



# LDPE stages surprise comeback, for now

Continued from Page 1

sales growth of almost 7 percent was wiped out by a drop of more than 24 percent in export sales. Low density PE sales grew almost 2 percent as an 8 percent exports drop cut into domestic growth of almost 5 percent. Linear LDPE posted the best results through July, with 5 percent domestic growth and export growth of almost 12 percent adding up to overall growth of 7 percent.

"Demand appears to be better on paper than last year, but it's a question of what you're measuring against, because last year wasn't a good year," said Mike Burns, a market analyst with Resin Technology Inc. in Fort Worth, Texas.

In an unexpected event, supplies of LDPE became tight earlier in the year because of a few production outages and continued demand for a product that had almost become an afterthought in

recent years. Market watchers said LDPE supply should improve by the end of the year, but the episode was a reminder that LDPE is far from dead.

"Despite rumors of [LDPE] being a dinosaur, there's still a lot of demand for the material," said Hotz at Nova. "It still has a lot of value in extrusion coating and other end uses."

Vafiadis added that LDPE "will lose some of its premium by early next year."

On the pricing front, regional PE prices exploded out of the gate in 2010, eventually rising 18 cents before falling 8 cents for LDPE and 14 cents for LLDPE. All three materials recently regained 5 cents. Compared to the start of the year, regional HDPE/LLDPE prices are up about 12 percent, while LDPE prices are up almost 19 percent.

Longer term, U.S./Canadian PE is expected to average annual growth of almost 3 percent from

2010-15, according to a CMAI projection. Demand had fallen an average of almost 3 percent annually from 2005-10. Demand growth in PE pipe and profiles is expected to check in at almost 4 percent from 2010-15.

Regional demand is expected to finish 2010 up 8.5 percent after falling 5 percent last year. Growth in sales to PE pipe and profiles [projected to grow 19 percent] and extrusion coating [set to be up 17.5 percent] are expected to lead the 2010 growth parade, according to CMAI.

Overall industry inventory through August was up 205 million pounds from a similar point a year ago, according to CMAI, even with LDPE inventories down 50 million pounds in that same comparison. Operating rates for U.S./Canadian PE production were at 91 percent through August.

"The marketplace, from a demand perspective, has surpassed the expectations of the industry," said Wright at Dow. "That's a function of [capacity] rationalization and growth."

"Supply and demand is balanced to slightly snug, it's not loose," added Nova's Hotz. "Industry inventory is at 31-33 days and demand is steady."

"Demand hasn't exceeded production, so [PE makers] are OK," said RTI's Burns. "If a customer needs to get one or two extra cars, they can get it. They can't get 10 cars, but I don't think we're going to see that."

"People don't buy that much extra resin in general. They just don't order that way anymore."

The packaging sector remains strong in terms of PE consumption, according to both Hotz and Wright. Neither executive expects recent consolidation among a few sizable packaging firms to have much impact on PE demand next year.

"The [packaging] industry does have a tendency to consolidate, but there also are start-ups of new firms," Wright said. "Consolidation also tends to occur in market spaces where they're not innovating, so it has minimal effect on the broader market."

For Hotz, consolidation at the processor level means "the big get bigger and the marginal are at risk."

"The [PE] film market is already oversupplied," he said. "Those companies are always looking for demand to run their lines."

The shadow of large waves of Middle Eastern PE capacity could affect North American producers by reducing their opportunities to export in 2011. Much capacity in that region has been delayed,

## Double-edged exports

January through July 2010\*

Exports help U.S./Canadian PVC & LLDPE sales ...

	PVC	LLDPE
Export sales change (%)	+65	+11.6
Domestic sales change	-5.1	+5.3
Total sales change	+8.2	+7
Sales in pounds gained via export	+914 million	+221 million

... but have opposite effect on PP & HDPE.

	PP**	HDPE
Export sales change (%)	-48.8	-24.3
Domestic sales change	+11.4	+6.8
Total sales change	+2.2	-0.5
Sales in pounds lost via export	-738 million	-553 million

\*Change vs. year-ago period \*\*PP includes Mexico  
Source: American Chemistry Council, Washington

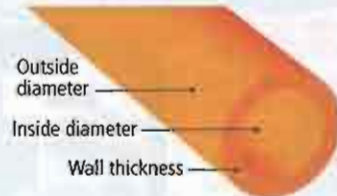
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'Despite rumors of [LDPE] being a dinosaur, there's still a lot of demand for the material.'

John Hotz  
Nova Chemicals Corp.



But now is beginning to surface. As a result, the U.S. share of PE imports into northeast Asia [including China] is expected to fall from 9 percent to 5 percent by 2014, according to CMAI. The Middle East's share of that business is expected to grow from 24 percent to 59 percent in that time.

By comparison, the only new capacity set for North America is a 60 million-pound LDPE expansion by Nova in Canada by the end of 2010. But the lack of new capacity has done little to dim producers' enthusiasm.

## Polypropylene

"We're feeling much more positive [about the PE market] than we were a year ago or even three years ago," said Wright.

"It's possible that 2011 [will be] a little better than what we saw going into 2000," Nova's Hotz said. "2011 could be a pretty good year."

Like Elvis sang in "Suspicious Minds," North American PP is caught in a trap.

The low-priced natural gas feedstocks that have helped PE and PVC have had the opposite effect on PP economics, since

those materials produce less propylene monomer than crude oil-based feedstocks do. As a result, PP prices have whipsawed along with changes in propylene price, as PP has exited the ranks of affordable materials.

"Polypropylene has gone through adjustment over the last several months," said Wright at Dow. "PP in the U.S. has become high when compared to the rest of the world."

"There's still some volatility in PP and propylene monomer, and that dynamic isn't going to change, although more on-demand propylene supply might mitigate the situation a little bit."

"Issues with [propylene] monomer have kept the [North American] price up globally and North America can't compete," said Scott Newell, a PP market analyst with RTI. "The ethane advantage is expected to continue in the future, so that will mean tight propylene supplies and big spikes any time we have outages."

The propylene monomer issues have overshadowed a year in which domestic PP demand rebounded strongly, up more than 11 percent through July. Surging sales into the transportation market led the way, climbing more than 70 percent. But the lack of U.S. competitiveness with foreign resin prices sank North American PP exports, which were down almost 49 percent through July. The net result was a gain of just over 2 percent.

"Domestic demand growth has

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# PVC exports fill in for construction losses

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been pretty strong," Newell said. "And the trend in exports isn't short-term, it's here to stay. We don't see export demand being what it once was. There's new capacity in the Middle East and Far East and other options."

CMAI PP/PS analyst Esteban Sagel said at his firm's recent event that North American PP buyers might want to look at importing PP from outside of the region.

"High [North American PP] prices may lead to more resin imports or more imports of finished goods" like biaxially oriented PP film, he said. "Importing resins would help balance supply/demand and over time could bring down PP prices in the region. [PP processors] have to work around sourcing only domestic PP to get around the tightness of propylene."

If current trends continue, Sagel estimates North America could be a net importer of PP by 2015, at which point it would be importing almost 700 million more pounds of PP than it was selling in the export market.

An increase in on-purpose propylene production — instead of its typical production as a by-product of the gasoline refining process — could increase propylene supply and help stabilize the PP field somewhat. Technology provider PetroLogistics already has restarted a plant in the Houston area with that goal in mind.

Pricing-wise, regional PP prices ramped up 22 cents per pound in 2010 before giving back 20 cents. They recently regained 5 cents and are up an average of almost 8 percent since the start of the year.

The current supply/demand picture for North American PP is "at balance," according to Dow's Wright.

"There was rationalization prior to 2010, so we're seeing operating rates in the mid- to high 80s and those should be higher in 2011. The markets we're seeing growth in are tied to sustainability — flexible packaging, food packaging, business-to-business industrial packaging. These are areas where customers are looking for innovative sustainable solutions," said Wright.

But Newell is concerned that

'A big PP converter told me they were thinking about switching a product back to polystyrene, and I almost fainted, because it had always been the other way around.'

Esteban Sagel  
CMAI



domestic demand in the second half of 2010 might not be as strong as in the first, and Sagel said he's heard some surprising substitutions suggested by processors.

"A big PP converter told me they were thinking about switching a product back to polystyrene, and I almost fainted, because it had always been the other way around," he said.

Overall North American PP demand growth for 2011 should be in the 4-5 percent range, according to Wright at Dow. Its growth rate should be higher than that of PE because it sells into a broader market, including the durables segment, where there's pent-up demand.

## PVC

North American PVC exports are expected to remain robust for the foreseeable future — which is a good thing for the region's PVC makers, since the construction market isn't showing many signs of life.

"There's good PVC demand growth in developing countries and there's plenty of room to compete," said Brad Eskilsen, PVC business director at Formosa Plastics Corp. USA in Livingston, N.J. "As long as freight rates don't go crazy, we should see exports remain strong for a while longer. Right now, we're exporting as much as we need to."

"We're getting into record territory for [North American] exports of PVC," added RTI PVC market analyst Mark Kallman. "And part of that is that demand in North America is sluggish right now. There's not too much to get excited about in housing markets. I think PVC makers are writing off the 2010 housing market and looking to 2011."

The export market is so strong that Formosa expects it to contribute to higher operating rates for North American PVC makers for the next five years, Eskilsen added. PVC also is expected to retain its advantage in cost per cubic inch vs. HDPE and oth-

er commodity plastics, he added. In 2010, PVC enjoyed a 32 percent advantage over HDPE in that comparison.

Eskilsen also anticipates that U.S. annual per capita PVC consumption hit bottom at 24 pounds in 2009 and should recover to 31 pounds by 2015. That level had peaked at 37 pounds in 2004.

At CMAI, Vafiadis sees better days ahead for U.S./Canadian PVC, but he admitted the market "might need several quarters to climb out of this hole."

Moving ahead, CMAI expects U.S./Canadian PVC demand to average almost 5 percent growth from 2009-14, after averaging a loss of almost 8 percent from 2004-09. Growth in 2009-14 should be led by the pipe, fittings and flooring/coatings sectors, each with growth of almost 5 percent.

The first half of 2010 again proved to be a rough one for domestic demand of U.S./Canadian PVC, as demand fell almost 3 percent. But stratospheric export growth of almost 55 percent lifted total demand growth to almost 6 percent.

The collapse of the U.S. housing market remains stunning, even five years after its cheap financing-fueled peak. In 2005, the U.S. recorded almost 2.1 million housing starts. That number swooned to less than 600,000 last year and is on track to be near that level again this year. The plunge has been devastating for the North American PVC field, which traditionally sells about 60 percent of its output into pipe, siding and other construction-related uses.

At Formosa, Eskilsen said that "sustainable rate" for annual U.S. housing starts is somewhere between 1.3 million and 1.5 million. One long-time PVC executive said the "new normal" for the U.S. market eventually should be about 1.3 million new builds per year, but he was unsure when that number would be reached.

"We might be around 650,000 [new builds] this year, but homebuilders are still selling off existing inventory," he said.

At CMAI, Vafiadis is a little more hopeful about U.S. construction, citing low interest rates, increased bank lending, stabilizing home prices and what

looks to be the end of a "foreclosure wave."

Thankfully, exports have filled the void left by construction. Exports jumped from 12.5 percent of U.S./Canadian PVC sales in 2007 to more than 27 percent in the first half of 2010. They're expected to surpass 28 percent of total sales in 2010, according to Vafiadis at CMAI.

PVC exports have been attractive, since the use of low-priced natural gas feedstocks have made PVC feedstock ethylene affordable on a global basis. One long-time industry executive described the impact of low-priced natural gas as "a sea change" for the North American PVC market.

"The export market is giving us a buffer, allowing us to run at

much higher utilization rates," he said. "We're in the high 80s and could be somewhere in the 80s again next year."

But the executive added that returns on North American PVC businesses are "very weak."

"If you build a lot of capacity at today's costs, you'll get very little return, if any," he said. "It's not very appealing."

At the same time, Formosa's Eskilsen said that a maturing U.S./Canadian construction market could benefit PVC makers over time. "The remaining players in the [PVC] market should be able to enjoy a more disciplined market and position themselves for a more reasonable return on assets

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Wright



Newell



Kallman

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# PET languishing under excess capacity

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than in the last decade," he said. In the pricing world, regional PVC prices moved up 10 cents per pound in 2010 before giving up 5 cents of that amount and the stabilizing. The net increase for the year sees prices up almost 7 percent when compared to the start of the year.

PVC makers in the region are looking to move upstream into more production of PVC feedstocks in an attempt to improve their profitability, Vafiadis said. On the resin side, Formosa will add a moderate amount of specialty PVC capacity later this year, and Shintech Inc. is set to increase capacity at its Louisiana location in early 2011. Almost all of the new Shintech output is expected to be sold into the export market.

Esckilsen cited a recent national study indicating that remodeling spending may be on the rise. "There's more spending there than you'd think," he said. "If you break it down, spending on siding, decking, replacement windows and fencing is fairly well off."

But RTI's Kallman cautioned that although remodeling helps, the PVC market "needs new con-

struction for a full-blown recovery."

"Exports have prevented further resin closings, so things seem better," he said. "Producers feel like they're closer to the light at the end of the tunnel — but the tunnel is longer than they originally expected."

## PET

It's not a good reflection on the North American PET market when two of its major players have planted "For Sale" signs in front of their businesses.

That's what Eastman Chemical Co. and Invista have done. Eastman's decision is especially noteworthy, since the firm has been almost synonymous with PET for decades. Their decisions are an indicator of lapsed profitability both in the global and North American PET sectors.

"Global PET has been fairly poor for the last several years," CMAI PET market analyst Chase Willett said at his firm's event. "And it's not going to get better from a producer perspective for several more years."

In North America, CMAI expects demand growth of 1 percent this year after demand fell in 2008 and 2009. Demand isn't ex-

pected to return to 2007 levels until 2015.

Demand growth in 2010 might be at slightly less than gross domestic product levels, with it matching GDP for the next few years, according to Mark Adlam, North American business director with PET maker M&G Polymers USA LLC in Houston.

And yet, paradoxically, capacity continues to be added in North America and around the world. Excess global PET capacity is nearing 15 billion pounds, while in North America, a recent expansion by Bangkok-based Indorama Polymers Public Co. Ltd. in Decatur, Ala., has pushed the region's PET surplus to about 2 billion pounds.

At RTI, PET analyst Dewsbury is a little more optimistic, placing North American demand growth at 2-3 percent this year and anticipating growth of 2-4 percent in 2011.

"Nobody's really doing great in the PET industry," he said. "2011 will look better than 2010, but it won't come back as much as we'd hoped."

Part of the reason PET's comeback will be difficult is that most major conversions from PET to glass — such as in carbonated soft drink [CSD] bottles — already have happened.

The growth of the bottled-water market provided true organic growth for a few years, but growth there has slowed. Then CSD and water markets got hammered by lightweighting on the part of bottlers, which reduced the amount of resin used per bottle by as much as 50 percent.

"Lightweighting has slowed down, but I don't see any big conversions on the horizon," Dewsbury said. "And water has run into a wall. A lot of fillers have space available."

"There's not a lot of glass left to convert, and what's left isn't big-volume glass," Willett added. "That doesn't mean there aren't opportunities, but there's not another water out there."

Adlam agreed that "there's not a lot of lightweighting left to go," although he said some reduction could take place in the hot-fill market.

In pricing, regional PET prices at one point were up almost 8 cents per pound in 2010, but have given back most of that amount and now are roughly flat vs. the start of the year.

On top of Indorama's billion-

**'Global PET has been fairly poor for the last several years. And it's not going to get better from a producer perspective for several more years.'**

Chase Willett  
CMAI

pound expansion, new producer Selenis Canada will add about 200 million pounds of PET capacity by converting a specialty polyester plant near Montreal. Dewsbury said he believes Selenis is banking on its ability to serve customers in the northern U.S., as well as large PET bottlers in Chicago and Detroit.

M&G's Adlam added North America "will see the effects of the new capacity for a full year for the first time" in 2011.

Another issue challenging PET makers this year and in the near future, according to Dewsbury at RTI, is that industry consolidations have left North America with three large PET blow molders — Ball Corp., Graham Packaging and Constar Inc. This evolution "has taken pricing power

percent.

"U.S. domestic demand hasn't grown significantly, but the net trade position grew and produced better operating rates," Willett added. "The industry looks healthier and that should continue into 2011."

But the fates of the PET businesses of Eastman and Invista remain undecided.

"There's a lot of interest in the North American PET players and who they're going to be in the future," Willett said. "What makes it interesting is that there's no dominant player and there hasn't been for several years. There are four or five players, each with a 15-20 percent market share."

"My bet is that Eastman will sell first, probably by the end of the year. I don't know about Invista. I think one of the deals will be a consolidation with an existing player and the other will be a new entry."

At M&G, Adlam said he believes both Eastman and Invista could find buyers for their PET units by the end of the year. He added that potential buyers are looking at a North American PET field that's changed drastically in the last few years.

"We went from having growth of 6-7 percent every year to basically being flat," he said. "At 7 percent growth, we needed about 700 million pounds of new capacity each year just to keep up. Now, we don't need that. We made a [capacity] announcement ourselves, but then pulled it back."

"We need maybe half that much new capacity now, and there could be more rationalizing of older plants."

## Polystyrene

The bright spots for the North American PS market have been few and far between in recent years, but the chance to compete with PP and disciplined supply behavior have prevented things from getting worse.

And in PS country, that just about counts as a victory.

"In the past, [PS makers] looked at market share for a measure of success," said CMAI's Sagel. "Now, it's about profitability."

The region's PS producers "are  
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**'Lightweighting has slowed down, but I don't see any big conversions on the horizon. And water has run into a wall.'**



Mike Dewsbury  
RTI

away from PET makers," he said.

One silver lining for North American PET makers in 2010 — and hopefully into 2011 — was improved feedstock and integration logistics, which reduced the amount of foreign PET entering the U.S. Such imports are on track to be down 30 percent in 2010.

That trade balance swing also boosted exports, providing North American PET makers with a shot in the arm, according to Adlam.

"Exports increased dramatically, and that trade swing should still be there next year," he said. "Exports should still be strong and imports will be down."

At its current pace, the North American PET sector will be a net exporter this year, after being a net importer in 2009, Willett said. That swing will result in a net 3 percent increase in operating rates, which will improve to 84



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# PS holding its own, auto helps nylon, PC

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enjoying good profitability right now, even though the market is theoretically oversupplied," Sagel said. "We think some capacity has been taken off-line, even though it hasn't been announced."

The North American PS market has been reduced to three main suppliers. More than 1.7 billion pounds of capacity has left North America since 2006, as U.S./Canada

but holding," Sagel said. "We expect PS profitability to remain elevated. Producers are willing to take steps to maintain it."

## Nylon

The resurgent U.S. automotive market has lifted the spirits of nylon resin producers.

"It's fair to say the economy recovered in 2010," said Dave Donofrio, global business director for nylon market leader DuPont Co. of Wilmington, Del.

"It came back stronger than we anticipated. Auto builds are on track to be up about 30 percent and resin sales are up by double-digits."

After bottoming out near 8.5 million in 2009, U.S. auto and light-truck builds could approach 11.5 million this year.

"There's cautious optimism across the entire supply chain," Donofrio added. "The chain is pretty tight and it should remain that way. [Nylon users] that survived the recession in '08 are being cautious about returning to having big chunks of inventory. There's still a lot of caution out there."

North American operating rates for nylon 6 resin should average around 94 percent for 2010 and remain near 90 percent through 2012, according to CMAI nylon analyst Paul Blanchard. Operating rates for that material had bottomed out near 80 percent in 2009.

For nylon 6/6, North American operating rates should finish 2010 under 70 percent, but will gradually improve and approach 80 percent by 2014, according to CMAI.

Tight supplies of feedstocks — including nylon 6 feedstock adiponitrile and nylon 6/6 feedstocks benzene and butadiene — helped producers to win price increases of 15-20 cents per pound in the first half of 2010.

"Raw materials are a little bit better now, but things are still pretty tight," Donofrio said. "We even saw tightness in glass fiber, which affected compound production."

"Last year, things were really down," said Blanchard. "But now you can't find material."

With auto production expected to remain healthy — 2010's pro-

jected build number of 11.5 million would be a 35 percent jump vs. 2009 — nylon resin sales could grow 10 percent in 2011 and reach double-digit levels again in 2012, according to DuPont's Donofrio.

"As far as penetration rate per vehicle, the big component is under-hood," he said. "Powertrain innovation got nylon to where it is today, and that continues to be a big application."

The Asian market continues to grow at a faster pace than North America — with miniaturization, and flame retardant and non-halogenated grades driving business in conductors and other electronic parts — but North America continues to hold its own.

"Last year, we had just started to see the rebound in automotive," Donofrio said. "This year, it was super-strong."

## Polycarbonate

Polycarbonate's wild ride has continued, with industry executive Sam Stewart saying the material "had a real nice rebound" in the first half of 2010.

"Our automotive business had been down as much as 40 percent because of the recession," said Stewart, North American sales and marketing vice president with Bayer MaterialScience in Pittsburgh. "But now that's come back, and the medical market is still a good growth opportunity."

Even with the automotive slowdown, the North American PC field churned out growth of about 3.5 percent in 2009, according to Stewart. Other growth opportunities for PC heading into 2011 include flame-retardant transparent grades for electrical and electronic enclosures and housings. In the medical field, insulin pens and other drug-delivery items hold promise. The potential of PC to replace glass panels in solar energy equipment also represents a new market.

On the pricing side, raw material dislocations for phenol, benzene and other feedstocks allowed Bayer and other PC makers to win hefty price increases. These higher tabs for PC — and for ABS resin as well — allowed BMS to post record quarterly profits in 2010, according to CMAI PC/ABS analyst Adrian Beale.

"Prices have gone up dramatically, and margins are higher

'[PC] prices have gone up dramatically, and margins are higher than at any time in last four years.'

Adrian Beale  
CMAI



were caught short of material, sending prices for optical media-grade PC up as much as 50 percent.

On the capacity front, all eyes are on a 570 million-pound-capacity PC unit that Saudi Basic Industries Corp. is set to open in Al-Jubail, Saudi Arabia, in ear-

ly 2011. But Beale said feedstock sourcing issues could delay that plant's opening.

Concerns over alleged health risks surrounding PC feedstock bisphenol A also appear to

have receded somewhat as the market faces 2011, although CMAI's Beale said BPA foes now are focusing on 5-gallon water bottles, after affecting PC uses in sports water bottles and baby bottles.

At BMS, Stewart said he's hearing questions about BPA less often than he did a year ago at this time.

The American Chemistry Council "has done a good job in educating people about BPA," Stewart said.

"I think that's helped us see more activity in newer products and in product development this year."



'Auto builds are on track to be up about 30 percent and resin sales are up by double digits.'

David Donofrio  
RTI



dian PS demand fell an average of 5 percent between 2005 and 2010, according to CMAI.

Higher prices for benzene feedstock played a big role in PS pricing itself out of a number of markets, but now benzene prices are expected to be stable, allowing PS to compete with increasingly expensive PP.

"PP is still high, and that could help PS gain some food-packaging business," said RTI PS market analyst Stacy Shelly. Regional PS demand growth in 2011 could be as

'PP is still high, and that could help PS gain some food-packaging business.'

Stacy Shelly  
RTI

high as 2-3 percent, he added.

CMAI expects PS demand growth to be almost flat from 2010-15, averaging only 0.2 percent. Regional PS operating rates should be 80-90 percent in 2011, Sagel said.

Recent operating rates have been in the 75-80 percent range, according to Shelly.

"If operating rates get above 80 percent, [PS makers] are doing pretty good," he said.

U.S. and Canadian PS pricing witnessed a 10-cent upward move in 2010 before giving back 6 cents. Compared to the start of the year, prices are up almost 5 percent.

Through July, U.S./Canadian PS sales were down 2 percent, as export growth of 28 percent softened a domestic sales drop of almost 4 percent.

"The domestic market is soft

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