

# Risk of increasingly weak Butadiene impacting Europe cracker rates

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An increasingly weak European Butadiene (BD) market is leading some to question whether operators could restrict or even reduce cracker rates as BD sellers are faced with rising supplies and ever-weakening spot prices, some market sources said on Friday.

It would be highly unusual and a first if European cracker operating rates were to be reduced solely on the basis of BD weakness - demand for ethylene primarily drives cracker operating rates.

"It's a hugely complex situation, [but] BD is still only 5% of what comes off a cracker," a producer said.

"I don't think crackers will be reduced - ethylene and propylene [demand] drives the cracker - C4's will just have to deal with it," a second producer said.

Both suggested that while the economics of producing a marginal tonne of BD might be unattractive, core business was "ticking over" and there was still a small margin on the recently settled July monthly contract price of €1,000/tonne (\$1,299/tonne) FD (free delivered) NWE (northwest Europe).

However, a combination of factors, including improved rates over the past couple of months because of stronger polyethylene (PE) demand, the end of the maintenance season for both crackers and extraction units and increased capacities coming online in Asia, means some European BD producers are under severe pressure to accept weak spot levels in order to evacuate volumes and rebalance systems.

This is all during a time when demand remains soft.

The concern among some sources is that ethylene demand in July so far looks quite healthy and could potentially be supported by pre-buying activities should crude and cracker feedstock naphtha firm further. Consequently, operating rates could pick up a couple of percentage points.

"I think that the BD issue is going to be felt in the cracker operating rates in Europe," a trader said, adding that the operators "will think twice before taking on additional C2 [ethylene] demand."

Europe is structurally reliant on demand from Asia and the US. Spot export prices have fallen by 50% since April and are at a four-year low. Asian spot prices in particular continue to plummet and no one can see the end of the downturn.

"Where is the bottom?" a second producer said.

"It is ugly," a trader said.

"[It will not] end in the next weeks I believe," said another trader, adding: "[It's] time to go on vacation and a long one."

SOURCE *Icिस News*