

OUTLOOK '13: High SM costs to affect PS demand in Mideast

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The 2013 price outlook for polystyrene (PS) in the Middle East is bearish because feedstock styrene monomer (SM) costs are expected to remain high and affect the downstream demand, said producers.

SM prices, which rose to highs of above \$1,710/tonne (€1,299/tonne) CFR (cost & freight) China in December 2012, are forecast to remain firm in the coming year, owing to high upstream benzene costs, according to market sources.

PS prices rose in tandem with feedstock costs, with general-purpose PS (GPPS) prices rising by \$10-45/tonne week on week in the Middle East and south Asian markets, ICIS data showed on 21 December.

"2013 is likely to be a gloomy year [for PS], overshadowed by high SM prices," said a northeast Asian producer and exporter of PS.

The demand for PS is likely to remain largely stable over the year, but high PS prices, as a consequence of rising SM costs, are expected to deter end-users from making bulk purchases.

In the Middle East, demand for PS from the downstream food and beverage packaging sector traditionally picks up in January, after the winter season.

However, many producers are uncertain about the extent of the recovery in demand in 2013 since they plan to raise their PS offers in response to the higher monomer costs.

The region, which sources the bulk of its PS requirements from Asia, showed much resistance to the higher offers in October-December 2012.

"It is difficult to absorb higher prices, because prices in the downstream markets have not risen at a similar pace, and it has become very difficult to pass on the price increase to end-customers in competitive markets," added a regional PS importer.

Producers expect the buyer resistance to continue in 2013 because they are looking to hike their offers further to improve their margins, which are currently in negative territory.

PS producers' offers for general purpose PS (GPPS) were at \$1,875-1,925/tonne CFR Middle East and high-impact PS (HIPS) offers were at \$1,950-2,000/tonne CFR Middle East on 21 December, according to ICIS data.

These offers were on par or below producers' manufacturing cost of the polymer, as feedstock SM prices were hovering at above \$1,700/tonne CFR China in December, according to market participants.

A conversion cost of about \$100/tonne is involved in the manufacture of GPPS from PS. The manufacture of HIPS involves an additional cost of \$150-200/tonne over that of GPPS.

Adding to that is the freight element, which varies between \$70/tonne and \$90/tonne, depending on the region that the cargo is scheduled for.

Demand in the Middle East is thus largely expected to be for covering the immediate needs of buyers, who are unlikely to hold significant volumes in their inventories.

(\$1 = €0.76)

Source ICIS News