get out of hand.

"Let's hope that European capro will pick up in 2016. Otherwise, if this does not happen, we are very pessimistic about the viability of both markets. Both buyers and sellers should be united on this and not try to fight each other," the source added.

ASIAN MA IMPORTS TO PLAY BIGGER ROLE IN EUROPEAN MARKET

By: Yana Palagacheva | 30 December 2015 11:30

LONDON (ICIS)--European maleic anhydride (MA) market participants recently started seeing a new factor added to their pricing equations - a growing interest from Asian suppliers.

MA in Europe has traditionally been a local market affected mostly by the regional demand and supply.

In the second half of 2015, however, sources started increasingly speaking of competitively priced Asian imports – a factor that contributed to the drops of both spot and contact prices in the third and fourth quarter.

Imports of liquid material, which is the bigger market in Europe, have not until recently been seen in the European market.

The Q4 price has settled down by €120-130/tonne, while spot prices fell even further.

As of 14 Dec, spot prices have fallen to €1,100- 1,200/tonne for liquid and €1,250-1,350/tonne for flake MA.

Some buyers expect to see a growing trend with more volumes coming particularly from China, where macroeconomic uncertainty and currency devaluation are likely to encourage producers to target different markets.

Some Asian producers have too expressed intentions to target European buyers.

However, a couple of sources on the sell side in Europe have pointed out that the actual import volumes have not increased and are unlikely to rise in the near future.

Flake material is easier to transport, but the European flake market is not big. Liquid material, on the other hand, is more difficult to export as it melts at 65 degrees. It has to either be carried in a special tank or re-melted again before final delivery, which involves additional costs.

Because of this, according to some sources, increasing imports from Asia, are “wishful thinking” and the pressure on the European market is more a psychological effect than anything else.

One trader said: “There is a difference between what is talked and what is done - they overlook the additional cost, but a lot of them will find it out soon … if I get an order, I will supply - but if I find out I am losing money, I won’t do it again.”

Wishful thinking or not, however, the interest of Asia MA sellers in the European market remains a hot topic and a factor pressuring prices in Europe and is likely to remain on the table at least for some time in 2016.

Despite that, producers are largely expected to target increases next year after some sharp drops in 2015.

Their success will largely depend on demand, which did not pick up as much as hoped by producers in the peak season of the year.

Phthalic anhydride (PA) saw better demand in Q4 but was too under big downward pressure mostly due to price drops in feedstock orthoxylene (OX). The OX September contract price fell by €100/tonne, which is quite a sharp drop for this market. This was followed by three consecutive €15/tonne decreases.

Spot prices fell more even more than the contract ones which led to some margin loss for producers.

As a result of that, producers are now targeting up to 10% higher fees for 2016.

Sources believe the attempt will be successful as margins have been squeezed alot over the years and both sides want to make sure supply remains steady.
However, some doubt the target of approximately €20/tonne will be achieved and expect a smaller number of €10-15/tonne to be agreed.

EUROPE MELAMINE SUPPLY A POINT OF CONTENTION INTO 2016

By: Katherine Sweeney | 28 December 2015 09:00

LONDON (ICIS)--Supply in the European melamine market continues to be a matter of contention going into 2016.

Since the end of September supply has been a key talking point in the market, which has been plagued by a series of supply constraints.

Production problems started with a fire on 30 September in the basement of OCI Nitrogen's integrated Chemelot site. Following the fire, OCI Melamine restarted one of its lines at the beginning of October, but there has been no confirmation from the producer as to whether the other line has restarted.

OCI Melamine have two lines at the Geleen, Netherlands, facility - one with a capacity of 120,000 tonnes/year and one with 30,000 tonnes/year.

Austrian producer Borealis have been reported to have had a production problem at its Lutherstadt Wittenberg, Germany facility for much of the fourth-quarter; however, sources expect this to be resolved before the end of the year.

This is also combined with a brief production problem for Polish melamine producer Zaklady Azotowe Pulawy (ZAP), which halted production on one of its melamine lines at Pulawy due to a temperature problem on 10 O ctober.

As the three producers are the largest in Europe this has the potential to upset the supply balance in the market.
However, despite an initial tightening of the market at the height of the problems, since mid-November the vast majority of buyers have stated a loosening of supply.

Throughout the problems, a high number of buyers said contractual agreements continued to be fulfilled, and because of that viewed the market as balanced.

The reason for this, according to producers, is because European buyers are being prioritised over those overseas.

Going into the New Year some producers said there is now a backlog of overseas orders that could squeeze supply in the New Year.
This is combined with the traditional uptick in demand in January, following the seasonal destocking in December, resulting in low inventories at the start of the year.

However, there could also be a further easing to the European supply level with Ameropa set to restart its melamine facility in Romania in December. This has been down for a six-month outage, while the producer's urea unit underwent a revamp. The plant is based in Targu Mures, Romania, and has a nameplate capacity of 18,000 tonnes/year, according to ICIS data.

For 2016, demand is expected to be more-or-less stable, with no indications that the market will become particularly better or worse.

According to a number of buyers, Russian based producer Eurochem, looks to be focusing on its own domestic market, a strategy that has been in place by the producer in the past.
Russia remains an area of growth, with a number of producers saying Russia, along with Turkey, remains a key area of demand and potential for 2016.

Owing to anti-dumping duties imposed against Chinese and Trinidadian producers, European suppliers have seen an increase in demand in the US market for much of 2015.

The euro against the dollar exchange rate also helped to reduce imports into Europe from dollar-based regions, increasing local producers' market share.
Preliminary duties against Trinidadian producers have now been lifted, which could see a decrease in demand in that region for European producers in 2016.

It could also see a decrease of Trinidadian product in the European market, with attention shifted back to the US market.

Anti-dumping duties in Europe against Chinese producers will come to an end in May 2016, if these are not extended there is a potential for the current market dynamics to change. More information on this is expected closer to the expiry date of the current sanctions.

The spot market was relatively inactive throughout the year, with the vast majority of demand being met through contractual agreements. This is not expected to drastically change in 2016, with a number of producers not choosing to partake in the spot business for strategic reasons.

Prices have edged up from €1,315-1,365/tonne FD (free delivered) NWE (northwest Europe) in the first quarter of 2015, to €1,330-1,390/tonne FD NWE in the fourth quarter of 2015.

EUROPE MMA AVAILABILITY TO LESSEN, GROWTH POSSIBLE

By: Helena Strathearn and Katherine Sweeney | 22 December 2015 09:18

LONDON (ICIS)--Methyl methacrylate (MMA) supply in Europe could balance or tighten in 2016 compared with the length seen in the market in the latter half of 2015.

This will most likely be driven by reduced imports into Europe from Asia and the US, and will coincide with expectations of marginal growth for the MMA sector, underpinned by GDP growth forecasts of a few percentage points. Derivative demand for MMA, for example from the construction industry, is closely linked with GDP.

2015 supply was a tale of two parts.

Supply up until September was constrained because of production problems. From early autumn onwards, the market grew gradually longer as constraints eased, and imports progressively rose.

What is expected to change in 2016, however, is the abundance of supply. That is partly because the majority of Asian producers were running at full rates up until November this year. Since then, producers in Asia have opted to reduce run rates – in some cases to 60% of capacity - because of lower demand. As this is expected to continue in the new year, amid schedule turnarounds, this will have an impact on global supply – although the degree to which is not yet clear.

And the uncertainties do not stop there. Along with supply and demand unknowns, raw material cost evolution remains hazy, as does the exchange rate against the dollar and with some players expecting a year of volatility, there is a sense of unease.

There is talk that there could also be less volume coming in from the US compared with that which came in this year.

Europe is a net importer of MMA.
In a period of healthy demand, for example during the spring months, the market can tighten quickly if even just one plant is not running.

The year has ended with demand slowing as destocking measures are under way as normal. However, as coatings players began reducing stocks six months ago, and those from the plastics sector in October, the first quarter of 2016 is likely to start with slow, cautious, but decent demand as market participants look to replenish stocks.

Supply could be limited by February as one producer is set to begin plant maintenance, and that is expected to reduce supplies to the merchant market for a few months. While there are still likely to be imports from Asia compensating for lost domestic volume, this turnaround will also coincide with the Lunar New Year, after which Asian demand usually picks up.

The second quarter is typically the strongest as demand from the construction industry peaks, and as offtake from the coatings sector has a real pull on material.

Q3 supply and demand usually play out in largely the same way as Q2, followed by Q4 which tends to end slower because of winter demand and destocking.

Demand wise, the star for MMA in 2015 has been polymethyl methacrylate (PMMA). It will be interesting to see how this transpires next year.

The PMMA market in Europe is expecting stability to some slight growth in 2016.

Despite the positive outlook, because of the steep drop in upstream MMA prices in Q4, a decrease is widely expected for Q1 contract prices.

The continued growth of the derivative European automotive sector has fuelled growth in the market and has contributed to a strong performance in 2015 for European suppliers.

In October, the European automotive sector posted its 26th consecutive monthly increase in new car passenger registrations, according to the European Automobile Manufacturers Association (ACEA).

This equates to an 8.2% growth between January and October, or 11.5 million units.
With the key use of PMMA being taillights and headlights, any significant growth in the automotive sector has a direct impact on the market.

t is this sector that has contributed towards the expectations for growth, from both buyers and sellers, involved in the automotive sector, for 2016.

The main threat to this growth is the economic slowdown in China, which threatens to slowdown the growth in the automotive industry. A number of market participants in the PMMA view the situation in China as the biggest threat to the PMMA sector.

There were also some concerns about the impact of the Volkswagen (VW) diesel emissions scandal on the growth of the automotive sector.

For the PMMA industry there is a view that even if VW sales do decrease, buying interest will shift to another manufacturer.

The biggest concern was for tier-one automotive suppliers and suppliers to VW, who were being approached by the car-giant to recoup some of its loss from the scandal.

Some sectors, for example the extruded sheets sector, do not have the same positive outlooks, with Altuglas already announcing plans to close its PMMA extruded sheet business. It remains to be seen if there will be any further closures in this sector.

There could also be some pressure in 2016 with polycarbonate (PC) prices falling heavily in Q4 of 2015. If the gap between PMMA and PC closes this could cause some buyers to assess their options.

European producers are also expecting a continued growth in market share in 2016, which helped by the euro against the dollar exchange rate has been a driver for an increase in demand in 2015.

Supply is expected to remain balanced-to-long despite a presence of Asian imports in the market, noticeable for the second half of 2015.

EUROPE MPG, PO BRACED FOR WINTER UNCERTAINTY

By: Stefan Naidu | 21 December 2015

LONDON (ICIS)--The outlook for the European monopropylene glycol (MPG) market remains unclear as of mid-December 2015, mainly due to the uncertainty surrounding the winter weather.

The El Nino effect was projected to increase the levels of snow this winter cycle, however there has been relatively little snowfall thus far.

MPG prices in the first and possibly second quarters will depend heavily on demand from the de-icing sector barring any major price shifts in the upstream propylene and propylene oxide (PO) markets.

There is some demand from the de-icing sector in parts of Europe where there is sporadic snowfall and airports looking to restock inventories, however the volumes are not considered large.

Another factor in the winter equation is the state of the upstream PO market.

While the PO market is not experiencing a severe shortage as it did after Shell's Moerdijk, Netherlands facility was damaged in June 2014, the current state of PO supply was described by one producer as fragile.

If there is a cold and prolonged winter this cycle, it is unclear if the upstream markets and MPG players themselves can cope with significantly reduced production capacity.

There are also signs MPG availability is tightening as a weak euro pushing the competitiveness of exports to forefront of sellers' minds.

The currency, coupled with relatively low MPG prices, precipitated a spike in export demand and supply on the continent has shortened as a result.

The euro has recovered some of its recent losses and, while it remains historically weak, it remains to be seen how the currency will impact the market at the turn of the year.

Contract fee negotiations in the PO market are currently underway. Shell has announced it will restart its Moerdijk PO/ styrene monomer (SM) facility in January 2016 but it is not known what the rate of production will be in the initial stages.

Nevertheless, PO availability for 2016 as a whole is expected to return to normal pre-Moerdijk conditions where it was a structurally long market. Similarly, in the MPG market, there is expected to be more product available in 2016 as more PO becomes available.

At the time of writing, buyers and sellers were negotiating a contract fee reduction of around €200/tonne, however this was not fully confirmed.

It remains to be seen what impact such a large reduction will have on the European PO market, however there has been talk about increased competitiveness of European PO compared to other regions. This has the potential of boosting export demand for PO and its derivatives.

CRUDE, ETHANOL POSE CONUNDRUM FOR ETBE, MTBE COULD RECOVER CALM

By: Vicky Ellis | 30 December 2015 10:00

LONDON (ICIS)--Diverging paths could lie ahead for the ethers which are in some ways interchangeable: methyl- and ethyl tertiary butyl ether. That is, MTBE and ETBE.

It is possible MTBE could have a smooth return to previous seasonal norms after a year which was thrown into extreme tightness first by an arbitrage with the US Gulf Coast, and during the summer by a pull on European octanes from China.

Meanwhile, ETBE faces a dynamic European landscape: Thanks to crude oil's low price, and subsequently low Eurobob gasoline and MTBE values, it has spent part of 2015 cheaper than fuel ethanol.

Europe's MTBE outlook is not likely to change significantly. In the short term, MTBE's profitability versus ETBE will influence supply, as some producers can switch between the two, using different feedstock: ethanol for ETBE, and methanol for MTBE.

The market has already absorbed extra capacity from Evonik without a hitch, in fact it likely plugged the gap left by low inventory after the US arbitrage, alongside an earlier duty change which put off imports.

The region is likely to continue being fairly, but not entirely, self-sufficient. As one trader said in November: “Europe looks after itself. There's very little reason to import from Middle East, you pay high duties.”

Returning to seasonal norms may not be so easy given the low crude values and potential for volatility this creates.

Prices in the doldrums in the latter half of the fourth quarter signalled the advent – for some – of storage economics (holding on to product and selling when prices are higher) for MTBE and other blending components.

Boosted liquidity and price strength lent in the third quarter of 2015 by a producer needing extra volumes appeared to have dissipated by December. If this continues, it could allow the market equilibrium to slightly settle.

Having said this, sources believe it doesn't take much to move the price in Europe.

The usual ramp-up in demand is expected ahead of the summer driving season, when summer specification gasoline is used. This contains a greater proportion of MTBE because it has a lower RVP (Reid Vapour Pressure), meaning it evaporates less easily.

For the illiquid ETBE, a conundrum has been presented by the criss-crossing in price of crude oil (broadly going down) versus fuel ethanol (shooting up) during the course 2015.

This has upturned the received wisdom of ETBE being one of the more expensive blending components, for now.

Depending on what happens to fuel ethanol prices, this could affect demand for ETBE: If fuel ethanol stays strong, it could remain more attractive, but also rise in value.

As a fuel ethanol buyer said: “Ethanol is an extremely expensive component of gasoline. Whereas ETBE is [around] €600/tonne, ethanol is close to €900 per tonne. It's driven by demand and the mandate. Without the mandate... nobody else would use it right now.”

Another source said: “For ethanol producers it is a very complicated moment, because when crude dropped in price and [there is] an almost 50% less price than usual, ethanol becomes very expensive in the market.”

The bullish trend for ETBE values in the fourth quarter of 2015 gave rise to some expectation this could carry over into 2016.

Given the small ETBE market, producers capable of switching between ETBE and MTBE may be examining demand and prices carefully to assess whether MTBE gives them a better margin.

There are mixed views on whether stronger fuel ethanol will drive significant demand to ETBE. One producer believes it could be a bullish flag, but a trader disagrees: “It's unlikely. It's just not there in quantity, and counts for half the sustainability only.” Another point worth considering is the suggestion from one supplier that it may marginally limit its product availability, stressing it would not exacerbate tightness.

MORE OF THE SAME PREDICTED FOR EUROPE BUTADIENE

By: Nel Weddle | 21 December 2015 12:30

LONDON (ICIS)--While European butadiene (BD) market players have few expectations that the soft underlying demand conditions which have kept a lid on prices throughout 2015 will show any significant improvement next year, there is some confidence that Europe will again manage the challenges, albeit perhaps from a trickier standpoint for sellers.

"It's more of the same for 2016," a producer said.

Players had been correct in their expectation that they would have to be careful in 2015. Many – particularly on the selling side – had viewed this year with some trepidation, with some 300,000 tonnes of new BD capacity being brought onstream in Europe.

This is in addition to new capacity that had already been brought onstream in 2014 into an environment that was already structurally long.

How would this volume be accomodated in a global market under pressure from poor performing main derivative synthetic butadiene rubber (SBR) - itself impacted by ongoing weakness in competing natural rubber and compounded by bearish economic data?

Additionally Asia - the traditional key importer of European tonnes - has become more self-sufficient.

As it turned out, Europe again managed better than might have been expected. "We were predicting it [2015] to be worse, but it was better – all down to supply," a second producer said.

A raft of cracker outages – planned and unplanned – and restart delays primarily during the second and third quarters handily cut out any possibility of surplus volume weighing on the market.

Crude C4 (CC4) BD feedstock was restricted not only by these outages, but also through light feedstock cracking which did not follow the typical seasonal cracking pattern having been utilised throughout the year rather than just in the summer.

Alternative routes, such as hydrogenation and even co-cracking for the processing of CC4, also provided better netbacks for some producers and helped them shrug off the despondent BD market.

"Don't underestimate the power of hydrogenation," a trader said, "it can just mop up CC4".

Thorough pre-marketing of new BD tonnes largely through contractual exports to the US also helped to offset the supply length on paper – the result? European BD supply closely tailored to demand levels.

The changing feedstock slate not only restricted CC4 output but has resulted in a change in quality with some BD producers indicating a shift in their product specifications.

"With feedstock changes, we don't get as much BD as we imagine," the first producer said. "The quality [of CC4] has not been as good as in the past."

It added: "On the one side, we talk about increased BD capacity but on the other, we don't know about the impact of CC4 changes."

While we can probably expect the preference for light feedstock cracking to remain, what about cracker reliability?

Reliability issues emerge when crackers are run at high rates for sustained periods – in this case since the advent of the low oil environment in the last quarter of 2014.

There are no signs that average European cracker operating rates will reduce in at least the first half of 2016 with both demand for both key derivatives, polyethylene (PE) and polypropylene (PP), robust and cracker margins very firm. 2015 is on course to be the best average yearly naphtha-based margin since ICIS margin analysis records began in 2002. "Everything that has caused hiccups in price has been temporary, increases have not been sustainable," a source said, adding that Europe had a fairly stable year though moderate adjustments.

Given the supply length – at least on paper – and a limited improvement if any in global demand, it's no wonder then that, according to some European consumers, BD producers have been more flexible in terms of supply contract conditions for 2016 and beyond.

No specific figures have been divulged regarding contractual terms and much depends on individual sets of circumstances, volumes, location, logistics and so on, but there has been talk suggesting a deepening or widening of the discounts to the contract price. Only two to three years ago, the contracts would have seen small percentage discounts to premiums.

BD consumers have said they are expecting to be able to continue to take advantage of competitively priced spot tonnes with sellers' options likely to be restricted to domestic outlets with the arbitrage windows closed.

"I don't have too much to worry about [for next year]," a buyer said

Asian market performance has been a bigger disappointment than was generally expected amid all the well-reported bearish economic data and sources say the signs for 2016 are no better.

“We need some real change in Asia economy and world economy,” the first producer said.

“2016 will be a mess,” one source said.

“In 2016 assuming production is all okay, logically speaking BD should be long and we should be exporting again,” a second trader said.

It seems that European producers have, however, done their homework – pre-marketing of new capacity tonnes, locking in consumers tempted by more favourable contract terms – limiting the impacts of another challenging year as far as is possible.

A CONFIDENT START FOR EUROPE ETHYLENE AND PROPYLENE

By: Nel Weddle | 31 December 2015 13:30

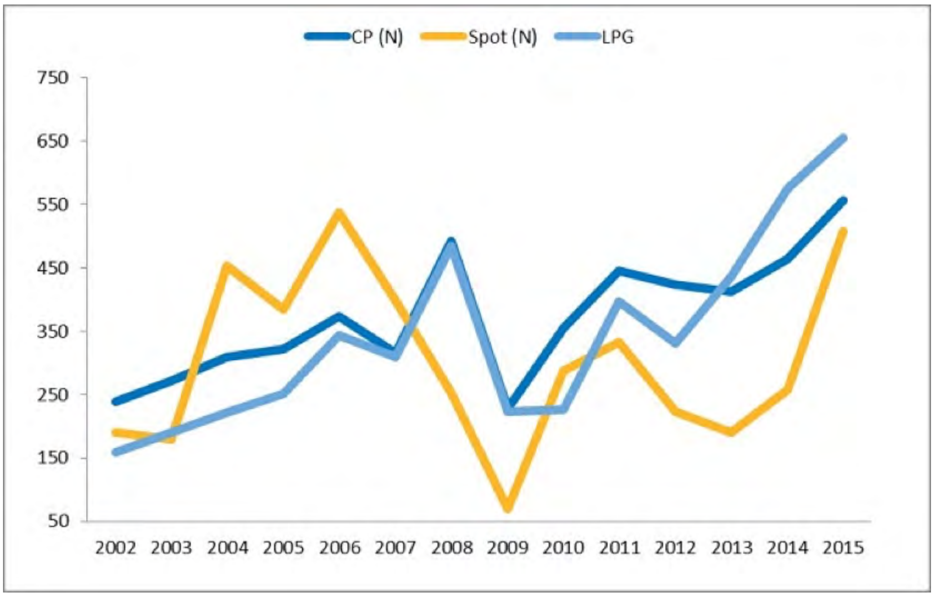
LONDON (ICIS)--What an extraordinary year 2015 has turned out to be for Europe's ethylene and propylene producers, and many expect the buoyant mood to continue well into 2016.

Having achieved historically high margins – the year to date average is the highest since ICIS margin analysis records began back in 2000 – on a combination of low oil, strong demand from key derivatives notably polyethylene (PE) and polypropylene (PP) and a series of unprecedented supply constraints, olefins producers are fairly optimistic that they can hold on to these margins for a while longer.

"It's a positive rollover for next year, we are very optimistic. Previously [last 2-3 years] the view was for a negative rollover," a producer said.

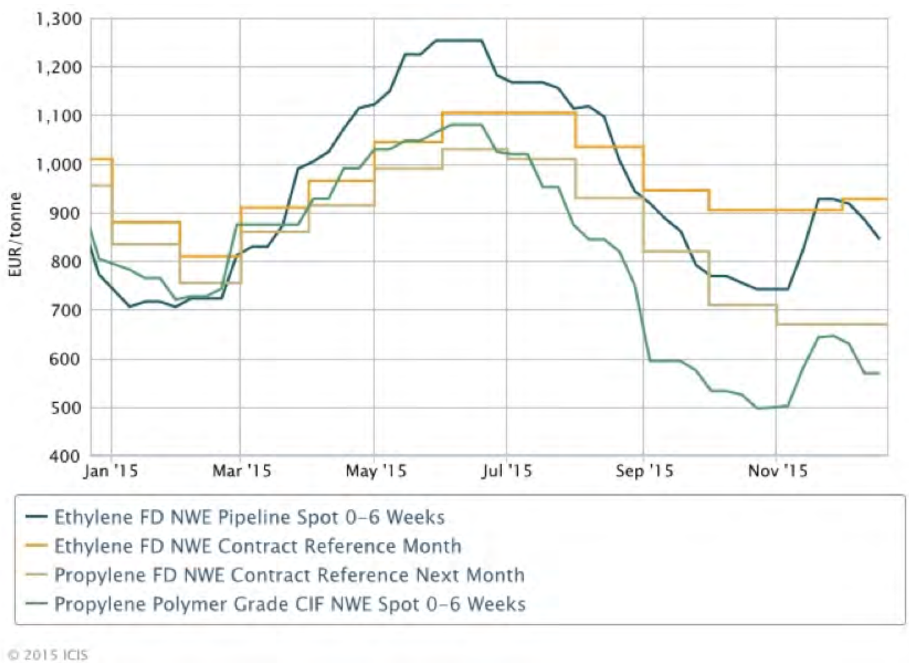
Current indications suggest a robust start to 2016 in terms of overall demand. "The issues have changed the way buyers are thinking, supply security is key – a weak euro helps," a polymer producer said.

Yearly cracker margin averages €/tonne):



"[We] expect strong start in 2016 depending on feedstock, but if we can keep this current range then crackers can continue to enjoy good margins and low euro will help derivatives," a trader said.

"[We are] very confident that 2016 will be very good for us, though there is a small risk that in the second half things will wane," a source said.



Ethylene has been the more robust of the two markets in 2015, with ethylene derivatives in general performing well.

However, it's been a much more volatile year for propylene, as non-polymer derivatives have struggled against competition from lower cost-driven derivatives ex US and Asia.

Reduced propylene consumption, together with some unplanned derivative issues, combined to bring about the lowest spot prices seen against the prevailing contract price for some time.

Players in these applications – oxo-alcohols, phenol, nitriles – say the prognosis is weak for 2016 performance.

"Pressure from global market conditions will continue, our volume expectations for next year are very low – [I have] never seen such low numbers," a buying source said.

Propylene supply in both in the US and Asia is expected to be long throughout 2016, keeping downward pressure on global pricing. Significant on-purpose propylene capacity is due onstream in Asia in 2016.

In addition, firm ethylene demand and firm cracker margins means that European cracker operators will be less inclined to reduce rates.There is a similar situation for refineries, so from a purely European perspective, the supply tendency is expected to long.

“2016 is going to be interesting, high production rates [are] expected at crackers, consequently propylene should be available in Europe and globally,” a second trader said.

“There is [propylene] length globally and this will continue into Q1[or] Q2 of next year,” the polymer producer said.

As a result, in Europe, some players have restructured their propylene contract supply portfolios in order to increase flexibility in terms of spot exposure.

“We have cancelled a couple of contracts and done quite some restructuring in our supply portfolio, we are very cautious,” a propylene buyer said.

“[There will be more] ad hoc spot buying, 2016 is a new game,” a second propylene buyer said, adding that it had structurally reduced its derivative production in Europe and instead will import more from its assets elsewhere in the world.

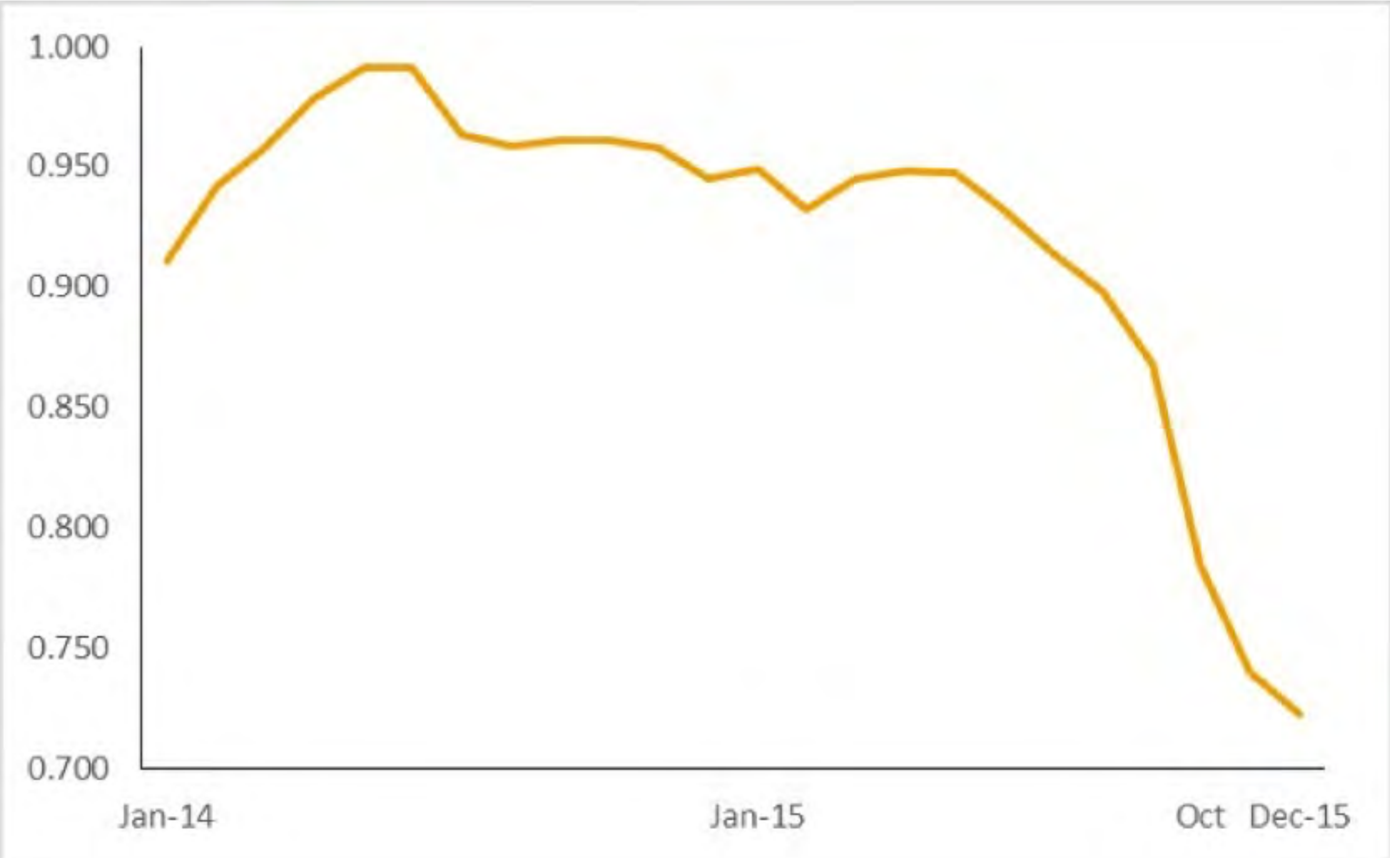
“[Propylene] imports were not seen as so much of a threat before, but the [spot price floor] has been broken, the propylene CP should have come down sooner,” a third trader said, “things have changed and the market is much more competitive now.”

The widening gap between ethylene and propylene contract values and its impact on cracker production dynamics is likely to be a talking point in 2016.

Is the elasticity of cracker margins sustainable? Can ethylene support the complex? These have been frequent questions posed by sources this second half of the year.

Operators had got used to an average propylene, ethylene ratio at around the 0.9 mark, the average since January 2009 when contracts changed to monthly from quarterly, but this year the average has moved to 0.88 as the ratio slipped into the 0.70s from September. A ratio of this level has not been seen since early 2009, and prior to that not since July-August 2001.

Monthly propylene/ethylene ratio:



“Can Europe see the ratio down to 0.6, 0.55, 0.5?” an integrated player said. “The current level of 0.72 is certainly a long term low,” it said.

“Its time to forget that old view, they [cracker operators] have managed before,” the polymer producer said, adding “it is the new normal”.

“[It should be] fundamentals managed by economics and, if it come to it, changes in production dynamics. We need to push those boundaries and test that elasticity,” the integrated player said.

“Will producers dare to have a reality check [on propylene CP values] in 2016?” the third trader said.

Given the production problems of 2015, reliability in 2016 is not surprisingly a big concern for consumers.

“Its unfortunate that with low oil and historically high margins, we are not benefiting from that,” an ethylene consumer said.

"We hope for no extra reliability issues so we can also benefit," its said, adding that the one thing they had asked for in 2016 is more information about when and why things go wrong.

"Not to accuse anyone, but we need better and more detailed info," the ethylene consumer said.

From purely a scheduled maintenance standpoint, the slate for 2016 is very thin. The following table sets out the known maintenances to date, but these are not confirmed by the companies in question, and news of planned outages may emerge as the year wears on. Several companies have a policy of not disclosing production or asset news.

COMPANY	LOCATION	TIMING
Total	Antwerp	April-May
BASF	Ludwigshafen 2	Jun-July
BPRP	GSK 4	Aug
Versalis	Dunkirk	Q3
LBI	Wesseling 6	Sep

Another topic that players will be keeping a close watch on is the proposed lifting of sanctions against Iran. There are mixed opinions about the net impact on Europe, a few are fearful, others meanwhile suggest that in reality there are still many unanswered questions regarding timing, whether certain conditions will remain and so on. The Iranians themselves appear confident that the sanctions will be lifted in either the first or second quarters and have been strengthening their **internal processes** in anticipation.

"If Iran sanctions will be lifted next year I fear that we will drown in petchems", a fourth trader said.

"Will Iran be the loose cannon, and have an adverse effect?" a second integrated player said.

European players on the whole remain pragmatic.

"It should be a positive story about the Europe market adjusting to global market conditions to help sustain more competitive positions for derivatives," the first integrated player said.

Agility looks to be becoming second nature for European olefins.

EUROPE TIO2 MARKET NEEDS FURTHER CONSOLIDATION

By: Heidi Finch (Additional reporting by Al Greenwood) | 31 December 2015 15:00

LONDON (ICIS)--There is an underlying and ongoing need for capacity rationalisation in the titanium dioxide (TiO2) market in 2016, not just in Europe but globally, amid a structural oversupply, said European market players.

This follows significant and successive price erosion in Europe during 2015, particularly for commodity grade TiO2, which is used in the main paints and coatings sectors, driven by persistent oversupply and flat demand.

Some sources said they expect TiO2 demand in Europe in 2016 to be similar to 2015 across various end-sectors.

One buyer in the downstream plastics sector said its demand in 2015 in parts of eastern Europe and Russia has been impacted by domestic geopolitical problems and low crude oil pricing, adding it does not expect to see any real improvement in demand next year if these factors remained.

A buyer in the main downstream paints and coatings sectors said while the industrial and marine paints and coatings sector has held up reasonably well in 2015, DIY applications have been suffering for macroeconomic reasons and it anticipates a similar picture for 2016.

Another customer, in the same sector, expects a recovery in demand during 2016 and into 2017 in line with economic cycles, although suggested any recovery is likely to be at slow pace because consumers are expected to remain cautious over spending until there is more stability.

As limited change in TiO2 demand is expected in Europe, supply is likely to continue to outweigh demand structurally.

“We don’t expect demand to pick up to any extent to make any difference versus structural oversupply,” said one TiO2 buyer from the main paints and coatings sector.

This is based on the fact that there is no direct evidence at the time of writing of any plans for TiO2 capacity closures in Europe next year.

However, it is worth noting that producer Huntsman continues to mull possible divestment options for its pigments business, which could include a merger or a spin-off. The divestment of Huntsman’s TiO2 and pigments business is connected to the company’s acquisition of Rockwood Holdings’ performance additives and TiO2 businesses. Huntsman completed the $1.28bn deal last year.

There is some belief that further reduction in TiO2 capacity is still needed in order to make any difference to the market imbalance in Europe and also globally.

Market players did not see any real noticeable relief in the supply length, despite Huntsman’s closure of its TiO2 black-end operations at Calais, in France during the summer of 2015, which removed around 100,000 tonnes/year of TiO2 capacity from the European market.

Players said if the structural market imbalance remains, then they expect that this could continue to weigh on sentiment and pricing in the first quarter. However, any possible downward price pressure is expected to be limited in Europe, if at all.

This is because it is weighed against the significant price drops seen over the past year and the fact that prices can only fall so far before it becomes unsustainable for TiO2 manufacturers to continue producing.

The general view is that TiO2 producers are suffering from a lack of profitability, which is visible from cost cutting measures that a number of producers have already implemented during 2015.

Price talks for the first quarter of 2016 have been underway, with rollovers to reductions suggested and some early settlements already agreed with moderate reductions, according to some buyers and resellers. However, the latter has not been confirmed on the sell-side.

In the second half of December, however, a number of TiO2 producers announced substantial price hikes with effect from1 January, due to a widely acknowledged lack of profitability in the industry.

However, some buyers and resellers questioned any possible upward price pressure in the first quarter because of continued structural length in supply and talk of competitively priced imports from Asia.

There is also likely to be some variation in what is agreed in the first quarter depending on what had been implemented in the previous quarter and whether the Q1 settlements were agreed before or after the price increase announcements.

While prices for commodity grade TiO2 used in the paints and coating sector saw sizeable price drops in the fourth quarter, there was some price stability or limited drops used in other sectors such as plastics and for specialty grade product. This was believed to be due to differing volume leverage.

One buyer in the downstream plastics sector said its price decrease had been postponed from the fourth quarter 2015 and it was hopeful of achieving this in the first quarter of 2016, although it said it remained to be seen if this would be finalised now, following news of the price increase announcements from several producers.

One buyer said it had not yet agreed its Q1 contracts and suggested that its initial price decrease position was now likely to be difficult to achieve in view of the flurry of price increase proposals by several producers.

Some players suggested that there is more chance of a possible price increase in the second quarter of 2016 rather than the first quarter of next year, based on the expectation of the traditional high season in the main paints and coatings sector, which normally takes place during the spring.

Nevertheless, one buyer remains doubtful over whether any price increases will be possible, even in Q2, stating that the pronounced seasonal pick-up seen historically has become less apparent in the recent past.

Another player added: "I think prices will be stable in 2016, don't think there will be the recovery or price increases producers are looking for. Something major needs to happen in terms of supply."

There was some talk that even though there have been some sizeable capacity cuts in the US from Chemours and Tronox during 2015, this is being weighed against Chemours expanding its TiO2 capacity at its Atamira site in Mexico by 200,000 tonnes/year next year.

The latter will mean a net increase of 50,000 tonnes/year in Chemours' TiO2 supply, taking into account its 150,000 capacity reduction in the US during 2015.

Nevertheless, a few selling sources remain optimistic that the TiO2 market will recover soon.

Huntsman's CEO Peter Huntsman recently said at an investor presentation in the US that prices in Europe and Asia appear to have bottomed out, while price and margin pressures in the US continue.

Huntsman said at the same industry event that "the fortunes of the industry can change quickly", adding that he would be surprised if this did not happen sometime in 2016.

One TiO2 feedstock supplier, who is currently working on a mining project at Engebo, in Norway for natural rutile, which is a high grade feedstock for TiO2 production, said "markets are often cyclical, it [the TiO2 market] will bounce back".

The general feeling among players is that there is strong need for market consolidation so that the market could move in a more positive direction and so that profitability in the industry could be restored.

"Market consolidation is needed, if the industry continues not to earn money, something will need to happen," said one buyer.

AFRICA IS AN ATTRACTIVE BUT CHALLENGING MARKET FOR PP, PE

By: Matt Tudball | 12 January 2016 12:36

LONDON (ICIS)--With an ever-increasing supply of domestic polypropylene (PP) and polyethylene (PE) and an influx of foreign imports, China's position as the go-to market for exporters has taken a bit of a knock in recent years, leaving some suppliers to wonder what is next for their PP and PE exports.

Increasingly, thoughts are turning to Africa and its the continent's population of 1.1 billion, whose need for plastics and packaging is growing yearly which its domestic production has no hope of meeting.

However, while countries such as Nigeria and its 167 million people, and Egypt, with its population of almost 84 million, may offer attractive alternatives to a slow China market, these countries and others in the region are not without their own challenges.

The main concerns market participants have about working in Africa are the lack of transparency and stability in the region. One large trader stressed there is not enough steady demand on a constant basis in Africa, and the market is too small and volatile to take risks in.

Looking ahead, a lot of interest is being focused on Nigeria, Africa's most populous country, and gateway to the landlocked countries of Chad and Niger, which add close to an extra 30 million people to the total

While its local producer, Indorama Eleme Petrochemicals Ltd, has a PP nameplate capacity 120,000 tonnes/year and PE nameplate capacity of 360,000 tonnes/year, according to ICIS Plants and Projects database, some sources estimate its annual consumption to be over 1m tonnes.

However, Nigeria has suffered from serious financial problems throughout most of 2015, with a lack of US dollars in the country limiting the amount of credit buyers had access to and significantly impacting demand.

While trade has been taking place with buyers who were able to secure credit outside of the country, the financial situation in Nigeria will continue to affect the country's attractiveness to producers into 2016.

Despite its problems, Nigeria is still attracting a lot of attention from suppliers, with many producers who attended the November GPCA event in Dubai singling the country out as their main target market in Africa going forward.

PE is used in water pouches and PP for rice and cement bags, amongst other goods.

Nigeria's limited domestic production capacity is scheduled to increase in the coming years with the completion of the Dangote Group's world-scale cracker at the Lekki refinery near Lagos. Originally scheduled for completion end-2018, local news reports the company is looking to bring the completion date forward twelve months to December 2017. Once completed the facility with have a PP capacity of 1.7m tonnes while its two PE units (high density and linear low density) will each have a capacity of 550,000 tonnes.

A large proportion of this material is thought to be earmarked for the company's own use in cement bags and other industrial packaging, but there is room for exports out of Nigeria to countries such as Kenya, which require bags for industrial and agricultural use. When the new capacity comes online, it will certainly be a force felt in many parts of the region, sources said.

Similarly, the Egyptian market still faces financial woes due to a lack of US dollars available from banks and from the country's black market. The Central Bank of Egypt capped US dollar deposits at $50,000 to try and stem the flow of forex leaving the country, and buyers faced further difficulties in getting any cargoes they could purchase into the country due to prolonged checks at Egyptian ports.

Despite the appointment of a new governor, sources in the PP and PE market do not expect to see much improvement in the country's economy any time soon.

Suppliers to Egypt are now also battling against an apparent flow of illegal material entering the country via truck. Several market sources have spoken of these cargoes as a major concern for suppliers, with one Middle Eastern producer estimating they could account for up to 40% of market demand. The material is thought to come from Saudi Arabia, where it is being re-exported by buyers via distributors into Turkey.

Additionally, exporters to Egypt need to compete against the domestic producers in the country, with LDPE prices already facing downward pressure in January as a local PE producer lowered its prices to $1,100/tonne CFR Egypt equivalent. Producers supplying to Egypt have no choice but to offer lower or lose bids.

As with the Turkish PP and PE markets, there may be an increasing amount of US material appearing in Africa during 2016. Due to increasing US ethane and ethylene capacity, an estimated 9.2m tonnes of PE capacity will be online in the US by the end of 2018, with around 40% destined for export markets.

Traders and buyers serving Nigeria and East Africa are already seeing offers for US material appearing in their markets, particularly in East Africa, the traders bring material across from the US do not really see markets such as Kenya and Ethiopia as viable options at present.

Despite the seemingly numerous obstacles presented by the African market, from unstable currencies and a lack of forex, to infrastructure logistics problems and security issues in certain regions, players still appear very keen to get a piece of the action of this new, volatile and largely untapped market.

For those willing to take the risk and play the long game, Africa could potentially deliver some of the demand and returns that some now say the Asian market is lacking.

EUROPE CHLORVINYLS PLAYERS HOPE FOR STABILITY DESPITE UNCERTAINTY

By: Chris Barker | 31 December 2015 11:30

LONDON (ICIS)--Demand growth in the polyvinyl chloride (PVC) market, producers' attempts to maintain their improved margins from 2015 and the deadline for converting cells away from mercury production will be the major issues for the European chlorvinyls market in 2016.

Players said that they expected a more stable situation in 2016 compared to the "very extraordinary period" in 2015, with a total of 12 European PVC plants suffering force majeures between April and July as a result of ethylene supply constraints. As a direct result of these issues, PVC prices rose more quickly than ethylene prices in Q2-Q3, improving producers' margins.

Producers are expected to aim to maintain or further increase margins in 2015, with several having complained of a difficult situation essentially since the 2008-2009 recession due to the collapse of PVC demand in Europe.
"This year all the PVC producers in the market have had margin improvement - the first goal for 2016 is to keep this situation and maintain this goal," one producer said.

The PVC market, which generates around 50% of its sales in the construction industry, is directly tied to overall economic performance in most countries. Any collapse in economic growth will have a major impact on European PVC demand.

One trader said that there was serious cause for concern for PVC growth in 2016 because of lack of economic growth in the eurozone, calling a number of southern European countries such as Greece, Spain and Portugal "on the verge of being basket cases".

Although the market has been relatively insulated from the Chinese slowdown so far, it remains to be seen what the full effects will be on the eurozone and thus overall PVC demand.

Despite worrying global hiccups such as a downward-trending crude price, the majority of market players polled predicted more or less stable PVC market in 2016.

One producer anticipated overall market growth of 2-3% next year, and a growing importance for the contract market relative to the spot market due to supply instability in mid-2015 which led to major price spikes, making stability more attractive to buyers.

Views of demand in the caustic soda market were fairly pessimistic from a number of players due to the collapse of the downstream alumina market, with aluminium prices falling by 25% in six months.

However, producers are expected to push to maintain their margins due to the major expenses required to convert plants from mercury to membrane production, with most anticipating an unchanged situation next year.

One other consideration for demand growth in PVC is the poor shape of the important Turkish export market, which consumes around 450,000 tonnes of European PVC per year.

Turkey is plagued with economic problems including a credit squeeze, a weak currency against the dollar which is having negative effects on traders, and its neighbouring countries and major export markets being Iraq and Syria, which are both wracked by long-term sectarian conflicts.

The poor state of the PVC market is already having a knock-on effect on neighbouring areas, with countries in central and eastern Europe such as Bulgaria being flooded with finished goods in the second half of 2015 due to the lack of other export opportunities for Turkish sellers.

However, if demand does recover in Turkey the market will present better opportunities for European sellers compared to the previous year due to new anti-dumping measures of 18.1% of cost and freight (CFR) price against US cargo, which has reduced its competitiveness except for goods to be re-exported.

European chlorvinyl players have pledged to convert mercury and diaphragm cell production, which makes up more than 25% of total European capacity, to membrane production by the end of 2017.

Although a number of players, including Kem One, Akzo Nobel and Ercros, have announced the decision to convert some or all of their plants to membrane production, decisions have not been made on a large percentage of affected capacity.

In addition, some closures have already been announced such at the jointly owned Mercury cell in Runcorn, and some additional closures are widely anticipated.

"I would anticipate that some [PVC and caustic] plants would close, [I] don't believe that all plants will be converted- this has been an expectation for a long time," a trader said.

The completed and anticipated closures are expected to tilt the market in a shorter direction in 2016-2017, but the effect is not expected to be dramatic compared to the total capacity in the European market.

"2016 [will be] generally comparable to 2015...[we expect] more stability rather than major events," on producer said.

EUROPE STYRENICS CHAIN FACES UPSTREAM MONOMER LENGTH

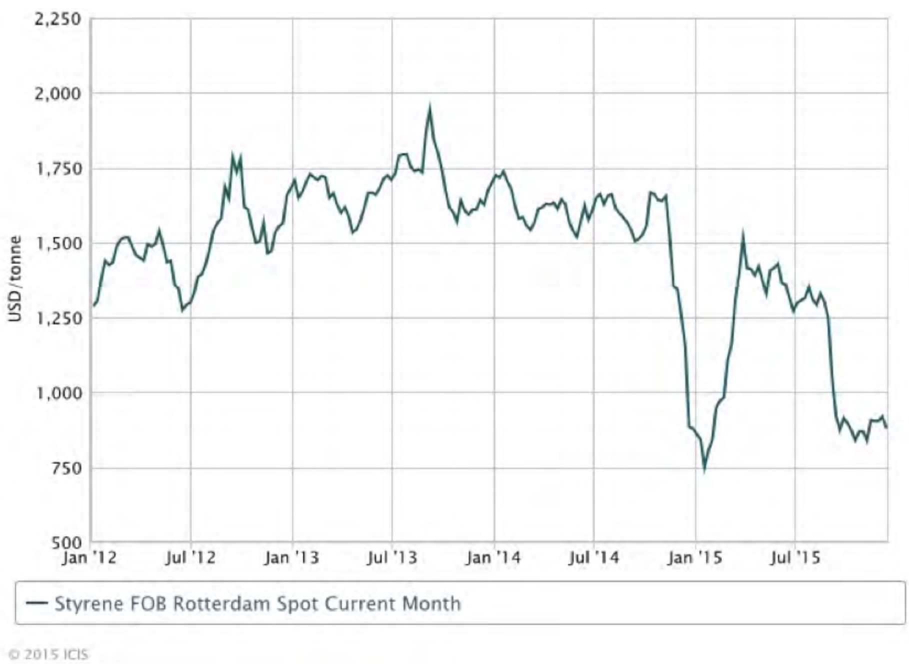
By: Truong Mellor (Additional reporting by Vasiliki Parapouli) | 31 December 2015 10:00

LONDON (ICIS)--After a year largely characterised by soaring prices and healthy margins over raw materials, players in the European styrene market are approaching 2016 with a growing caution as upstream values drop and supply levels look poised to improve.

The key reason for this is the anticipated restart of the Ellba propylene oxide/ styrene monomer (PO/SM) unit by early January 2016, which has been offline since an explosion in June 2014. The Ellba facility is a 50:50 joint venture between Shell Chemicals and German chemicals major BASF. It can produce 550,000 tonnes/year of SM and 250,000 tonnes/year of PO, according to Shell's website.

In recent years, the European styrene market has swung between periods of tight availability driving prices higher and lulls when ample imports and flat demand have weighed down on values.

A combination of delayed imports and logistical constraints pushed European styrene spot levels up to record highs in Q3 2013, and this was subsequently followed by a sharp downward correction. The following year saw the market struggle with weak demand and oversupply from the steady flow of US imports – fixed to prevent the sharp volatility seen in 2013.



Not even a spate of European styrene turnarounds ahead of the peak construction season could counteract the build-up in length, as end users had amply prepared for the curbing of production output by stockpiling volumes.

By the end of 2014, the collapse of crude oil and benzene pricing pulled styrene down even further, and many in the market expected to see lower pricing as 2015 unfolded.

However, by the second quarter of 2015, styrene numbers were soaring amid European production outages. The spread over benzene hit record highs, and the absence of the substantial Ellba volumes were for the first time being truly felt.

So after a year of high costs and a subsequent downward correction in Q4, the observable pattern in Europe suggests that 2016 will be a year of sluggish and healthy availability. Low crude oil and benzene costs certainly support this view from an upstream perspective, while the bearish outlook for the Chinese economy is likely to keep styrenics demand in the region muted.

One European styrene trader said it is expecting styrene to “mope around the $800-1,000/tonne level all year” in 2016, citing the return of the Ellba unit as a determinant factor in this.

But as always, Europe will be subject to the vagaries of unforeseen issues and the impact this might have on product availability. As highlighted above, this has only worsened in recent years, and 2015 showed that even seemingly smaller and previously inconsequential issues such as the Unipetrol cracker outage can find an overall impact on the region.

The other side of the equation is of course demand, which in Europe is looking at some pockets of growth for smaller sectors. However, the historically dominant derivative markets continue to face global challenges.

PS/EPS

The European polystyrene (PS) market initially struggled in 2015, but eventually saw prices push up beyond the rise in feedstock costs amid healthy demand and availability constraints. This was most pronounced in the fourth quarter, with a delayed production restart in early October combined with an upturn in demand after the styrene price dropped quickly tightening supply.

However, the overall outlook for PS demand into 2016 remains steady at best. There is usually an upturn towards the peak summer season, but this may not translate into higher PS pricing if there is downward pressure on styrene.

Buying momentum has remained healthy in Q4 due to mild winter conditions, and with supply constraints and volume cuts emerging, there is a sense in the PS market that production output could be low into 2016. This will keep some upward pressure on European pricing throughout the first quarter and into the traditional peak season.

Similarly, the European expandable polystyrene (EPS) market has seen strong demand as 2015 draws to a close. This has allowed some producers to recoup margins that were gradually eroded over the course of the last twelve months amid soaring styrene numbers. The outlook for European demand next year is fragmented according to country, with growth in some regions anticipated while others will struggle with wider macroeconomic pressures.

ABS

European acrylonitrile-butadiene-styrene (ABS) players expect 2016 to be fairly similar to the previous year both in terms of prices and demand.

With regards to demand, first indications show that ABS order intake will keep its upward trend in 2016, mainly supported by the automotive and appliances industries but also by the recovery of the European economy.

However, if January and February will be slower in Asia because of the Chinese Lunar New Year, imports towards Europe could be more aggressive in terms of prices, creating tougher competition for the European market.

SAN

According to European styrene-acrylonitrile (SAN) producers, the current supply/demand balance of the market suggests that prices will increase in the first quarter of 2016, following the raw materials’ tendency to move upwards in the first months of the year.

With regards to Asian imports, since August 2015, the European SAN market faced significant competition from cheaper Asian material that would come into Europe as a result of the slowdown of the Chinese economy.

SAN players believe that Asian will keep its market share in the European market or even increase it, at least for the first quarter of 2016, as local demand will remain lacklustre and this output can support their business, at least for the short and mid-term.

EUROPE PE, PP SUPPLY TO REMAIN TIGHT IN FIRST HALF

By: Linda Naylor | 22 December 2015 11:00

LONDON (ICIS)--Polyethylene (PE) and polypropylene (PP) players in Europe have experienced a remarkable year with many veteran buyers not exposed to such a situation in the whole of their careers.

Many participants did not find 2015 easy and the dramatic events of this year will **affect markets into 2016**.

The year started in a non-eventful way, with converters buying on a hand-to-mouth basis for fear of building stock in a potentially falling market, but when crude stopped falling and polyolefins buyers came back to the market to replenish empty stocks, supply tightened very quickly and prices began to soar.

Producers had been exporting material as European demand was so weak, and the dollar/euro rate favoured exports from Europe, so that once European demand came back supply was quick to tighten.

As European prices were among the lowest in the world, importers were loath to bring product into Europe with better netbacks in other regions, and the increase in import duties on GCC product, from 3% to 6.5%, imposed in January 2014, didn't help.

As if this wasn't enough, plants that had been maintained to run below optimal levels began to fail, leading to an unprecedented number of force majeures.

Some production lines were closed, and more were in fear of closure. There were anecdotal reports of product being airlifted to converters to prevent line closures and the exasperation of buyers led to many approaching the EU to get the increased import duty temporarily reduced.

Producers pointed out that it was the change in the euro/dollar rate that mainly affected imports, rather than the import duty. There was a great deal of frustration from buyers who also questioned the validity of the numerous force majeures on PE and PP plants in Europe.

The effect of such outages was to lift prices, and to add an element of fear over supply for the future in many a converter's mind.

Many ethylene and propylene-linked contracts in 2015 were very advantageous to buyers, and sellers have found themselves in a position at the end of the year where they are able to impose better conditions for 2016, leaving buyers with little chance but to accept.

"Every converter will have an increase in for 2016 [pricing]," said a PP buyer. Buyers with propylene-plus contracts were generally being faced with an increase of more than €100-150/tonne over 2015, said sources.

These higher prices are expected to attract imports, as net 2015 pricing disappears and better margins tempt sellers back to Europe.

Producers are generally very confident for 2016, in spite of the arrival of material from some new production units.

Borouge 3, with 1m tonnes of PP and PE apiece, has not made much of an impact so far in Europe, and Sadara's new LDPE/LLDPE plant is not expected to have much effect before the second half of 2016.

Even so, sources expect natural growth to soak up increased volumes, and at least one PE and one PP producer has informed its converters that supply will remain tight for at least the first half of 2016.

"I can't see any trigger that could change things for 2016," said a producer of both PE and PP.

By mid-December, however, crude oil prices began to slide, and PE buyers in particular have begun to expect lower prices in the new year.

Producers were not fazed.

"Yes imports will increase [in volume]," said a producer, "but they won't affect the market – we need them."
Time will tell.

PE and PP are used in packaging, the manufacture of household goods. PE is also used in the agricultural industry, and PP in the automotive sector.

MARKET TO SEE IF PLASTICIZER PRICES REMAIN CLOSELY LINKED TO PROPYLENE

By: Yana Palagacheva | 11 January 2016 09:28

LONDON (ICIS)--The price of propylene is one of the major drivers of the price of plasticizers.

According to a rule of thumb, the cost of plasticizer dioctyl terephthalate (DOTP) changes by 50% of the propylene cost adjustment.

As plasticizers can compete with each other, their prices tend to move in accordance as well, with the propylene sharp drops in 2015 passed on even to products not derived from this feedstock, including diisononyl phthalate (DINP) and di-propyl heptyl phthalate (DPHP).

However, in light of a few sharp price falls in propylene, DINP and DPHP producers have increasingly started distancing themselves from propylene being a benchmark for their prices.

The propylene price dropped by a combined €260/tonne in the months from September to December.

Meanwhile, orthoxylene (OX), feedstock for DINP and DPHP, saw a more moderate combined reduction of €145/tonne for the four months.

Producers' intention to keep DINP and DPHP prices uninfluenced by propylene in the last months of 2015 has been aided by an unusual tightness of those plasticizers in Q4.

This was a result of a few supply issues as well as low levels of the river Rhine hindering the transportation of raw material on some accounts.

There has been talk of at least four producers being low on material as a result of feedstock shortages.

The situation started easing in the second half of November with alternative transportation utilities being used, as well as Rhine water levels beginning to rise. Availability is likely to improve therefore in the beginning of the year, but as those two plasticizers are not as well supplied as others, producers of DINP and DPHP may try and keep their prices independent from propylene.

This will partly depend on feedstock price developments next year which at least until recently have been expected to start going up from next year.

However, the price of the crude oil falling below \$40.00/bbl in December made some contacts less confident of the upward trend expected. In any case, suppliers are likely to look for stable to higher prices in January amid squeezed margins.

Dynamics has been different for DOTP, which is derived from propylene and also a well-supplied market, with strong import flows. Prices of DOTP fell therefore at times more than the propylene conversion factor.

As a result, DOTP is now available cheaper than competitor DINP, which according to sources, could eventually encourage some buyers to switch to DOTP. This in turn could create more demand and lead to a more balanced DOTP market.

Production and trade of plasticizer dioctyl phthalate (DOP) will remain limited in 2016 amid health concerns.

December prices were assessed at €1,250-1,290/tonne FD (free delivered) NWE (northwest Europe) for DOP, €1,290-1,320/tonne for DINP, €1,340-1,370/tonne FD NWE for DPHP and €1,270-1,300/tonne FD NWE for DOTP.

Prices of oxo-alcohols were under a lot of pressure in the final months of 2015 – a result of good supply and propylene price drops.

Producers will therefore look to improve margins next year hopeful to see prices bottoming out.

As of 15 December, spot prices were assessed at €720-770/tonne FD (free delivered) NWE (northwest Europe) for NBA, €690-740/tonne FD NWE for IBA and €860-910/tonne FD NWE for 2-ethylhexanol (2-EH).

EUROPE ABS, SAN MARKETS TO REMAIN BROADLY STABLE

By: Vasiliki Parapouli | 05 January 2016 12:00

LONDON (ICIS)--Growth in the European acrylonitrile-butadiene-styrene (ABS) and styrene acrylonitrile (SAN) markets in 2016 is expected to be fairly similar to the previous year, according to market estimates.

Given the current situation and the progress of the European economy, ABS players do not expect big changes for the first quarter.

“2015 was stronger in demand than 2014, but very volatile. Prices of raw materials would change almost every quarter. Nobody can predict but I think 2016 prices will not have a huge difference. Nevertheless, in a market that changes so quickly, there are always some surprises,” an ABS producer said.

A second ABS producer said prices will again largely depend on raw material costs: “Styrene will be the key driver and the supply/demand balance can play a role so as to squeeze or increase margins. I do hope there will not be big movements with styrene as we had in 2015.”

With regards to demand this producer said: “There is no sign that demand will fade in 2016, on the contrary. The only issue I see with demand has to do with Asia; if January and February will be slow there, perhaps imports towards Europe will be more aggressive.

“Also, if parity will not help us, then we will have a problem.2016 can be good demand-wise but tougher when it comes to competition,” the source added.

A major SAN producer said it was not easy to predict the price trend for 2016: “The current supply/demand balance suggests that SAN prices will increase in the first quarter. In the last couple of years, raw materials had the tendency to move upwards in the first months of the year.”

A buyer said: “For January we expect further increases for both ABS and SAN which will probably go through the complete first quarter. We also hope that ABS availability will get better as during the last three months of 2015 ABS was very hard to get.”

Since August 2015, a slowdown of the Chinese economy has raised concerns among both markets’ participants as Asian material at competitive prices, especially in the SAN market, started coming into Europe putting additional pressure onto both products.

“I believe that the Asians will keep their actual market share, if not even grow more. I know, for example, that a very big Asian company has started changing its sales force in Europe in order to offer better service and more technical support. For us, they are a very good alternative to our European producers,” an ABS/SAN buyer said.

European SAN players expect to see lots of Asian material in Europe also throughout 2016 as local demand will remain lacklustre and this output can support their business, at least for the short and mid-term.

However, an ABS producer believes that nothing will really change with regards to Asian imports. “It depends on which sector of the industry one is active in. There are reports that South Korean producers are preparing some very aggressive offers for January and February. But I have been hearing this for quite some time,” an ABS producer said.

Even if China’s growth momentum is a delicate issue for the European ABS and SAN markets, players said they have also other things to worry about: “We have to take into consideration factors such as terrorism and geopolitical tension such as the latest between Russia and Turkey that could have an impact on the market,” an ABS producer said.

“Moreover, lately we tend to hear often about the merging of chemical companies in Asia and for others in Europe that are looking to sell their petrochemicals branch. The petrochemical industry is changing and we have to keep an eye all the time,” the source added.

The Volkswagen emissions scandal, that broke out in September 2015, raised serious concerns in the European ABS market as it is a material widely used in the automotive industry. However, until the end of 2015, the market had not seen any change in demand as a result of the scandal.

“Perhaps there will be some impact in the automotive industry in 2016; we have had some confirmation that VW is adjusting some of its order volumes downwards. However, I see no wider impact in terms of European sales. People will keep buying VW. Probably, there will be more serious consequences in the US,” an ABS producer said.

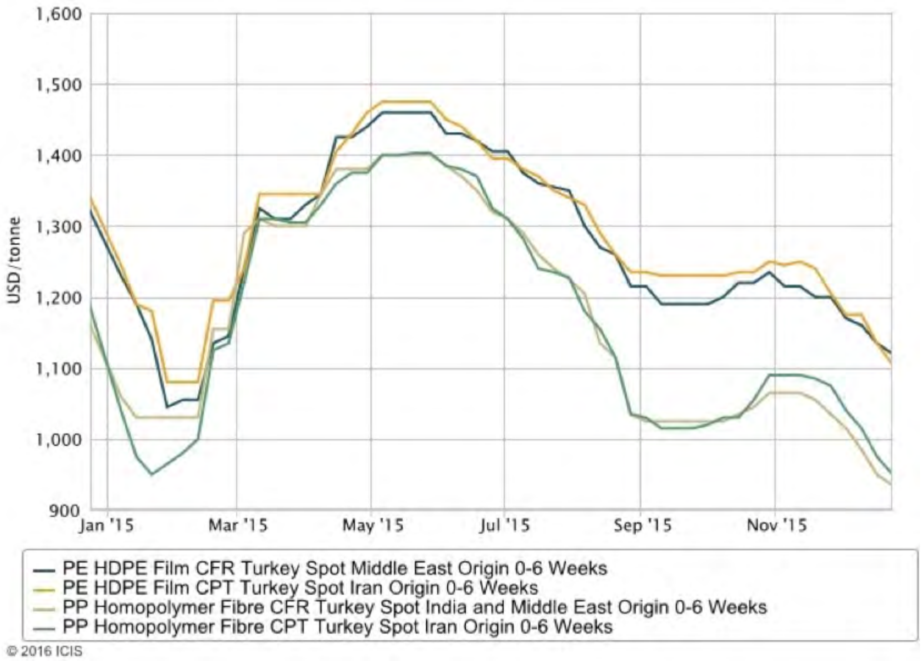
TURKISH PP, PE MARKETS FACING CHALLENGES, UNCERTAINTY

By: Turkish PP, PE markets facing challenges, uncertainty

LONDON (ICIS)--It is hard not to feel sympathy for participants in the Turkish polypropylene (PP) and polyethylene (PE) market, who were subjected to economic and political uncertainty within Turkey while being hit by crude oil volatility, supply shortages, regional conflicts and falling exports throughout 2015, leading to a rollercoaster ride in terms of pricing.

And the less than encouraging news is the situation does not appear to be showing much sign of improvement for 2016. While some of the issues around the country's political situation have been resolved with the election of the Justice and Development Party (AKP) back into power in November last year, the economy, and the Turkish currency, the lira, failed to pick up as some in the market had hoped.

On 4 January 2016, the Turkish lira sat at 2.97 against the US dollar, the weakest level since mid-December, and nowhere near the 2.28 levels in January 2015. During the course of last year it reached a record low of 3.05 to the dollar in September, with only a small recovery seen since then.



Turkish demand ended in 2015 at low levels because of the weak currency. Traders purchasing material in US dollars struggled to sell to buyers in lira, and were increasingly finding it hard to collect payments from some customers, who were in turn being hit by weak exports. PP in particular suffered from drops in exports of finished goods to key markets in Syria, Iraq and Russia. While exports to Saudi Arabia were still good, overall exports of finished goods dropped by around 11%, according to one trader in Turkey.

(Source: XE.com)

Increasingly, sources involved in the Turkish market have also been talking of some businesses in Turkey struggling to meet their payment terms, while some suppliers are moving more towards a cash in advance or cash on documentation basis in order to ensure the goods being delivered to buyers will actually be paid for.

Sources have even said some Turkish businesses have been forced to declare bankruptcy but for the time being, such cases have been very few and far between.

Recent tensions between Russia and Turkey following the downing of a Russian jet over Turkish soil by the Turkish air force in November 2015 have soured relations between Ankara and Moscow, which market participants believe will not be resolved until at least the second half of the year.

There was some positive talk among participants at the 25th Plast Eurasia fair held in Istanbul from 3-6 December about encouraging signs cautiously emerging from the Iraqi market, but it waits to be seen if anything comes of this for Turkish finished goods exports.

Feedstock and upstream costs will be a main driving factor for the Turkish market, as well as price and demand trends in the Asian market. Crude oil prices remain below $40/bbl at the beginning of 2016, and propylene producers continue to enjoy healthy margins.

Both Turkish PP and PE buyers will continue to watch the Asian market closely for price direction, and for demand levels, though with the Lunar New Year holiday in early February, buying interest in Asia is already slowing.

There may also be a shift in the way material, particularly PE, is supplied to Turkey in 2016 with US material already appearing more prominently in the Turkish market towards the end of 2015.

With an estimated 9.2m tonnes of PE production capacity coming online by the end of 2018 in the US, it may become a regular if not key supplier to the Turkish market in light of softer Asian demand levels.
Similarly, the world is waiting to see what will happen once Iranian sanctions are lifted and Iranian suppliers can export to a wider customer base. Iran was the third largest PP supplier to Turkey in 2015 behind Saudi Arabia and Egypt, but with poor demand levels in Turkey, some Iranian producers have been sending material elsewhere. If European prices remain high, there could be some shift in allocation from Turkey to the EU once sanctions are lifted.

Several Iranian suppliers expressed interest in the Italian, Spanish and Belgian markets at December's Plast Eurasia, with one seeing up to 20-30% of its exports destined for Europe post-sanctions. Iranian producers stressed they would not be turning their backs on Turkey, which is still a key regional export market for them.

However, the underlying sentiment for 2016 in the Turkish PP and PE market is one of 'wait and see'. Buyers are reluctant to purchase stock because of lower crude oil, feedstock and Asian prices, but also because in some cases they simply cannot afford to do so.

Sellers are finding the lack of demand in Turkey off-putting, with some suppliers actively seeking out alternative markets for their materials for 2016, which could, in the worst case, lead to a shortage of product and subsequent hike in Turkish prices but at least that may attract cargoes back to the country.

Some producers believe buyers' stock levels are low, and one PP producer believes this lack of inventory will actually lead to a firming in prices in January. A second PP producer, however, has kept its prices stable for January in order to not disturb a currently unpredictable market.

Despite its seemingly ongoing turmoil, Turkey is still felt by many to be an attractive market for polymers, and hopes are that the current bearish sentiment is short-lived and a stable political environment will lead to an improving economy later in the year.

EUROPE TDI MARKET TO BE WELL SUPPLIED WITH NEW CAPACITY

By: Jo Pitches | 05 January 2016 14:00

LONDON (ICIS)--The European toluene di-isocyanate (TDI) market will likely be well supplied in 2016 given the latest new capacity to have come online.

BASF started its new 300,000 tonne/year TDI plant in Ludwigshafen, Germany in late November, approximately a year since Covestro (formerly named Bayer MaterialScience) inaugurated a 300,000 tonne/year facility in Dormagen, Germany. In light of relatively flat demand for TDI, the addition of such significant capacity raises questions.

However, the extent of the impact of the latest addition to the European market remains to be seen as BASF's new plant ramps up.

"Ludwigshafen will not have much impact [on the TDI market]," another TDI producer said.

"Investment for TDI raises questions regarding overcapacity without growth [of demand]. Three things will happen [following the start-up of the new plant]. [The stopping] of imports of TDI, then they [BASF] will start full [TDI] production. People will get very nervous [about overcapacity].

"Some players [have already] dropped out of the market. [Feedstock] Toluene [prices] dropped but margins [for TDI producers] are still poor. The market [demand] is simply not there. Dropping prices will not help long-term. People [producers] need to have a minimum production. I [therefore] do not expect much effect of [the new] capacity on prices," the producer said.

A buyer said: "In 2016 I don't see the market as long because of the new capacity".

"BASF will reduce imports [of TDI to Europe] and produce their own material instead. There has been no official communication [from BASF regarding this], but this is what people know," it added.

A trader said: "Let's wait and see regarding Ludwigshafen. It's not running at full speed [yet]. They might stop imports [to Europe]."

BASF itself was not able to comment.

The company also operates a plant in Schwarzheide, Germany, which will be taken out of operation as production at the Ludwigshafen unit ramps up.

In terms of the future market structure of methyl di-p-phenylene isocyanate (MDI), Covestro announced on 4 December that it is to close its 170,000 tonne/year plant in Tarragona, Spain, by the end of 2017 on the back of "non-competitive production cost", with up to 120 jobs at risk.

After approving the MDI plant closure, Covestro's supervisory board said production of polyurethane and hydrochloric acid at the firm's other facilities in Tarragona would remain unchanged. It is unclear whether this announcement will have any impact on the MDI market in 2016.

Much uncertainty regarding the outlook for both the MDI and TDI markets also stems from global events, including the threat of terrorism and the migrant crisis.

"It's difficult to say [what the impact might be next year]," the trader said.

"Terrorism can affect our business. Normally if a 300kt [TDI facility] started it would have an effect, but there are lots of question marks… The [terrorist] attack in Tunisia will affect business. Tourists will not come to Tunisia. Hotels will need less mattresses. Let's wait for half a year and see what the BASF plant will affect," it added.

From a global TDI perspective, the aforementioned producer said the migrant crisis has actually resulted in increased demand for mattresses.

"There were 180,000 refugees [entering Germany] in early November. 20% more mattresses were sold because of the refugees," the producer said.

However, the source believes the greatest threat to the isocyanates markets will likely come from a lack of investment in Europe from other regions, which could impact downstream industries such as automobiles, construction and the bedding and furniture sectors.

"An increased risk of terrorist attacks in Europe would impact investment planning, and that would impact the use of cars, mattresses, and other industries," the producer said.

"The US [could] hold back from investment in Europe. What could also have an impact is the tension between Russia and Turkey."

EUROPE ETAC/BUTAC PERFORMANCE DEPENDS ON THREE KEY FACTORS

By: Jo Pitches | 28 December 2015 11:00

LONDON (ICIS)--European ethyl acetate (etac) market performance in 2016 will depend on three key factors, with participants' expectations varying according to which they place most emphasis on.

This year the market has been characterised by relatively low prices in Europe, a weak euro versus the dollar and robust competition between sellers.

It is these three factors – prices, the euro-dollar exchange rate and the extent of competition between suppliers - that will largely determine the market in 2016.

The aforementioned conditions have made this year a particularly challenging one for importers, many of whom have also had to deal with high costs.

This has resulted in a significant drop of imports to Europe, particularly from India, and has given European suppliers the upper hand.

In October, an Indian distributor said the volumes of Indian etac sold to Europe in 2015 to date had fallen significantly from 2014.

"There's been a significant drop in imports from India, a 30kt drop this year compared to last year," this source said. "Some [Indian] players have dropped out [of the European market]. In 2016, India's market share to Europe will reduce more. The long-term outlook is not positive."

In late November, the same source said: "2016 will edge out some of the additional sellers. There are too many people [selling etac]. Margins are not good, but the number of players will reduce in the coming year. [Some] importers will be pushed out. There will be less competition."

Participants have frequently complained this year of too many suppliers in the European market, which has been one of the factors keeping European etac prices low as the quest for market share has, in some cases, been given priority over margins.

A European distributor agreed: "There's competition between suppliers. If some distributors and traders drop out [of the European market in 2016], [etac] prices will stabilise. There's always someone who drops prices [in order to gain market share], meaning that market [etac prices] couldn't go up [when feedstock costs did]."

However, both the extent of this competition, and the volumes of imports arriving into Europe next year, will depend greatly on European prices themselves. The higher prices are, the more attractively Europe is viewed as a selling destination.

"[In 2016] we likely won't see a difference in [the quantity of] imports [arriving in Europe], but if Europe prices go up again, that changes [in the sense that Europe could again become attractive to importers]," one producer said. "As things are today, it's difficult for importers."

The exchange rate between the euro and the dollar is another key factor influencing imports into Europe – and regarding 2016, this is another 'unknown'.

A second European producer expects next year to remain unfavourable for importers.

"We're counting on fewer imports," this source said. "At the moment we're expecting similar demand for etac next year. There may be less competition, which could lead to more stable prices."

However the producer points out that much will hinge on both exchange rates and crude oil prices.

A distributor said: "I'm not sure what will happen next year. I think C2 [feedstock ethylene prices] might not be so volatile. Much will depend on the exchange rate. Prices could go up next year, depending on what factors you look at. There's [still] plenty of room for imports. [Local producer] INEOS couldn't cover European demand on their own."

Others expect little change in the market next year, unless exceptional circumstances occur.

"Initially, in the first one or two months [of 2016], [I expect] the same [as the first one to two months of this year], if there are not exceptional situations, like cracker issues," the first producer said.

Scant change is expected for the butac market in 2016, following a year in which both demand and prices were relatively flat, despite significant feedstock price movements in both directions.

As was the case last year, butac producers' margins suffered when propylene prices rose and those of butac moved little.

However, downward feedstock price movements have not been fully reflected in butac prices either.

Some market participants have previously said it would take one of the major butac producers to exit the market in order for any real change to be felt.

However, this is not considered an option.

Speaking of ongoing poor margins in October, one butac producer said: "We're squeezed in the middle between [prices for] C3 and [prices for] derivatives. Butac is just an animal to move [feedstock] butanol. The alternative to move butanol is to ship it to Asia, but prices for doing this are not good.

"If any of us [butac producers] had a choice we wouldn't be in the butac market."

A distributor agreed that butac producers have few options in the matter.

2015 PRESSURES TO CONTINUE FOR EUROPE ECH, EPOXY

By: Luke Milner | 07 January 2016 11:30

LONDON (ICIS)--The European epichlorohydrin (ECH) market is sailing into the unknown waters of 2016 expecting a continuation of the calm seen in late 2015, however, winds of change on upstream and downstream markets, as well as the uncertain impact of Asian imports to Europe, could unsettle the balance.

As in late 2015, movements in key feedstock propylene are expected to play a dominant role in dictating the course of ECH pricing in 2016.

The European ECH market starts 2016 with relatively well balanced supply and demand dynamics, which in late 2015 had little impact in negotiations dominated by propylene price movements.

January is expected to see an uptick in demand for ECH, following typical seasonal trends and the lull experienced during the winter holiday period.

Demand from downstream is expected to remain healthy in 2016, although the epoxy resins market, which is the largest downstream market for ECH, continues to be influenced by imported Asian material.

The declining price of propylene in Europe since summer 2015 has helped to improve the competitiveness of ECH produced in Europe against imported material, allowing European producers to enter 2016 in a better position as propylene in Asia has shown signs of firming at the close of 2015.

Following a strong increase in the volumes of Asian material arriving on the epoxy resins market from mid-2015, both the ECH and epoxy resins market are watching the US dollar/euro exchange rate.

Signs of the euro weakening in late 2015 led to European producers speculating that a stronger US dollar would be good news for European producers and could reduce the competitiveness of imported material.

The epoxy resins market was more heavily impacted by the presence of imports in the second half of 2015, which added length to the market.

However, any reduction in the competitiveness of Asian imports and a subsequent drop in imports arriving in Europe could quickly tighten the market.

Some market participants expect to see feedstock costs rising in early 2016 and for this to be translated into higher epoxy resins prices. This has led to some buyers looking in late 2015 to secure long-term pricing agreements for the first two quarters of 2016 in order to benefit from the low prices on the market at the end of 2015.

November and December 2015 saw an increase in benzene prices and subsequently in phenol prices. These rising upstream costs have led to market participants speculating that further increases will be seen in 2016 and that these will be passed on to the epoxy resins market.

Any increase in downstream demand will be dependent on economic developments in both Europe and also further afield, as the slowdown in China and other markets harms exporters.

SOLVENTS

IPA, MEK, MIBK

SOLVENTS PRODUCERS FOCUS ON MARGINS, OVERSEAS ADDS UNCERTAINTY

By: Chris Barker | 29 December 2015 16:00

LONDON (ICIS)--After a changeable and uncertain 2015, the isopropanol (IPA), methyl ethyl ketone (MEK) and methyl isobutyl ketone (MIBK) markets are expected to become more stable in 2016 with producers focusing on recovering margins lost in the last six months.

IPA and MEK in particular have become more strongly connected to global sellers in 2015, which in the latter case has been driven by attempts to counter supply interruptions from European and US producers combined with the weak Chinese market. This trend is expected to continue into at least 2016.

Margin recovery

Margins have fallen considerably for European producers in the IPA market in the second half of 2015 due to decreases in price not being matched by the falls in feedstock, combined with pressure from US sellers who had a competitive advantage in their feedstock propylene costs.

With propylene prices falling in Europe in the second half of the year, and considered to be soft for January 2016, US material will be a less important factor in the market in 2016.

Due to the soft propylene market, it seems likely that producers will attempt to improve IPA margins by not passing the full decrease on to buyers.

However, IPA prices are not seen as likely to rise early in the year due to improving availability from European producers, with shutdowns coming to an end in late December.

“Constraints are gradually disappearing on production and feedstocks- from the beginning of January… when everyone is back in the office, everyone will want to have lower prices,” a trader said.

A year of globalisation

Towards the beginning of 2015, availability was low for IPA, MIBK and particularly MEK, with prices at near-record highs as a result of production problems at Shell combined with reduced imports from the US.

The response from MEK players was to begin importing more material from China and Taiwan, which helped to bring the market back into balance and bring prices down towards normal levels in the first quarter of 2015.

Towards the end of 2015, MEK prices also fell due to greater pressure from Asian sellers, who were eager to unload cargos due to the poor Chinese MEK demand.

Although these overseas imports are situational, with transport from Asia to the European theatre not economic unless there is a big price difference between the two regions, the weak Chinese market is likely to be major influence on MEK in the early part of the year, with one trader noting: “[Chinese] demand will drive the price [in Europe] for January and February.”

In addition, connections have increased between the European and Asian markets which should make it easier for buyers to obtain material from that origin in the future.

Supply vulnerability

One thing that 2014 and 2015 have exposed is the great vulnerability of the IPA, MEK and MIBK markets to supply shocks.

Volatility was high for all three products as a result of production problems at Shell and INEOS at various times during the year, combined with, according to sources, the shutdown of Exxon’s Baton Rouge MEK plant which has led to the company’s product being spread more thinly between the US and European markets.

This is likely to be an unpredictable factor in next year’s pricing levels due to the vagaries of production shutdowns and problems, with prices likely to spike significantly if there is a production problem due to the limited number of manufacturers now involved with the markets.

2015 PRESSURES TO CONTINUE FOR EUROPE ECH, EPOXY

By: Rhian O'Connor | 29 December 2015 11:30

LONDON (ICIS)--The 2015 wave of phenol capacity coupled with weak benzene pricing has meant European producers have had to focus on steering a course based on profitability not market share, and 2016 should see an acceleration of these trends.

In 2015, global phenol producers were hit with a double-blow of strong increases in supply, and weak pricing caused by decreased benzene values.

The plant openings seen in 2015 were largely in China, which reduced Chinese import demand for phenol and co-product acetone.

As a result, other areas in Asia became significantly longer for both products, reducing the export potential from Europe and the US and making other importers such as India extra-competitive.

Asia represented some 80% of Europe's phenol exports in 2014, with India about half of that.

In 2016, another three plants are due to start, with a combined capacity greater than the 2015 three. Instead of being in China, these plants are focused in southeast Asia and the Middle East.

Company	Location	Phenol	Acetone	Commercial Operation
Sinopec Mitsui	Shanghai	250	150	January 15
Cepsa Quimica	Shanghai	250	150	April 15
Formosa Plastics	Ningbo	300	180	May 15

All numbers = capacity in thousand tonnes per year

The Petro Rabigh plant in particular is seen as a threat to European markets, with transit times into the Mediterranean of around a week. However, most players believe this impact will be felt more in 2017 than 2016, with some start-up delays possible.

The new plants, combined with disappointing global growth rates, may have a further dampening effect on global pricing, and curtail export potential from Europe to Asia for both phenol and acetone.

The US may need more acetone, due to its 2015 consolidation and reduced phenol exports. However, with Asian product likely to be plentiful, US buyers may look to the Pacific rather than Atlantic for product.

Company	Location	Phenol	Acetone	Start-up expected
PTT	Thailand	250	155	Delayed to Q1 16
Kumho P&B	South Korea	300	185	Q2 16
Petro Rabigh	Saudi Arabia	275	160	Q3 16

All numbers = capacity in thousand tonnes per year

Acetone imports into Europe from Asia or the Middle East could increase in 2016, both under a contract basis and opportunistically. The watchword for buyers in Europe now is flexibility, with many looking to minimise domestic contracts to buy on spot or import markets where pricing is favourable.

Imports of phenol may be limited, with one US producer reportedly reducing its presence in Europe. The US continues to be the main source for imports of phenol into Europe. Asian product is scarce in Europe, with transport difficult and costly and quality concerns.

However, downstream derivatives may be increasingly threatened by cheap Asian products. These include bisphenol-A, epoxy and phenolic resins, as well as nylon intermediates such as caprolactam and adipic acid. This could reduce phenol consumption in Europe.

Much will depend on the key euro to US dollar exchange rates, with recent fluctuations clouding the picture. A stronger euro could lead to more imports of both acetone and downstream phenol derivatives.

Europe phenol and acetone net exports

Source: ICIS supply-demand database

The net result of this trade pattern for Europe production is likely to be a cut in operating rates, as phenol producers export less phenol and acetone to Asia and even face less demand in Europe thanks to competitive imports.

The cut in operating rates should also help phenol producers to reduce acetone oversupply and push up phenol prices.

Margins were hit in 2015 due to falling benzene prices, with the conversion ratio from benzene to phenol not exactly equal to one.

Producers are now gunning for increases on adders over benzene of up to €50/tonne for 2016, with the average contract likely to rise €20/tonne or more. One of the tools they are using is lower supply, with producers willing to walk away from unprofitable business.

Some players question how much integrated producers can reduce volumes. However, with a focus on profitability and less acetone export potential, higher phenol prices in Europe and lower volumes look like inevitable headlines for 2016.

UPSTREAM, FOREX EXPECTED TO IMPACT EUROPE FATTY ACIDS/ ALCOHOLS

By: Stefan Naidu | 06 January 2016 15:00

LONDON (ICIS)--Even though Q4 demand was seasonally low in the European palm-based fatty acids market, the outlook for pricing in Q1 and beyond remains unclear due to upstream factors.

Palm-based fatty acid prices in Q1 were expected to fall due to an oversupply in Europe and weak demand towards the end of 2015, however there have been significant developments since then which may complicate the Q1 settlement.

The euro weakened versus the dollar in November 2015, down to $1.05, only to recover to $1.07 at the time of writing.

As the euro weakened, market players expected fatty acid prices to rise as the feedstock is priced in dollars. Even though the euro has since recovered somewhat, it is still at an historically low level and it remains to be seen whether it continues to be a significant point of negotiation.

Beyond the currency exchange, the feedstock palm kernel oil (PKO) price was rising at the end of 2015 on the back of a weaker harvest in the southern Malaysian state of Johor.

The price was also boosted by expectations of increased demand from China in Q1 as this happens seasonally during the Lunar New Year holiday period.

Similarly, in the tallow-based fatty acids prices are expected to rise in early 2016, despite weak demand in Q4 2015, as feedstock prices were rising at the end of the the year.

The firming of animal fat prices was driven by increased demand for biodiesel, however this was not widely confirmed in the market.

The supply of animal fats generally falls towards the end of the year, just before the animal slaughtering season begins at the end of Q4 and beginning of Q1.

The fatty alcohols market is similarly affected by both the currency exchange rates and the upstream conditions in the palm kernel oil (PKO) market. Sellers said the PKO price firming means fatty alcohol prices must rise, however it is unclear whether the strengthening euro will hamper any potential increases.

At the time of writing, negotiations were ongoing and no price agreement was reached.

Sellers also spoke about the El Nino weather phenomenon and how this may affect palm oil harvest in 2016. It is unclear whether this was the reason for the reduced December harvest in southern Malaysia.

It remains to be seen whether harvest will fall in both Malaysia and Indonesia due to El Nino as weather patterns are notoriously unpredictable.

THE YEAR THE WORLD DROWNED IN OIL

By: Kawai Wong | 21 December 2015 14:00

LONDON (ICIS)--The international crude oil market is rarely stable and 2016 will not disappoint. Iranian crude oil returns to the international markets adding to the global oversupply while brimming US crude stockpiles is seriously testing storage limits. South Korea's freight rebate policy reform could potentially skew international oil pricing benchmarks while China's expected launch of a crude oil derivatives contract will challenge Brent and WTI benchmark status.

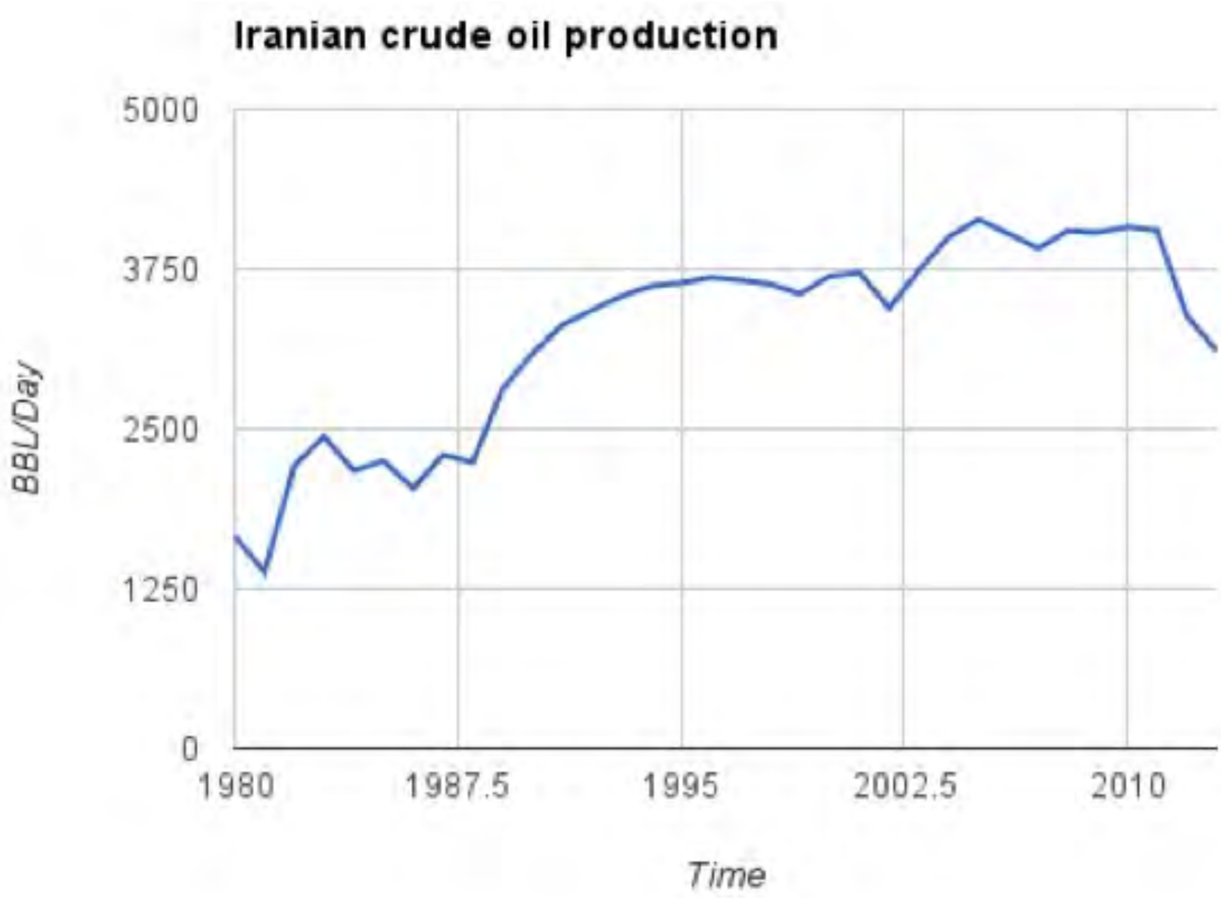
In the first quarter of next year, Iranian crude oil is expected to return to international oil markets after the International Atomic Energy Agency (IAEA) verifies that Iran has complied with the Joint Comprehensive Plan of Action (JCPOA) to curb Iran's nuclear capability, signed 14 July.

Iran's crude oil exports currently stand at 1.10m bbl/day and production at 3.12m bbl/day, OPEC data shows. Iran believes it can raise production quickly by 500,000 bbl/day and incrementally add another 500,000 bbl/day by the end of the year.

But before this flood of oil, there will be a tsunami wave that will hit the market first.

Since Europe raised sanctions against Iran in 2012 causing EU imports of Iranian oil to come to a complete halt, much of the excess crude oil produced since sanctions has been stored while production was drawn down.

The International Energy Agency estimates that Iran has 40m barrels of crude oil stored on vessels and these are set to sail as soon as the IAEA gives the green light.



Pressure on the benchmark

The first quarter could also see some potential downward pressure on the UK North Sea Forties Blend and the Dated BFOE benchmark and variants. This unintentional pressure is caused by the South Korean Energy Ministry, which has reformed its crude oil import freight rebate policy for importing non-Middle Eastern crude.

The freight rebate, designed to widen South Korea's sources of crude and shift away from the volatile Middle East, gave importers a rebate on the freight difference. However from early 2016 the programme will exclude spot deals favouring the security of term deals only.

South Korea has developed a taste for Forties. According to GAC shipbrokers, South Korea imports around 2.00-6.00m barrels/month, equating to three to 10 cargoes/month since 2012 when exports to South Korea began.

If South Korean demand disappears, this could not only pressure the value of Forties but potentially pressure the benchmark because the daily value of Forties is almost the de facto physical grade used in the daily benchmark calculation for around 70% of all physical crude oils.

The benchmark calculation picks the cheapest of the Brent, Forties, Oseberg and Ekofisk as part of the benchmark calculation and it is usually Forties because of its relative poorer quality. Additionally, the quality of Forties itself is also deteriorating with a rising amount of sulphuric Buzzard crude in the blend, according to BP data.

Forties is a blend of crude oils from different oilfields and the largest contributor is Nexen-operated Buzzard oil field, which has made Forties increasingly sulphuric since 2007 when it was added to the blend. Nexen is a subsidiary of China National Offshore Oil Corporation.

China goes international

Later in the year, China's national currency, the renminbi, will become more international as it enters the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket of currencies, which includes the US dollar, the euro, the British Pound and the Japanese Yen.

The SDR is an international reserve asset defined and maintained by the IMF. Members can buy and sell SDRs in return for freely usable currencies of IMF members and can be used to provide liquidity to governments and major institutions in exceptional circumstances such as the 2009 financial crisis.

The addition of the Renminbi into the SDR basket in September may roughly coincide with the launch of the long delayed crude oil derivatives contract planned by the Shanghai International Energy Exchange (INE), which sources say are close to finalising the product.

The Shanghai Crude oil futures contract will be renminbi-denominated and fully open to the International market. Its initial years is likely to see the contract dominated by Chinese domestic refiners for hedging purposes.

Overtime it is expected that the contract will eventually win a significant portion of the trillion dollar crude oil futures market away from the incumbents ICE Brent and NYMEX WTI simply because China is now the largest importer of crude oil, petroleum products and other liquids since September 2013, according to data from the Energy Information Administration (EIA).

Supply volatility

The 2016 story is inevitably going to be oversupply, but the effect on pricing is selective due to differing crude oil qualities. Iran's crude oil is mostly sour, much like Russia's with similar export destinations, where one is the Mediterranean/southern Europe.

Sanctions against Iran benefitted Russia's Urals and narrowed the price spread against the better quality light-sweet grades such as Algeria's Saharan Blend and on occasion even surpassed its value. The spread will widen next year and sour crude exports to southern Europe will be a buyers' market, while lighter grades in the region will at least sustain some strength due to its higher quality.

But there is an unpredictable source of volatile light-sweet crude that could return from war torn Libya where production was last heard quoted by the Libyan National Oil Corporation (NOC) at 375,000 bbl/day, well below its pre-civil war levels at 1.60m bbl/day. The rival government's latest agreement will see both sides form a unity government and have elections within two years, but the fighting goes on and now also with the Islamic State.

The global oil market may also see a stable source of crude oil from the US which cannot export domestically produced oil and only tiny volumes of non-US oil under the Energy Policy and Conservation Act 1975. The reasons for reversing the export ban are mounting, literally, as the US is seriously running out of storage space and hitting record high stockpiles in April.

Although the story is oversupply, there is fear that the worsening conflict in Yemen could spill over to Bab Al Mandeb, the strait where around 4.00m bbl/day of oil flows, potentially cutting this supply to the market, which will more than wipe out Iran's renewed contribution.

Decommissioning brought forward

The flood of crude oil from OPEC producers has forced US shale oil producers to cut back production. According to data from the EIA, US shale oil production fell each month since February as production remains uneconomical.

Although some US shale oil producers can return to production once oil prices are more favourable, for some mature regions such as the North Sea, the low oil price is already pushing producers to bring forward decommissioning plans, according to the UK lobbyist group, Oil and Gas UK (OGUK).

Bringing forward decommissioning plans in the North Sea will forever shut out a supply of crude oil because the oil cannot be produced even if prices recover since the infrastructure for production would have been removed already and at immense cost.

Decommissioning the UK North Sea over the next 10 years will cost around £17bn to scrap 79 platforms and plugging 1,200 oil wells, according to OGUK.

The US Gulf of Mexico, which provides around 25% of total US conventional crude oil production, is also facing a similar situation where high production costs are forcing producers to bring forward decommissioning plans forever shutting another source of oil supply even if prices recover to the point where production is profitable.

Conclusion

Looking back to 2016 from the future may indicate the year when the oil market began to fundamentally change.

The likely launch of a Chinese crude oil benchmark and China's entry in the SDR basket is a major crack in the US dollar hegemony over the crude oil market and also numerous commodities and political strength. After all, US sanctions against Iran and others would have been largely ineffective if Iran could fall back on another dominant currency to sell its natural resources.

After US and Europe raised sanctions against Russia over the annexation of the Crimea region, the pipeline deals struck with China and the oil and gas to be sold was already denominated in a mixture of renminbi and Russia's rouble.

The US central bank's plans to raise its federal funds rate and therefore the interest rate gradually in 2016 and the European Central Bank plans to loosen its monetary policy puts both banks in opposite paths as the US dollar will strengthen while the euro will weaken.

The ECB's fight against deflationary pressures is an attempt to inflate away its high levels of debt, but the fight will be ineffective since the crude oil oversupply is reducing global transportation costs and also the manufacturing cost base. The fight against deflation is really a fight against oil supply.

However, the above are just knowns and rarely a year has passed without some surprises in the oil market that could overturn the supply story to one of a shortage. Only time will tell.

After all, 2015 was the year when conflict in the Middle East increased, while oil prices fell, showing we are already in new territory.

EUROPE NAPHTHA TO TAKE THE BULL BY THE HORNS

By: Cuckoo James | 22 December 2015 13:00

LONDON (ICIS)--The European market got naphtha forecasts for 2015 all wrong, its predictions of a wimpy global naphtha industry with minimal sales has failed to materialise, and it is still coming to terms with how unexpectedly "finely balanced" the market turned out to be this year.
History is bound to repeat itself if all the bearish forecasts on crude futures come true.

The European naphtha markets will once again take the bull by the horns in 2016 and the market boom will continue, provided gains in the volatile crude markets are capped by oversupply concerns.

A two-pronged boost from global petrochemical and gasoline industries pushed naphtha refinery margins through the roof this year. The front-month margin came close to $5.00/bbl in the second half of the year after having languished in negative territory for years.

The blame for the well-laid out analyst predictions that went kaput could be laid squarely on the shoulders of higher-than-expected erosion in crude oil futures, with Brent sinking to an 11-year low by December 2015, from a peak of $115/bbl in June 2014.

The drop in Brent crude futures and high gasoline refinery margins have meant a rapid rise in naphtha production this year - but demand has increased likewise on price elasticity. Refinery utilisation rates globally are at their highest level since 2007.

Millions of barrels of naphtha will continue to be distilled out of oil refineries in 2016 provided crude stays low and gasoline margins remain high. The only production loss would come from the "closure of some of the small and uneconomic refineries" in Russia next year, a naphtha market source said.

The naphtha industry will benefit from price elasticity - where price sensitive markets respond to low prices by buying additional volumes.

The European naphtha market was taken by surprise at the unexpected hike in demand from the US gasoline sector this year when the highly price-elastic US market took advantage of the value slump in oil to pocket more fuel for less dollars.

"[Naphtha] production increased, due to the shale revolution in the US, but so did US demand for naphtha as a blending ingredient for gasoline, so the expected surge in US naphtha exports did not materialise in 2015," trading firm Trafigura said in its annual report.

US drivers bought 3% more gasoline from January to September 2015 than they did the same time last year, mainly due to healthy employment rates in the country.

The high performance in gasoline and naphtha markets could be carried forward into next year, depending on how crude oil performs - but US vehicles might take in less gasoline in 2016 because of improved fuel efficiency.

The US Energy Information Administration's Short-term Energy Outlook published in December 2015 forecasts a reduced growth rate of 0.1% in the gasoline markets in 2016, meaning consumption levels will remain at least as high as this year.

Meanwhile, European gasoline exports to West Africa also boosted demand for naphtha this year as attempts by the Muhammadu Buhari government to hike Nigerian refinery utilisation rates from its long term 10% has met with limited success, and the country continues to rely on imports to meet its fuel requirements.

The Nigerian market is expected to remain a major buyer of European gasoline, and therefore blendstock naphtha, for the near term.

In addition, naphtha has enjoyed high demand from both the European and Asian petrochemical sectors because of the low crude futures. Steam crackers using naphtha as a feedstock profited from the low cost, although those who could maximise the cheaper alternative feedstock propane did so.

"Naphtha is expected to be the fastest growing refined product with an average growth of 1.3% p.a. between 2014 and 2040, rising from 6.1 mb/d to 8.7 mb/d," the Organisation of Petroleum Exporting Countries said in their World Oil Outlook 2015.

"Almost all of this growth will come from the Asia-Pacific region due to rising demand for petrochemical products in the region. China alone will account for almost 40% of the growth," the oil producers' group said.

This is good news for Europe's naphtha traders who are dependent on a successful arbitrage trade with Asia. Meanwhile, market discussion on low-cost ethane as an alternative petrochemical feedstock have dropped off as the price spread between the two has narrowed.

"[Ethane] imports could be delayed due to low oil prices but are likely to become viable once oil prices start recovering. At lower prices, transportation costs become a hurdle but the future still looks promising for US ethane exports to Europe," Ehsan Ul-Haq, a senior oil market consultant at KBC Energy Economics said.

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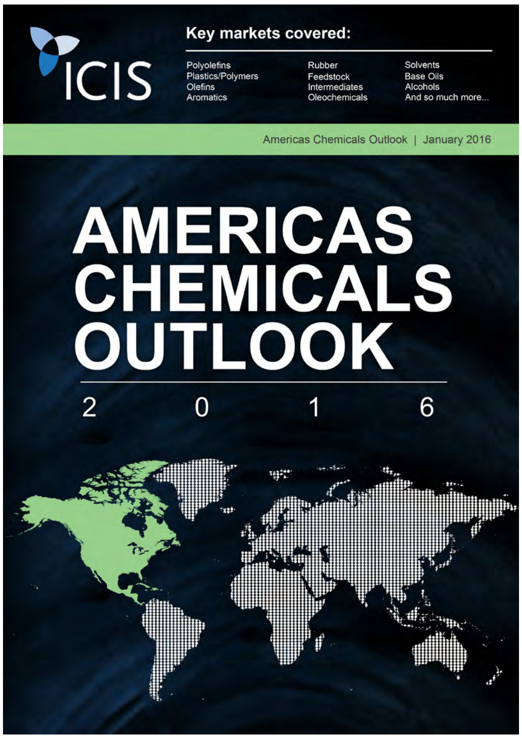

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