TRCC Canada

Leading World Technologies Through Innovation

Monthly Bulletin– August 2013

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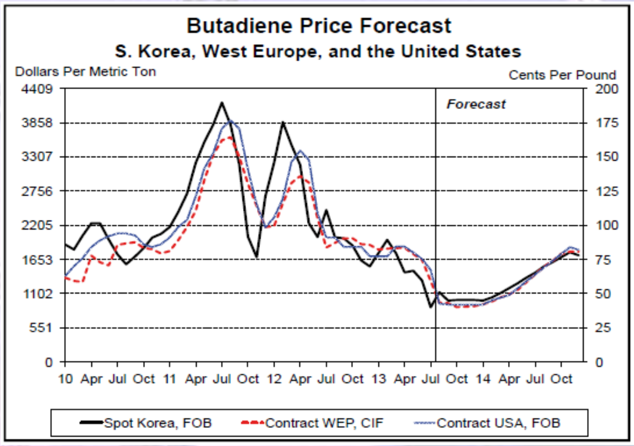
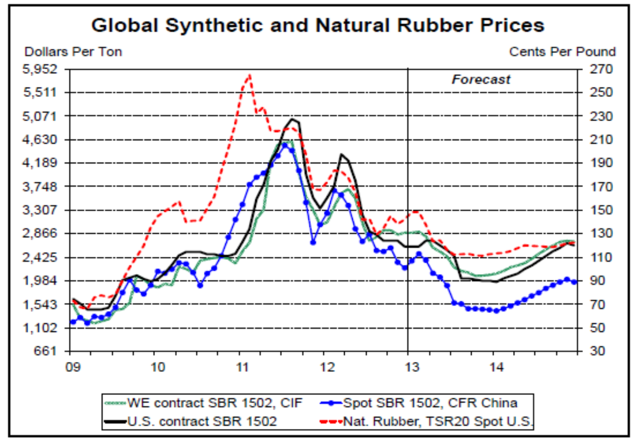
Executive Summary

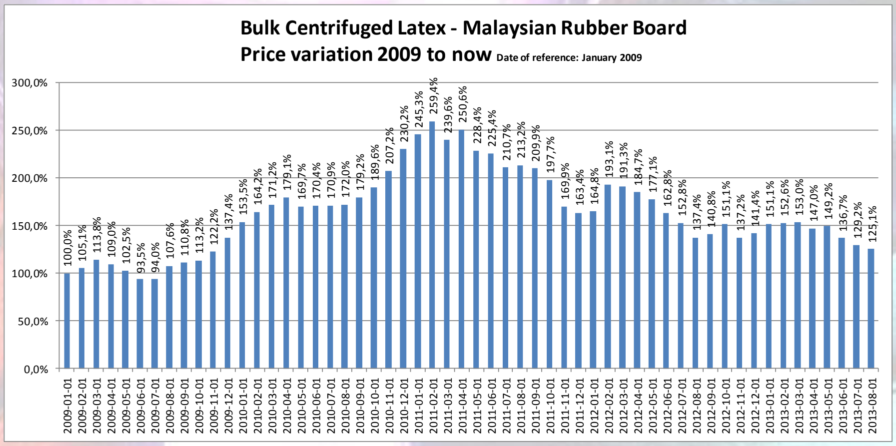
Butadiene: Once again, very little has changed on the butadiene supply side this month. Looking forward, for the remainder of 2013, it continues to appear that demand will remain sluggish and that prices will remain at or near their current levels.





Synthetic Rubber: IHS expects demand to be stable at low levels. This is likely to be the case through the end of the year and into Q1 2014.

Natural Rubber: Natural rubber prices have been affected by slower growth in the major economies and generally lower commodity pricing, with a key ingredient being the slowdown in the Chinese economy relative to previous years. Inventories remain near three year highs.



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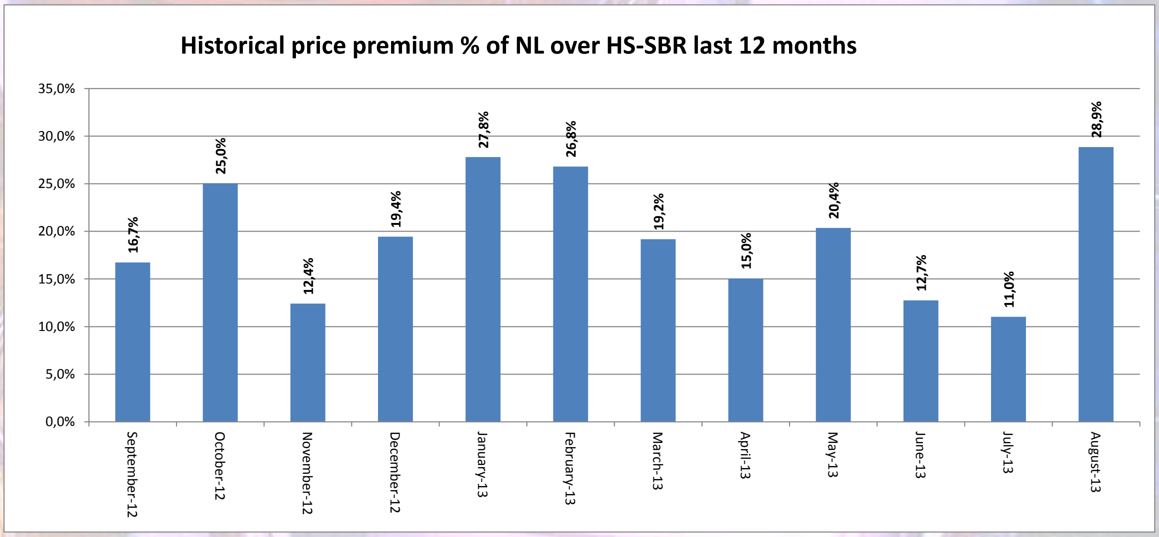
Executive Summary (Cont.)

Natural vs. Synthetic Rubber: The gap between the price of natural and synthetic latex has been increasing by 14% over last month due to an marked decline in the price of Synthetic Latex relative to the decrease in price of Natural Latex. despite the fact that we are still into the North American paving season, of which the high demand should be causing an upward pressure on the price of synthetic latex. Expectations are such that the price of both NL and SL should stay relatively stable until the end of the year. The gap reported below is expected to remain at the same level plus or minus some percentage points.



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Butadiene (building block of HS-SBR and XSBR)

Market update

IHS Chemical's marker for the August U.S. butadiene contract price decreased nearly 25 cents per pound to 42.6 cents per pound ($939 per ton). This reflects a split settlement with final nominations ranging from 40 to 47 cents per pound.

Once again, very little has changed on the domestic butadiene supply side this month. Crude C4 production has not changed significantly and there are no production outages impacting the market. The market pressure that caused the extremely large price decrease this month was from two import sources: European butadiene and global synthetic rubber.

There has been no sign of improvement on the butadiene demand side. As long as consumers are convinced that fundamental demand will not improve and their feedstock costs have not reached bottom, there is no reason for a significant change in buying patterns. So far this year, the winning strategy seems to be to keep inventories low and take limited advantage of the abundant volume of spot material available at significant discounts to the posted marker. With the significant price drop this month, one might be tempted to conclude that the market bottom has arrived and that consumers will return to purchasing. It is possible that prices have hit their bottom for this cycle, but IHS discussions with consumers do not indicate an appetite for increased purchases.

The current domestic spot market remains opaque. However, imports are readily available and offered at prices below the August contract marker. There has been material offered in the market below 40 cents per pound. IHS understands that even at that level, buying interest is quite limited. There is no reason to expect a significant decrease in the spot price from current levels for two reasons. At least for now, prices in Asia have actually increased somewhat, so there is limited pressure from oversupply in the region. Second, prices have clearly reached cocracking values and since there is now a viable alternate for crude C4, butadiene will not be forced into the market, causing falling prices.

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Market analysis

Looking forward, for the remainder of 2013, it continues to appear that demand will remain sluggish and that prices will remain at or near their current levels. There is some activity in Asia that might change that dynamic. However, there has not been a significant reaction from the actual consumers to date, so it is possible that the current set of price increases will not hold. IHS will watch price levels down the value chain to gauge the strength of the butadiene price recovery. In any event, it is unlikely that market fundamentals will open a significant regional differential over the next few months as demand is expected to recover somewhat in 2014, but remain relatively soft and therefore not require large increases in global trade and the accompanying larger regional price differentials.

Other Rubber Feedstocks

Styrene (building block of HS-SBR and XSBR)

Spot styrene prices in North America continued to head higher in July with the pull into the export market holding the spot prices firm and enticing producers to bring more production into the marketplace. Spot prices started July at 73 cents per pound and moved up to 77 cents per pound despite lower feedstock costs in July. On production, one plant restarted from a maintenance outage and even the POSM units were understood to be running harder by the end of the month. Offsetting this was another unplanned outage and the prospect of coming fall turnarounds. Demand from the domestic derivatives markets is also reasonably strong however seeing some slowdown compared to May and June. On costs, production costs based on forecasted contract raw material costs is only up approximately 1 cent per pound from July to August. The divergence between styrene costs and styrene spot prices has pushed styrene margins to levels not seen in over a decade.

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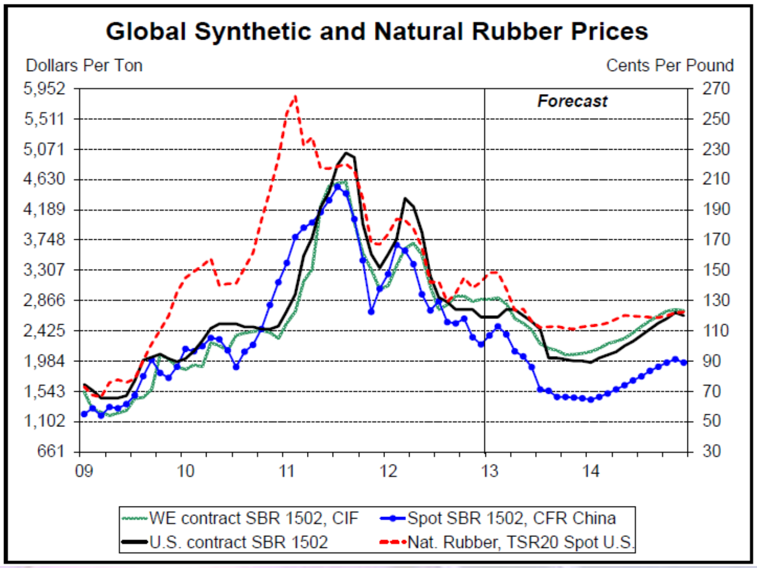
Synthetic Rubber

Market update



In the U.S., synthetic rubber market conditions remain extremely challenging on both sides of the negotiating table. Supply is readily available, partially because producers could increase rates easily at any time, should demand justify the additional production. ***The market has been open to imports, especially from Asia. This was the most significant cause of the large decrease in the August U.S. butadiene price marker***. The lower price will largely shut the door to increasing rubber imports, especially if the current increase in butadiene prices in Asia holds.

The decrease in August raw material costs does not appear to be stimulating demand, just preventing further destruction. IHS has seen no evidence that the lower prices will result in increased demand down the chain or even increased inventory levels. So, at least for the time being, ***IHS expects demand to be stable at low levels. This is likely to be the case through the end of the year and into Q1 2014***.

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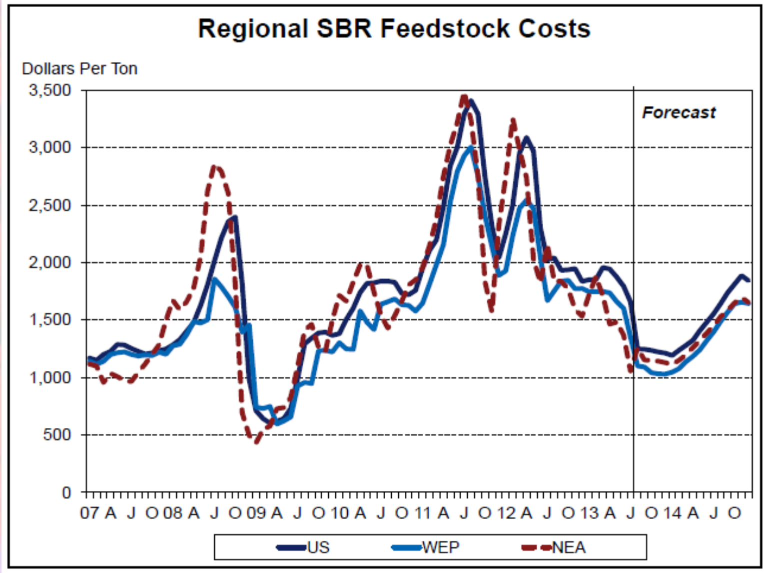
Market analysis

The recent large decrease in butadiene contract markers in both North America and West Europe have not been intended to stimulate demand, but rather protect domestic markets from imports. Note that the regional differentials have tightened significantly over the past couple of months. This is to limit the competitiveness of imports that were starting to play a major role in both Europe and North America.



Looking forward, IHS expects a period of relatively stable SBR feedstock prices before demand begins to recover in the first part of 2014. Once demand finally begins to strengthen, it should not cause a rapid price increase like those seen in early 2011 and 2012, but rather a more gradual increase. This will also be generally seen in the global market, which implies that supply will continue to be sufficient to meet growing demand and that market fundamentals will not require significant interregional trade.

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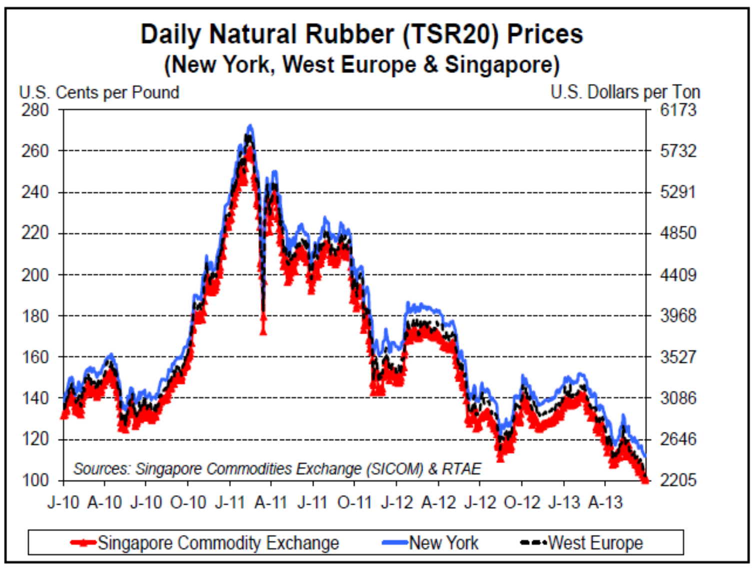
Natural Rubber

Market update

Natural rubber prices decreased in July with the average price on the SICOM falling roughly 4 cents per pound from June. Prices on the SICOM averaged $1.02 per pound ($2,243 per ton) in July, the lowest monthly average since September 2009.



Prices dipped below $1.00 per pound for several days in July for the first time this year. Current price levels are around 30 cents per pound lower than during the same month last year. ***Prices appeared to be on the way back up near the middle part of the month, but then reversed direction and closed the month right around the levels at which they began June. Natural rubber prices have been affected by slower growth in the major economies and generally lower commodity pricing, with a key ingredient being the slowdown in the Chinese economy relative to previous years***. ***Thailand***, the world's largest producer of natural rubber, ***together with Malaysia and Indonesia, agreed last year to cut exports*** by 300,000 tons during the first half of 2013 ***in an effort to boost prices***. The export restrictions have now ended but ***there was no real impact*** on prices as they continued to trend lower over that timeframe. ***High inventories are also playing a role in falling rubber prices***. As shown in the graph Daily Natural Rubber (TSR20) Prices, prices have decreased since the beginning of 2012, sitting over $1.50 per pound lower than the record highs seen in early 2011. Prices in New York and West Europe decreased this month, averaging $1.12 and $1.05 per pound, respectively.

TOCOM natural rubber futures increased in July, ending the month $214 per ton higher than the June closing price. The July RSS3 contract closed at $2,576 per ton. This appears to be just a temporary bump in prices as futures prices for the beginning of

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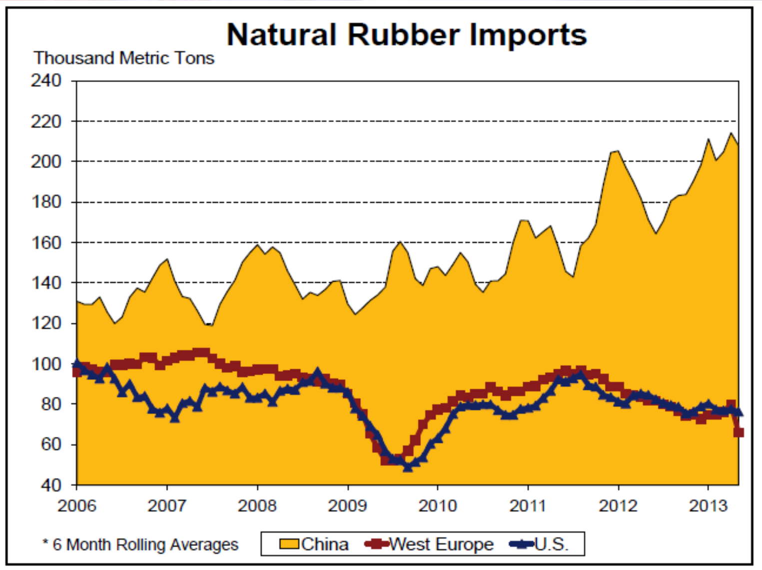
August have tracked lower thus far. ***Monthly prices on the TOCOM through December 2013 also increased from last month***, ranging from $2,420 to $2,468 per ton. TSR20 futures on the SICOM closed at $2,224 per ton for July, a decrease of $105 per ton from the June contract price. ***SICOM TSR20 futures prices through December 2013 decreased***, ranging from $2,214 to $2,235 per ton, $50-$100 per ton lower than the futures strip at the end of June. TSR20 prices in New York were four cents lower than June, averaging $1.12 per pound. ***IHS Chemical forecasts that U.S. TSR20 prices will remain in the $1.10 to $1.15 per pound range through the end of the year, averaging $1.24 per pound in 2013***. This would be the lowest annual price since 2009.

Market Analysis - Trade

In this month's market analysis section IHS examines the key aspects of global natural rubber trade. ***Looking at trends in the trade data helps to analyze some of the price movements that are seen in the natural rubber markets***.



Natural rubber trade data typically lags between two and four months behind, depending on the reporting country. As seen in the chart Natural Rubber Imports, ***the majority of the world's natural rubber is imported into China***. The data shown in the graph is a six month rolling average, whichhelps to remove noise from the data and shows a more general trend. ***Each year since 2003, China has experienced a new record level of natural rubber imports***, importing roughly 2.18 million tons in 2012, and on pace to surpass that number

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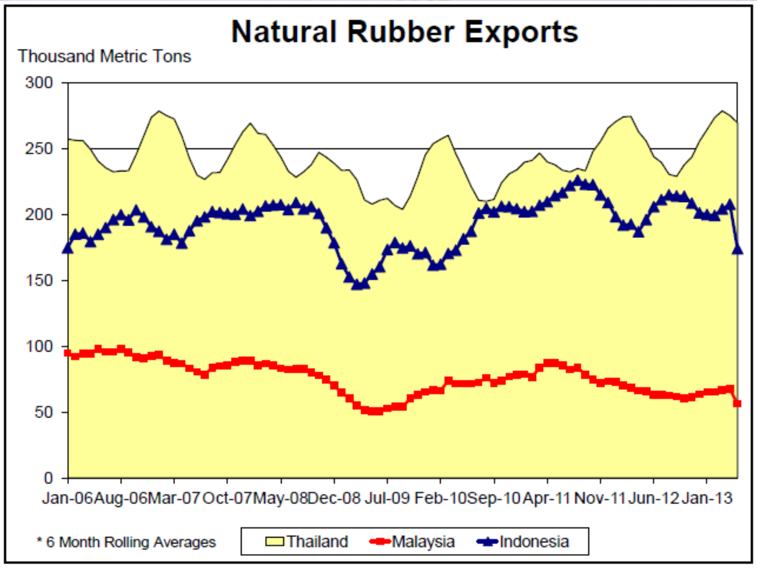

again this year. ***While the import totals for the country have been increasing, the rate of increase has been slowing over the past two years***. The 2012 import total for China was up roughly 70,000 tons from the 2011 total, and marked the lowest annual increase since 2008. The “slowdown” in Chinese imports coincides with the slight weakness, relative to recent years, in Chinese natural rubber demand. ***China produces very little natural rubber for domestic consumption so most of the demand is satisfied by imports., and despite the slowdown, the country continues to set the tone for natural rubber imports***. In 2010, natural rubber prices surged as China’s import levels soared and resulted in heavy stocking of natural rubber. West Europe and the U.S. each currently import roughly half of the amount of natural rubber that China does. As mentioned in previous reports, ***during the height of the global recession, China consumed up to 45 percent of natural rubber and helped to prop prices up when demand had fallen off in the rest of the world***. ***The dip in exports to West Europe and the U.S. in 2009 while China was importing almost 160,000 tons helps to illustrate how large of a role China plays in the natural rubber market***.

When looking at the chart Natural Rubber Exports, there are several key points to address. The first is the distinct seasonality in Thailand’s data. While the natural rubber planting and harvesting season impacts all rubber producing countries, there is a more distinct cycle in Thailand’s exports. The long rainy season and extreme flooding in Southeast Asia in 2009 strongly impacted production and thus export levels within the region, and this was especially true in Thailand. The second thing that is readily apparent is the overall increase in Indonesia’s level of exports over the past several years. In the period shown, the average monthly volume exported from Indonesia increased from roughly 170,000 tons to over 225,000 tons before the last couple months. A general slowdown in the global natural rubber market explains the dip in exports from Indonesia and Malaysia since the end of last year. The final point to be made from the chart is the

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downward trend in natural rubber exports from Malaysia. While the decrease has not been drastic, there has been a steady decline and the country has yet to reach the peak level of exports seen in 2006. ***One of the reasons exports from Malaysia are lower is its high consumption of natural rubber latex to produce dipped good which are then exported instead of the natural rubber.***

Looking ahead, natural rubber imports are expected to show the same general trends with China leading the way and imports decreasing in other countries around the world. China is expected to see moderate growth in imports due to the automotive slowdown, but the country will still remain the largest importer and it is expected that their share of the global import market will increase over the next several years. With regards to exports, Thailand is expected to remain the largest exporter in the world, with Indonesia second. Malaysia should is expected to see decreased export levels based on what has been seen over the past several years, remaining at levels roughly half of those for Thailand and Indonesia.