INSIGHT: Turnarounds dominate olefins outlook

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Stronger global economic and industrial production growth is needed before upstream petrochemical players can feel much easier.

Economic uncertainty hangs heavy over the sector and the possibly improved business confidence signalled by some indicators has yet to filter into the thinking of most industry participants.

They have to deal with a reality that saw cracker operating rates cut back in Asia in December because of weak demand, and a subdued operating environment in Europe.

But ICIS year-end reviews of the industry have underscored a spirit of determined optimism. And the need to shift stocks so far in 2013 is giving prices some buoyancy.

In the olefins business, a heavy cracker maintenance schedule in Europe in the first and second quarters is expected to bring supply and demand back into better balance. The turnarounds in Europe could also help underpin operating rates in the Middle East and in Asia.

Yet some much more fundamental industrial growth is needed to push olefins demand higher.

Cracker operating rates were cut last year as downstream demand worsened, with polymers particularly weak. The situation in Asia prompted cracker operators in South Korea and Taiwan to trim rates in December as naphtha-based margins dropped into the red.

Margins improved slightly towards the end of the year but some operators could not muster a particularly positive outlook. The suggestion was that demand in China, Europe and North America had to improve first.

Producers are hoping that polymers demand will strengthen around the time of the Lunar New Year which begins on 10 February in 2013.

And while some pre-buying ahead of the holidays may force prices higher, there are those that are concerned about the lengthening of supply in 2013. The Asia cracker maintenance schedule this year is lighter than it was in 2012. New cracker start-ups in China also are expected to reduce the needs for imports. But China’s downstream markets remain weak.

In Europe, producers really do need to see polymer demand improve before they can feel more comfortable.

Demand is coming back a bit but that is really because downstream inventories were cut towards the 2012 year end.

A large slug of cracker capacity will come off-line in the first quarter but the real supply crunch is expected in the second quarter when four crackers will be closed for maintenance including two of the largest in Europe.

Yet as far as supply/demand balances and market tightness are concerned there are two broad schools of thought. Some expect pre-buying ahead of the cracker maintenance shutdowns – some derivatives units will come off-stream with their crackers. Others believe that the net effect of the turnarounds will be minimal and that there will be not much change in olefins supply/demand balances in Europe this year compared with 2012.

Clearly, with high feedstock, energy and other costs, many European derivatives players are concerned about their competitive position.

The opposite view prevails in North America where the low natural gas price helps keep energy costs low and the low ethane price is buoying the industry.

Olefins prices in the US rose towards the 2012 year end on a series on unplanned cracker outages. And planned maintenance shutdowns in the first months of 2013 are expected to underpin the higher prices.

North America’s ethylene producers are planning significant new capacity additions to take full advantage of increased ethane supplies from shale gas extraction and a mood of optimism prevails in the sector.

In 2013 more than 2bn pounds (more than 900,000 tonnes) of ethylene capacity will be added to the US total.

This 3.3% increase in the US ethylene capacity total is expected to help stabilise prices which fluctuated wildly in 2012 as the impact of numerous scheduled maintenance shutdowns was amplified by a string of unplanned outages.

Cracker operators are keen to take full advantage of North America’s ethane advantage which has put the region second only to the Middle East in terms of feedstock cost competitiveness.

Capitalising on that advantage, however, is causing disruption in a low demand-growth environment.

US cracker operating rates have been estimated at 85% in 2012 compared to closer to 92% in 2011 but rates could push back up to above 90% this year with fewer turnarounds putting some downward pressure on prices.

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