

Europe acrylates players eye Japan

Released on 16/11/12

In the wake of a facility going down in Japan, the European market is asking whether tightening supply will exert upward pressure on prices amid weaker demand. Following the explosion at Japanese company Nippon Shokubai's Himeji facility in September, which saw the company's acrylic acid (AA) and super absorbent polymer (SAP) facilities shut down, the big question in the European sector is whether first-quarter 2013 prices will rise on tightened supply. Nippon Shokubai was ordered to suspend all operations at all its facilities at Himeji, including a 460,000 tonne/year AA and a 320,000 tonne/year unit for SAP, which is a feedstock for nappy (diaper) production. AA and acrylate esters demand so far this year in Europe has been relatively steady with 2011, and sources largely expect consumption levels in 2013 to be in line with this year's volumes. There is some expectation that prices will go up in January, partially because of the usual pick-up in demand at the beginning of the year, and also as some players are expecting supply shortages, as a result of the outage in Japan. Market anxiety is likely to spur some buyers into securing volumes earlier. Producers have struggled to match rising feedstock propylene costs this year amid weaker-than-expected demand and aggressively priced spot material being imported into Europe. "There is already an acceptance that prices will increase in January," a producer said. "There have been diminishing margins on the monomers. Q1 will see a step-up in demand, and if the situation in Asia continues, you are going to get a tightening [in Europe]." From another producer's perspective, the supply problems are being covered by Asia. "As of today, it's more an Asian thing. It seems that Asia is able to cover the situation. The influence on other regions has not been seen. But you never know." November and December demand will go down, the producer said. "But to say what will happen in Q1 is not easy," it added. "I'm not sure of the outcome. It's all totally speculative." Consumers, too, expect significant price hikes in the first quarter, particularly if supply in Japan is tight. "If they [Nippon Shokubai] are not back up running by the first quarter, prices will skyrocket," one buyer said. However, another consumer said: "There's no reason for price increases. Europe is self-sufficient. All acrylates regions are." Most sources said 2013 will be balanced, at best, or see lower demand. "Volumes will be identical in 2013," the second buyer said. At year-end, destocking will take place, but on a smaller scale. It is not thought that there is much stock in the system. With the expectation that prices will go up, some players will avoid emptying stocks. "There is nervousness in the market. And the AA market can go short quickly," the first producer said. "There is also a big question mark about demand globally. I expect to see a bit of an upturn in January to March, but I'm not an economist. There are various different scenarios that could play out; we just don't know." Contract agreements downstream are agreed, in some cases, on a six-month basis so it may also be preferable for buyers to alter their prices with their customers in January. "To take an increase now is difficult to pass on downstream," the producer said. "If we assume that propylene will remain steady at the beginning of the year, I would imagine that there will be a sizeable increase targeted in the new year." Market players in Asia hold mixed views on price direction going into 2013. The majority of producers expect supply restrictions to continue into the new year, on the back of the incident at Nippon Shokubai's Himeji facility, pushing prices higher. The facility is expected to remain shut for 6-12 months, according to market participants. However, according to buyers, prevailing weak downstream demand will not be able to support a strong rally upwards, even though supply is likely to continue to be tight. "Current prices are already at a ceiling, and it should start to slowly decline," a China-based distributor said. "The recent price increase has been too strong and fast, and prevailing weak demand will not be able to support that any further," the distributor added. November contract prices in Europe settled with increases of €20-30/tonne (\$25-38/tonne). Producers were pushing for increases and said they need to regain margin lost this year. One producer said that consumers are concerned about future AA availability. It added that there is less concern about esters for now, and achieving increases at the desired level for esters proved more difficult. However, buyers - and indeed some sellers - continue to talk of sluggish demand. "Demand is not strong, it's quite weak," one buyer said. Some sources have said end-use sectors such as coatings and construction saw quieter-than-usual demand - this year and last - amid wider political and economic instability. Sentiment has been dampened by weak macroeconomic conditions, and this is likely to result in more moderate increases for the balanced-to-long esters sector. A producer that had aimed for a significant price rise in its November contracts said: "The market is so long and the market is dead, so I doubt we'll get that figure. We'll have to compromise." A producer said last month that following a year of feedstock volatility, the AA and acrylate esters market in Europe needs stability in 2013, and said there will be a focus on improving margins next year. "The word that everyone is talking about is 'stability'," it said. Earlier in the year, propylene moved up by over €200/tonne from January to April, then down by close to €300/tonne through until the end of July, then up again by €225/tonne for August and September combined. For suppliers, next year's aim is to claw back margins where possible. Yet, with visibility clouded, most industry players remain cautious and continue to keep inventory stocks carefully managed.

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