AUGUST 21, 2009

ETHYLENE/POLYETHYLENE

- Continue to pressure your suppliers for flat pricing in August.
- Feedstock prices are in an upward trend as both ethane and spot ethylene cost increased.
- Ethane moved above the $0.50/gal mark as crude prices edged up as a result of a draw in the oil reserves and a rally in the DOW stock market.
- The spot ethylene market has been feeling the pinch with several ethylene units being down creating tightness in the ethylene availability. These units are in a restart phase but won't help the ethylene price for another few weeks.
- Price pressure on PE could continue into September.
- Export activity has increased as Asian prices are higher than US prices. Latin America is again becoming a strong outlet for exports.
- Material availability is tight with pricing for secondary material at a $0.02/lb-$0.04/lb delta from prime.
- All PE prices in Asia were assessed higher, this despite softer ethylene prices. However, this softness did prevent PE prices from rising higher than they did.
- Good Asian regional demand in the agricultural markets is the primary catalyst for the recent run up in PE prices.
- In Europe, HDPE prices firmed higher while both LDPE/LLDPE prices were assessed flat. Producers are continuing to seek higher prices as material availability tightens and ethylene cost rise.

Contact your RTi partner to discuss your internal requirements and develop a buying strategy.

For additional Polyethylene information please contact Robin Chesshier: rchesshier@resinpros.com

RTi Ethylene/Polyethylene Outlook and Suggested Action Strategies

30 Days/60 Days: If you can secure material below the June price you may want to consider doing so but be cautious on how far out your inventory level will be.
90 Days: Domestic demand is cautiously optimistic; any increase could help support higher PE prices.

PROPYLENE/POLYPROPYLENE

- August PGP prices have settled up $0.04/lb putting PGP contract at $0.45/lb.
- The propylene market remains under a supply crunch due to unexpected cracker outages, Equistar's propylene allocation, and limited supply from the refinery base.
- Spot RGP last traded at $0.47/lb. This was last week. No trades have been seen this week but buyers have been bidding less than $0.47/lb with no takers from the sell side.
- The going rate seems to be $0.49/lb. That's where sellers are willing to let their RGP go. Sellers clearly feel they have the leverage at this point in time and can name their price.
- We did see spot PGP trade this week at $0.53/lb. This is $0.08/lb above the August contract price and is a sign of where the September PGP contract is headed.
- Propylene inventories were down again this week to 1.87 mm/bbl.
- The Total/BASF cracker that has been down since early July has restarted; though it is still not clear if it is back running at full rates.
- There is definitely a shortage of propylene monomer reflecting the market is pricing up, as a result.
- We are expecting September PGP contracts to settle higher by $0.07/lb to $0.10/lb.
- At these numbers there will be incentive for the market to produce more propylene. The shortage is such that it will take some time for the market to adjust and to build inventories back into balance.
- On the polypropylene side, resin appears to be tightening. Industry inventories did show a build last month but overall levels are still low.
- We also think that producers are holding back resin in anticipation of higher prices in September.
- Most processors are reporting being able to get all of their forecasted orders filled, but finding additional material has been difficult.
- The $0.05/lb PP price increase for August 15th, which was announced by a few producers, is not finding a lot of support in the contract market.
- However, prices in the secondary market have already begun to price this extra $0.05/lb into current offers.

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RTi Propylene/Polypropylene Outlook and Suggested Action Strategies

30 Days: Buy as much of your requirements at August prices as possible. Make sure you have your forecasts in place and track your orders for any delays.
60-90 Days: Expect September prices to go higher by $0.07/lb to $0.10/lb. Propylene monomer should begin to improve and the pressure to move prices higher will dissipate. Monitor all monomer market drivers as these will be the key to where PP prices head into the 4th QTR.

BENZENE/STYRENE/POLYSTYRENE

- Benzene: The new contract price for August Benzene settled at $3.65/gal. This price represents an increase of $0.73/gal over the July contract price. Benzene has peaked and is falling fast. Spot pricing has dropped quickly and is trading around $3.45/gal for August. September spot benzene is trading even lower. The arrival of imports and additional capacity coming on line are the key factors that are contributing to the prices dropping.
- Ethylene: Spot Ethylene has fluctuated slightly around $0.25/lb with a contract price of $0.335 which is up 3 cents.
- Butadiene: August contract settled at $0.60/lb, up $0.15/lb over July. Butadiene is up $0.32/lb since February, but is down $0.62/lb from November through August. Various levels of allocation are being enforced. Another low double digit increase is expected for September.
- Styrene: July Contract styrene settled at $0.545/lb and reflects an increase of $0.06lb. Benzene increases were the main driver. Domestic demand remains flat and unfortunately for U.S. producers, the export arb to Europe is closing due to the increasing costs. The August expected increases due to benzene were nominated at $0.08-$0.09/lb. Look for this increase to be revised downward.
- Styrene: Spot prices have risen from a low in February of $0.285/lb to prices as high as $0.54 for August deliveries. An increase of $0.255/lb. August spot availability is thin. September spot prices are being offered at $0.50-$0.52, slightly lower than August.
- Styrene: At least 3 planned plant turnarounds are scheduled for September.
- Polystyrene: Another price increase has been announced for August 15th. Ineos announced a $0.04/lb increase on all GPPS and $0.05/lb on HIPS. The increase is in addition to the price increase for $0.06/lb that was announced for August 1, 2009. This follows the July 1, 2009 $0.05/lb increase. $0.22-$0.23 of increases have been announced from May to August 15th.
- Polystyrene: Wide spec Polystyrene prices are in the $0.60 to $0.62 range for GPPS and $0.65-$0.67 for HIPS. Availability is limited and in very tight supply, due to the continued operating rates near 85%. Look for deals in the secondary market on older inventory.
- Polystyrene: Distributor Rail Car costs increased $0.06/lb August 1, GPPS to $0.76/lb and HIPS to $0.81/lb. This will mainly effect less than truck load buyers. Expect distributors to add 3-5 cents for packaging and at least an 8% margin. Few exceptions will be made early in the month given the August $0.06/lb announced increase. Place orders with distributors to lock up older lower cost material where you can.
- Polystyrene: Prices are beginning to hit levels where PP is at an advantage over PS for some packaging applications. If this trend continues over time it could reduced PS demand even further. YTD PS demand is off about 16% compared to 2008.
- EPS: The June increase for $0.05/lb was followed with more announcements for an additional $0.05/lb increase July 15th and a $0.04 increase for August 1st. The last nine cents is mainly cost pass through. Roughly $0.025 of the July increase was realized by producers. $0.25 of increases have been nominated from May-Sept 1. September price increase announcements for $0.05/lb have been made by some producers.
- EPS: Import prices for bead are looking more attractive from Asia pushing back on domestic price increases. Asian demand is down and material is looking for a home in Europe and the U.S. Asian feed stocks are now more competitive than the U.S.

BENZENE/STYRENE/POLYSTYRENE continued

- Dow is in the process of reorganizing and creating a new subsidiary that will go by the name Styron Corporation. Styron Corporation will include all of the assets of Dow's ABS/SAN, styrene monomer, polystyrene, EPS, , SBR, SBL and PC compounds business's.
- Polystyrene Asia: Asian Polystyrene prices are unstable due to changes in feed-stocks and supply concerns based on Typhoon Morakot. Regional supply improvements were being seen as the result of PS plants being restarted.
- Polystyrene Europe: European PS & EPS price increases firmed as producers scrambled to recover margin. Packaging markets are beginning to evaluate PP as an alternative to PS for future programs based on PS prices and feedstock cost projections for both resins. EPS producers are driving price increases aggressively in an attempt to catch up with the increases that have been accepted by the PS market. Dow plan's to restart the Bohlen Germany PS plant this month.

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RTi Benzene/Styrene/Polystyrene Outlook and Suggested Action Strategies

30 Days: The rapid increase in benzene is over. Prices have peaked and are falling in the spot market. Cover your material needs until the end of August, buy as needed. A little extra inventory could protect against any supply problems that may develop based on hurricane activity.

60-90 Days: Benzene, Ethylene, and Butadiene prices will continue to drive prices as weak demand will continue. Prices have peaked as predicted; PS prices should soften under the pressure of weak demand and lower benzene costs. If demand returns faster than anticipated, the continued low operating rates and tight inventories could create some inflationary effects as demand returns.

Review your pricing strategy with RTi.

ABS

- August contract benzene settled at $3.65/gal; this is $0.80 less than Aug 08 but it $0.73 above July and $2.64 above the Jan 09 low price of $1.01. Crude oil is currently in the $71/bbl range and spot benzene is currently about $3.40. Benzene prices went mainly due to toluene/benzene supply restrictions, low inventories and styrene exports. Lower cost imports from Asia have caused North American spot prices to drop and the trend for September is lower at this time.
- July contract styrene settled up $0.06/lb and 2009 YTD contract styrene has increased $0.19/lb. August contract styrene will increase mainly due to benzene increases. July contract styrene is $0.26/lb below the Sep 08 price. As of Aug 09 acrylonitrile prices are up about $0.30/lb in 2009 but since Nov 08 they are down about $0.35/lb. The 2009 acrylonitrile increase is mainly due to rising propylene prices. Butadiene went up $0.15/lb in August and is up $0.32 in 2009 but it is down $0.62 since Oct 08.
- Since Jan 09 the cost to produce ABS has increased about $0.26/lb which includes our August estimated cost to produce increase.
- The overall ABS market price is increasing in August; the cost to produce has increased to the point where ABS producer margins are no longer tolerable at previous price levels.
- SABIC's latest price increase letter asked for $0.07/lb effective 8/24/09. BASF supported this increase with their own letter asking for $0.07/lb citing continued upward feedstock cost trends. Ineos ABS has sent a letter asking for $0.07/lb effective 9/1/09. Due to feedstock cost increases we've seen ABS price increases occur in a range of $0.02-$0.07/lb in August. Supplier competition is a big factor in the level of increase that is getting implemented at each account.
- Due to a typhoon in Taiwan which temporarily shut Chi Mei down, commodity ABS prices in Asia have increased to about $0.68/lb; demand is not strong at the moment and we hear Chi Mei is coming back up. Styrene monomer has fallen recently with benzene so look for Asian ABS prices to drop some. In general the gap between Asian and North American ABS price is not enough at this point for the foreign ABS producers to quote significantly below producers in North America. However, if ABS prices move up more in North America this will likely change.
- ABS demand growth in 2009 is projected to be almost 6% lower than it was during 2008 on a global basis. After a slow start to 2009 global ABS demand has picked up but is still not impressive. NA demand has picked up but is soft overall in 2009.
- After significant Far East ABS capacity increases during 2007/2008 producers have been reducing global capacity to manage inventory due to the lack of ABS demand.

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RTi ABS Outlook and Suggested Action Strategies

30 Days: ABS prices are moving higher in August due to higher feedstock costs. There is global oversupply of ABS; while demand is improving it remains soft overall. Spot material at pre-increase prices is still available in some cases and is a good buy at this time. Demand, feedstock costs, your price level and level of supplier competition in your business are key factors in establishing your best ABS price and strategy/action plan moving forward.

60 and 90 Days: Watch ABS feedstock costs and demand closely. Without unforeseen events feedstock costs should be lower by this time. ABS supply/demand should still favor the buyer. Demand, feedstock costs, your price level and level of supplier competition in your business are key factors in establishing your best ABS price and strategy/action plan moving forward.

POLYCARBONATE

- August contract benzene settled at $3.65/gal; this is $0.80 less than Aug 08 but it $0.73 above July and $2.64 above the Jan 09 low price of $1.01. Crude oil is currently in the $71/bbl range and spot benzene is currently about $3.40. Benzene prices went mainly due to toluene/benzene supply restrictions, low inventories and styrene exports. Lower cost imports from Asia have caused North American spot prices to drop and the trend for September is lower at this time.
- Cost to produce PC dropped $0.03/lb during the first half of 2009. With the significant forecasted increase in benzene and refinery grade propylene for Q3 09 we currently estimate that cost to produce PC will go up $0.17/lb over Q2 09. The estimated Q3 09 cost to produce PC is $0.15/lb below Q3 08 cost to produce PC.
- After dropping $0.25/lb or more during Q4 08, during the first half of 2009 PC prices dropped $0.15/lb or more. Despite higher feedstock costs demand remains depressed and in July and August we have seen mainly a flat price trend.
- SABIC's latest price increase letter asked for $0.14/lb effective 8/24/09. This follows their June letter asking for $0.14/lb effective 7/20/09. Other producers followed with their own increase letter but in competitive environments we have seen multiple offers made to keep August prices unchanged with no price increase in Q3 09. Where there is no or very limited competition the producers are attempting to get some price increase due to the feedstock cost increases mentioned above.
- Until early 2009 falling feedstock costs improved PC producer gross margins. However, recent feedstock cost increases along with price decreases in 2009 have brought their gross margins down significantly. Reduced sales volumes have also increased the producer's costs so net margins are not where they want them to be.
- 2009 PC demand growth in Asia has been relatively soft. PC demand in NA continues to be soft overall and the export opportunity for NA producers has been significantly reduced. In response PC producers have cut back production or shut down lines.
- Several PC producer capacity expansions were previously announced in Asia and the Middle East for 2010-2012. However, many of these have already been delayed and more may likely be delayed due to continued soft global demand. The very large capacity addition from Saudi Kayan is still being mentioned to be occurring in 2011.
- Due to lower feedstock costs and soft demand average Asian PC prices remain lower than NA prices. In most markets Asian PC producers are interested in NA share.

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RTi Polycarbonate Outlook and Suggested Action Strategies

30 Days: There is global oversupply of PC. So far soft demand has generally offset the effect of higher feedstock costs but the PC producers will be looking to implement some level of increase in August where possible. Review your PC purchase strategy with RTi as demand, feedstock costs, your price level, and level of supplier competition in your business are key factors in establishing your best price and resin strategy/action plan moving forward.
60 and 90 Days: Watch PC feedstock costs and demand closely. Without unforeseen events feedstock costs should be lower by this time. PC supply/demand should still favor the buyer. Review your PC purchase strategy with RTi as demand, feedstock costs, your price level, and level of supplier competition in your business are key factors in establishing your best price and resin strategy/action plan moving forward.

NYLON

- The contract price for August Benzene settled at $3.65/gal, but spot has dropped $0.20 for August and $0.40 for September, thus pointing to a contract reduction in September.
- Benzene supplies are improving as imports from Asia arrive, cracker operations improve, and on purpose benzene operations ramp up. Styrene exports are continuing but at a more moderate pace. In addition, September will see several planned styrene production outages, reducing benzene demand.
- The highest global pricing for benzene is in NA.
- Even though gasoline consumption is now up slightly over last year, the summer gasoline production season is drawing to a close and is not attracting benzene back to the gasoline pool for octane value.
- Reformer run rates remain lower as refinery run rates are in the mid 80's.

PA 66

- Propylene increased $0.04/lb in August contract for a total of $0.135/lb over 3 months. Increases of $0.05 or more in September are being driven by lighter feeds to flexible crackers and a significant heavy cracker outage limiting supply. Significant polypropylene exports supporting demand have ended as prices have increased, easing the demand strain on limited propylene supply.
- Butadiene settled up $0.15 in August for a total of $0.33 in 3 months. Prices are expected up $0.10 or more in September due to supply issues from mechanical outages and lower refinery run rates.
- The cost for both manufacturing routes moved up $0.07-$0.10/lb from July to August, but remain more than $0.23 below the raw material costs one year ago.
- Raw material cost escalation is expected to flatten by the end of Q3. Benzene is expected to peak in August, propylene and butadiene in September/October.
- Weak demand, margin gains seen earlier in the year, as well as a broad spread in pricing from top to bottom in the market is helping hold back market price increase announcements.
- Demand has been seen to improve in recent weeks as automotive run rates are improving on cash for clunkers and thinly stocked supply chains as auto inventories decline.
- Additive supply issues have been reported for compounded product as producers struggle to adjust to new supply chain strategies requiring lower inventories and more made to order products.
- Invista had seen supply disruptions for PA 66 intermediates and fiber grade PA 66 initiating allocation and force majeure on intermediates and PA 66. The NA production problem has been resolved but allocation remains in place due to butadiene supply allocation.
- DuPont has announced plans to discontinue distribution through Ashland and will concentrate on PolyOne as its primary distribution channel.
- SK Capital Partners acquired Solutia's nylon business. The new company will be called Ascend Performance Materials. Reduction of inventory costs and margin targets are an early initiative of new management.

PA 6

- With the benzene increases in August, raw material costs have increased by $0.05-$0.06 in August for a total of $0.19/lb over the past 3 months, but still $0.10 below costs one year ago.
- Some of the benzene increase is being offset by lower ammonia pricing which has fallen by 2/3 since its peak in April.

NYLON *continued*

PA 6

- As a result of cost pressure and due to the fact that PA 6 pricing fell more in line with raw material cost decreases (unlike PA 66), price increase nominations of $0.10-$0.12/lb are being made into August as well as reinforcement of increase nominations to extrusion segments from June.
- Efforts should be made to delay implementation in order to get to lower contract settlements expected in September for benzene offering a better bargaining position on cost.
- Anti-dumping tariffs have been imposed on PA 66 ranging from 11-34% with the higher end of that range imposed on NA producers. Effects of this on export are TBD since China is not self sufficient in PA 66.
- Asian demand for Nylon 6 has improved due to increases in textile and automotive as the China stimulus programs takes hold. PA 6 pricing has increased some $0.10/lb over the past 2 months.
- Caprolactam prices in Asia are on the rise with spot prices continuing upward. Buying interests appear strong.
- Raw material cost escalation is expected to flatten by the end of Q3 on weak demand reinforcing improving raw material supplies despite production restrictions earlier in the quarter and export opportunities.

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RTi Nylon Outlook and Suggested Action Strategies

30 Days: Lower benzene in September will be offset by higher butadiene and propylene prices to increase costs for PA 66 in September. This will increase the likelihood of cost based increase discussions as there is some improvement in auto demand. The PA 6 price increase nominations have strengthened with the significant August increase in benzene, but future efforts will be offset by benzene decreases starting in September.
60 -90 Days: Lower priced PA 66 will remain under cost pressure through October. Decreases in cost are anticipated to begin by November. PA6 will see cost decreases during this period as benzene readjusts on a global basis. Supply challenges will persist as changes in distribution channel may artificially inflate demand. Demand improvement is expected in fits and starts, but remain below historical levels.

PVC

- PVC in May settled up $0.015 /lb with another $0.015 in June and $0.03 for July.
- Tighter and pricier chlorine supplies and strong export demand reinforced the 3 cent nomination for July. In addition, $0.03 and $0.02 has been nominated for August and September.
- Without an ethylene settlement for July or August, PVC is unsettled this month with expectations of a partial increase, less than the full amount.
- Spot ethylene has moved up further to $0.27 from $0.25/lb on ethane moving back above $0.50/gal and persistent PE export demand. This is reducing expectations for a 2 month reduction settlement.
- Caustic market pricing has strengthened a bit reducing pressure in Chlorine pricing. Although supplies are beginning to rebalance in August this does remain an issue.
- Producer discussions are focused on tighter chlorine supplies that have added $0.03-$0.04/lb to the cost to produce PVC over the past 3 months.
- Although US$ has weakened recently, strong exports will see some weakening late in Q3 as inventories build overseas thus lowering the cost of NA PVC for export.
- The cost push will also fade into Q4 as chlorine rebalances and ethylene inventory sees the influence of Middle East capacity additions.
- Plant operating rates running around 84% at the beginning of Q3.
- Compound increases of $0.07 into September are being fought on the basis of competition and producer interest in maintaining share in a weak demand market. Despite industry consolidation in the PVC compounding industry, competition remains alive and well.
- With GDP down 1% annualized in Q2 after a 6.5% fall in Q1, the economy appears to be finding its bottom with expectations for down 2.5 to 3.5% for the year. New home construction is improved in July, although from a very low level.
- Domestic PVC demand remains weak as price increases represent a cost push supported by export and low inventories.
- Improvements in home sales and lower inventories will lead to improvement in new construction later in 2010. The shorter term impact of the first time buyer credit will come from inventory rather than significant new construction.
- Exports have continued to be strong on the weaker US$, higher cost feedstock overseas, and tightening chlorine availability. Exports are up 40% over last year primarily to China and the ME/Turkey.
- The window for export remains open as NA export pricing is above $0.35/lb. Europe remains tight on material due to operational issues and Asia appearing strong in ongoing demand and need for material from cheaper feedstock (natural gas) in North America.
- Prices in China have peaked around $.41 and are holding for now even as inventories rose from imports and increased regional production. Chlorine supply remains an issue, but higher coal based capacity utilization is also improving supplies.
- European prices moved upward $0.03-$0.04/lb in August with producers pushing for more, based on inventories down a third in the past 6 months and the ongoing force majeure from Ineos. Producers were also discussing increases due to higher ethylene and higher chlorine costs in August.

PVC continued

For additional PVC information please contact Mark Kallman: mkallman@resinpros.com

RTi PVC Outlook and Suggested Action Strategies

30 Days: The August increase of $0.03 remains in discussion with expectations for partial settlement pending the ethylene settlement for July and August. PVC inventories remain tightly balanced despite weak domestic demand as GDP bottoms out. Chlorine supplies remain a concern as improved caustic pricing will help rebalance this market. Exports are remaining stronger than expected.

60 Days: Ethylene pricing is likely to pull back as chlorine supplies rebalance going into Q4. Ethylene will pull back during this period as supplies improve and Middle Eastern production has more of an impact on exports. As a result PVC cost pressure will weaken further during this period driving pricing to flat.

90 Days: We are likely to see a flat to down period in Q4 as the construction season ends in the northern hemisphere. Upward raw material price movement will be reestablished as the economic recovery evolves early in 2010, but in the interim downward adjustments are more likely during this period.

PET

- The price increase of $0.03 for August will stick. Raw materials have settled up enough to require the full $0.03 and a little more.
- Most producers have discounts on raw materials, which are a % of price. As price increases, their discount does too. Especially in regards to the vertically integrated producers; they are not going up a full $0.03 on raw materials. The non integrated producers are a little closer to taking the full amount.
- Raw materials are far from settling for next month. Glycol will probably be up. (Divide by 3 for impact on PET). PX is flat to down and may offset the glycol increase.
- China has slowed down on buying raw materials. This will eventually reduce prices.
- Oil has moved up in the last few days. This was due to lower than expected US inventory, but not demand. There is ample oil in transit, or stored in tankers off the coast. We are being told to expect it to move down as the driving season ends.
- I met with Indorama. They will be up in early September. Even at minimum run rates, this will affect the market by 4% - 5% of utilization. They must run the plant, which means they must place pounds into the market. If you can use spot, contact them asap.
- Eastman had a black speck event. This material will be available at big discounts if you can use it. This would be a problem in thin wall bottles, it could be used in opaque, heavy, or non stressed applications.
- Demand for PET will decrease for the next two months and pick up a little before the holidays. Producers are running around 80%.

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RTi PET Outlook and Suggested Action Strategies

30 days: Buy as you need material. Do not load up on "deals," if they are offered. Call RTi and ask about market direction. Prices will come down in the near future.
60 – 90 days: During this period expect price to come down. $0.05 - $0.09 is still a good estimate of the potential drop.