TRCC CANADA
Monthly Bulletin

TRCC Canada

Leading World Technologies Through Innovation

May 2014 issue

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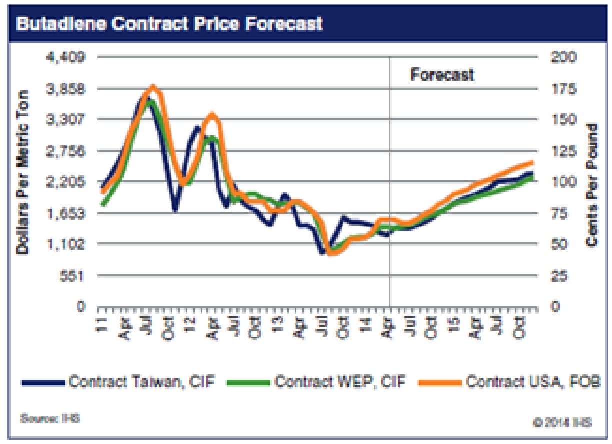
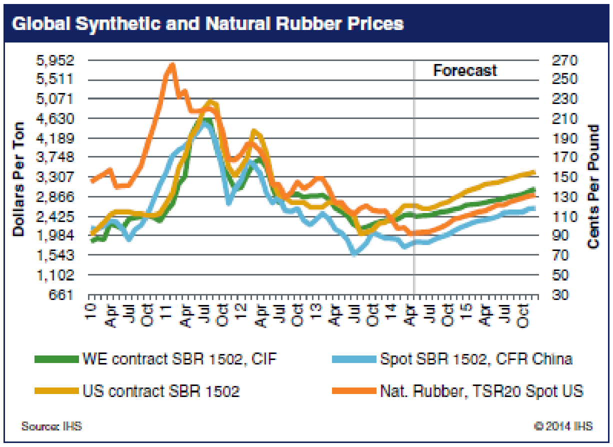
Executive Summary



Butadiene: The US butadiene contract price marker posted by IHS Chemical rolled over at 69.8 cents per pound ($1,539 per ton) for May. The split range this month is 68 to 78 cents per pound.



Synthetic Rubber: In the US, fundamental demand continues to be stronger than it has been for the past couple of years. The synthetic rubber market in Europe was marked by a positive demand trend in the domestic market. In Asia, synthetic rubber prices increased amid the increase in feedstock costs and tighter supply.

Natural Rubber: Average April natural rubber prices on the SICOM fell 6.6 cents from last month, averaging roughly $0.807 per pound ($1,778 per ton) for the month. Natural rubber prices have been affected by slower growth in the major economies and by robust global supplies.

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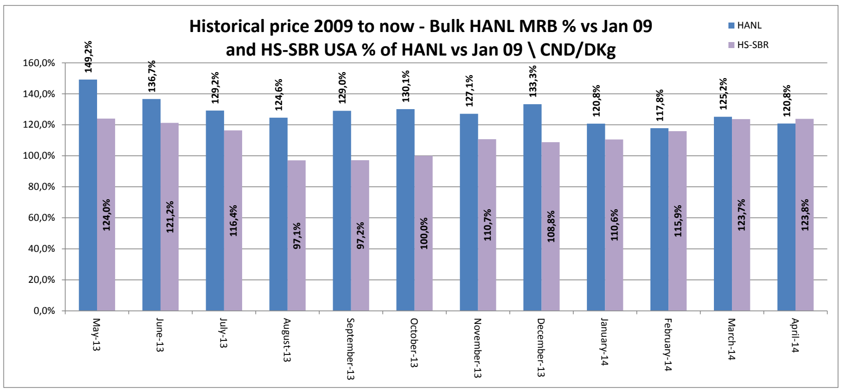
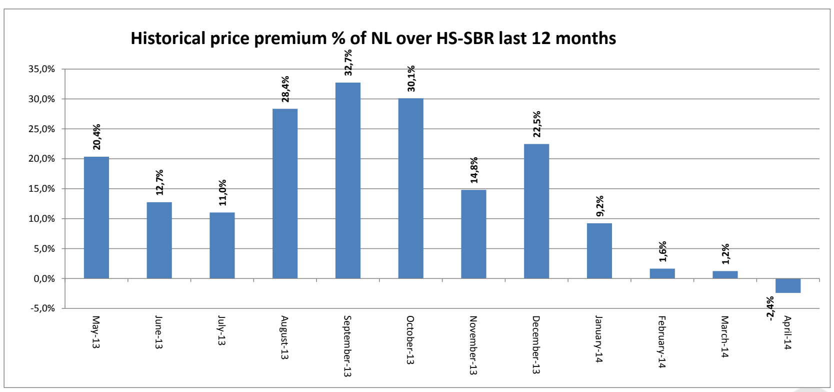
Trending between Natural and Synthetic Rubber Latexes



The reported price of bulk natural rubber latex published on the Malaysian Rubber Board (MRB) decreased in April versus the previous month whereas the North American price of bulk synthetic rubber latex (HS-SBR) continued its rise. Both latex types increased by almost the same percentages, maintaining their gap practically unchanged (both expressed on a dry basis). At the end of March, that gap was 1.2% versus 1.6% the month before.



Looking at the news of SE Asia, many variables such as the extended Wintering due to droughts and the political unrest in Thailand (world largest exporter of NL) suggest that the price of NR and NRL should be skyrocketing. This is obviously not the case. There is one overwhelming offset to that news: Supply far exceeds demand. Demand is actually up globally year upon year, and many trees that were planted during a previous run up of pricing to near $3.00 for NRL are now productive. Given the current market price for NR and NRL, mo one is planting now and it is very likely that in a 3 to 5 years' time frame, the balance will swing the other way and we will see that $3.00 NRL again.The price of Synthetic Rubber Latex has been on the rise since the beginning of the year due to some level of tightness on the side of some of the HS-SBR feedstock. The paving season is also another reason why prices are rising as the demand for synthetic rubber later, namely HS-SBR, is on the rise.

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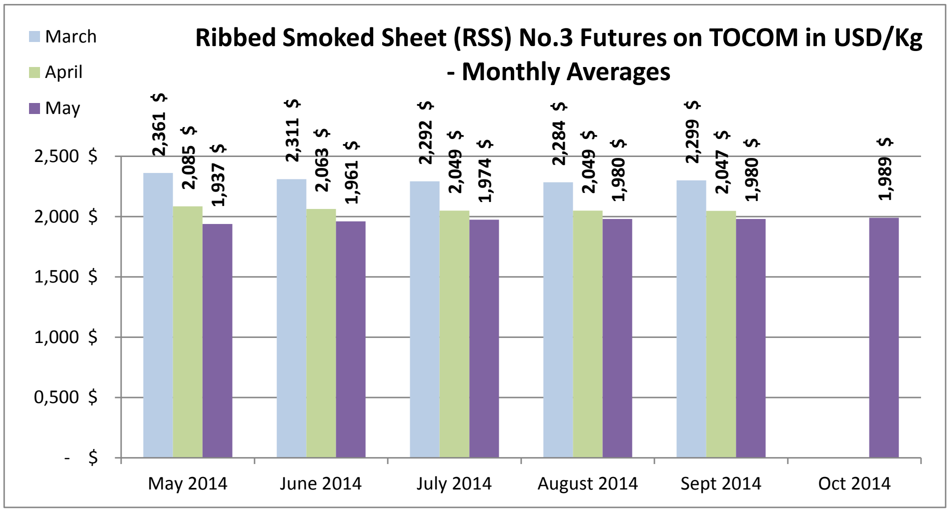
Trending on Natural Latex Futures on key Commodity Exchanges



The April monthly average RSS3 Futures running down to September 2014 on TOCOM (green bars on the left hand side graph) are on the decline.

The May month to date average RRS3 Futures running down to October 2014 are on a slight rise but nevertheless all remain lower on every month than then average monthly prices reported in April, indicating a month to month downward trend in the May Futures relative to April. The market is thus on a decline over the last month. Nothing indicates an upcoming rise on the market for the time being.

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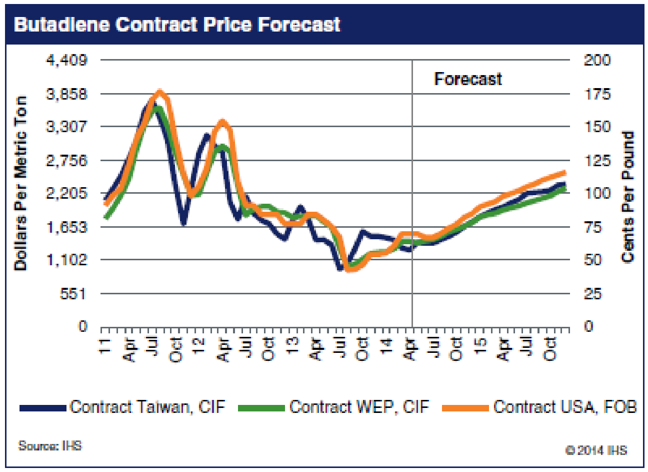
Butadiene (building block of HS-SBR and XSBR)

Contract prices



The US butadiene contract price marker posted by IHS Chemical rolled over at 69.8 cents per pound ($1,539 per ton) for May. The split range this month is again 68 to 78 cents per pound.

Monthly Market Summary
North America

IHS Chemical's marker for the May US butadiene contract price rolled over again at 69.8 cents per pound ($1,539 per ton). This reflects a split settlement with final nominations ranging from 68 to 78 cents per pound.

Calculation of Butadiene Contract Marker with Split Settlement
May-14

Nominating Company	Capacity On Line Million Pounds		Nomination Cents Per Pound
ExxonMobil	Baton Rouge	379	
	Baytown	331	
	Total	**710**	78.0
LyondellBasell	Channelview	240	
	Channelview	615	
	Total	**855**	68.0
Shell	Deer Park	331	
	Norco	575	
	Total	**906**	68.0
TPC	Houston	838	
	Port Neches	573	
	Total	**1,411**	68.0
	Total Capacity	**3,882**	
	IHS Chemical Wtd. Avg. Marker		69.8

Domestic butadiene production in April suffered from a few unplanned issues. Two producers allocated sales to their customers at levels around 80% of contract volumes. By the end of the month, the issues were nearly resolved, but the sales allocations are officially still in place. It is likely that the allocations will be adjusted, or even lifted, in the not too distant future if the issues are resolved as planned. The other supply side issue facing the market is crude C4 supply. The spring outage season is at its peak right now limiting domestic supply. Crude C4 imports from Europe are also limited by production issues there and sellers' netback expectations.

Domestic butadiene demand is not weak. However, not weak is not the same thing as strong. Incremental North American demand for tires and other rubber products can be met by imported butadiene, rubber, or tires just as easily as it can be by domestic butadiene production. So the market balance is in a precarious situation with butadiene and derivative producers in other regions, especially Asia, where demand is not so strong looking to export incremental production. The domestic players will need to exercise discretion to keep imports from negatively impacting domestic demand.

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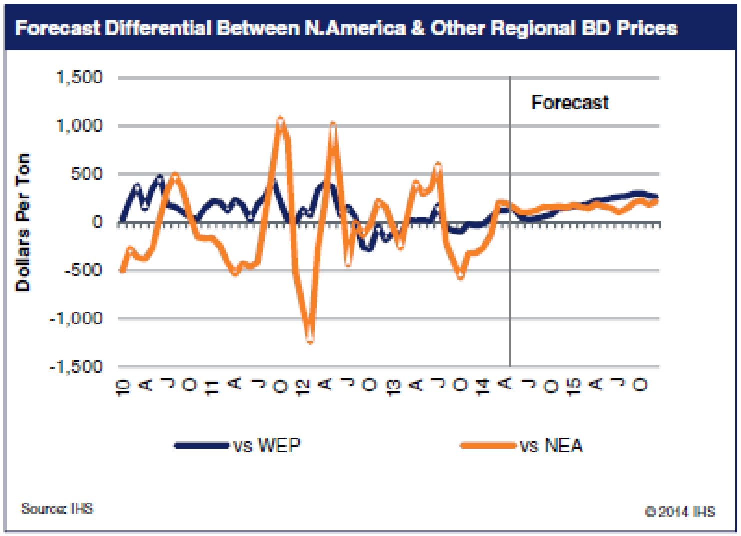
The spot market remained active in April, though the actual volume sold appears to have decreased relative to March. The notional market price level is currently around 77 cents per pound ($1,697 per mT) and has been at that level for several weeks. Exporters from Asia are facing increased freight costs for exports to North America and have increased their sales offer price. However, we have not been able to confirm any deals completed at the higher level. In fact, an interesting market dynamic has emerged. Butadiene producers in Asia have actually agreed to spot sales prices based on the US contract marker at the time of delivery. This is an indicator of their motivation to ship surplus material out of their region in the hope that it will support higher, or at least stable, prices in Asia.

Market analysis

IHS has highlighted the regional butadiene price differentials that have emerged over the past couple of months as a significant market driver. In this month's market analysis, they present their outlook for the butadiene price differential and its potential impact on the market.



The data in the nearby graph are the difference between the North American butadiene contract marker and the butadiene price markers we use in West Europe and Northeast Asia. For West Europe, we use the contract price marker. For Asia, we use the spot price FOB S. Korea. IHS bases this analysis on these three markers because they are the most consistent data streams in their system. However, is some ways, it actually understates the differential. The majority of US butadiene imports are done on a spot basis at a price level that is somewhat different than the contract price. To complicate matters further, as they have described a number of times over the past few years, the net transaction price for contract butadiene sales in the US is higher than the posted marker. IHS assumes that this premium is 8 to 10 cents per pound, so the North American price disadvantage could be as much as $175 – 200 per metric ton more than what is reflected in the graph.

Bearing that in mind, there has been a sharp increase in the US butadiene price marker relative to the rest of the world, especially Asia. This has allowed a significant volume of butadiene to be shipped from Asia to the US. According to IHS assessment, well in advance of actual trade numbers, butadiene imports to the US in April were the highest of any month since January 2011. IHS does not have visibility on rubber imports in March and April yet, but they certainly expect April imports to trend higher. All of this is the result of the combination of higher prices in North America

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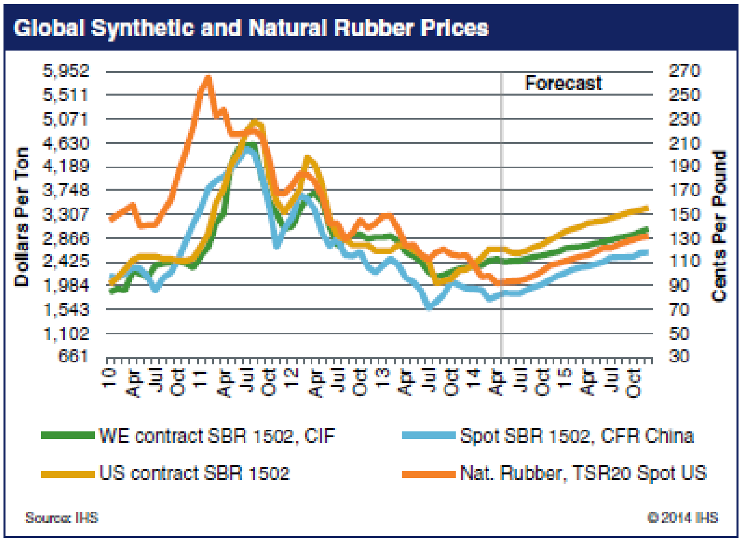
and reduced export availability from Europe. However, it has been interesting to note that the US market has not been highly motivated to increase butadiene supply at any price. In the past, IHS has seen cases where the spot import price was well above the contract price. In this case, there has been limited, if any, interest in imports at delivered prices above the notional contract net transaction price.

IHS does not have visibility on rubber imports in March and April yet, but they expect April imports to trend higher. All of this is the result of the combination of higher prices in North America and reduced export availability from Europe. However, it has been interesting to note that the US market has not been highly motivated to increase butadiene supply at any price. In the past, IHS has seen cases where the spot import price was well above the contract price. In this case, there has been limited, if any, interest in imports at delivered prices above the notional contract net transaction price.

Synthetic Rubber

Monthly Market Summary

In the US, fundamental demand continues to be stronger than it has been for the past couple of years. This is not to say that the market is strong, but it is at least stronger. Market participants remain quite cautious about the demand outlook for the rest of this year and next. The events of the past two years when more optimistic expectations gave way to disappointing actual performance are fresh in their memory. However, at the current time, there is no reason to anticipate weakening demand through the remainder of this year or next.



The big issue in the market is how will the demand be supplied? North America synthetic rubber supply is strong with many producers running at healthy operating rates at the current time. However, the economics continue to have a strong incentive to import rubber. There have not been significant signs of improvement in Asia and the US price levels have not dropped, which leaves the market where it has been for the past few months, with a wide open arbitrage window for rubber exports from Asia to the Americas. As in the past, the concern of domestic rubber producers remains that increased imports will soften demand for domestic production.

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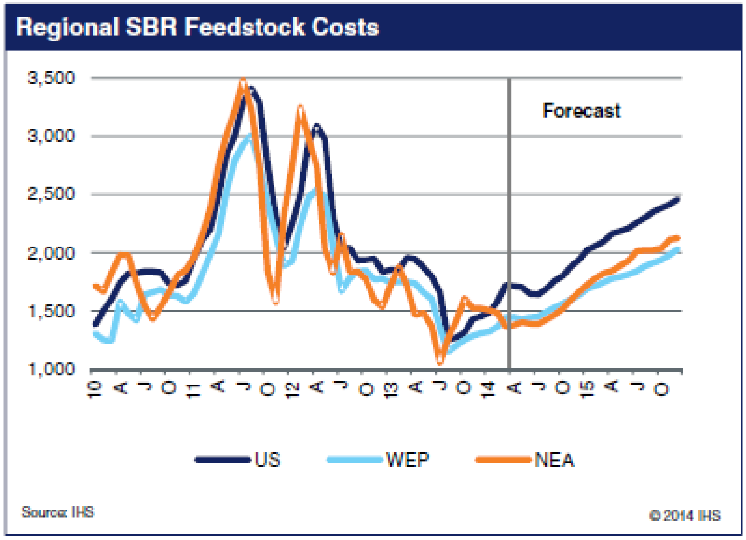
IHS Chemical's posting for the April medium buyer negotiated SBR 1502 price rolled over in the119 to 122 cents per pound range. The IHS Chemical posting for SBR 1712 continues to reflect a large differential. The price also rolled over in the 102.5 to 105.5 cents per pound range. The IHS Chemical PBR price rolled over in the 126 to 130 cents per pound range.

Market Analysis

IHS has highlighted the regional cost differential as a major factor in the market for the past few months. In this month's market analysis, they return to that topic because it is a significant market driver now and in the near future.



The data in the nearby graph reflect IHS view and forecast of SBR feedstock costs, assuming a rubber that is 75% butadiene and 25% styrene. In the past, IHS has shown this analysis focused just on the regional differentials; however, in this case, there are important conclusions to be drawn from the actual numbers. The most obvious feature of the historical data is the extreme volatility that the market has experienced since 2011 both upside and downside. This creates all sorts of issues that are passed along the supply chain. Another significant dynamic is the fact that the cost in North America has diverged from the other regions significantly over the past fewmonths. This differential will tighten, but not collapse through the end of next year.

Looking to the forecast, the key dynamic is that after significant decreases in 2012 and 2013 IHS outlook in 2014 is for some increase, though not dramatic, and a return to increasing costs later this year and in 2015. This outlook hinges on significant tightening of the supply demand balance, especially for butadiene, in Asia. So far this year, the market tightening in Asia has been slow in coming. Pressure from capacity additions and stagnant natural rubber prices hasmore than offset any support that the global market is getting from the Americas, and to a lesser extent, West Europe. IHS continues to be of the opinion that the market will turn later this summer, but there is clearly more downside that upside risk to our outlook.

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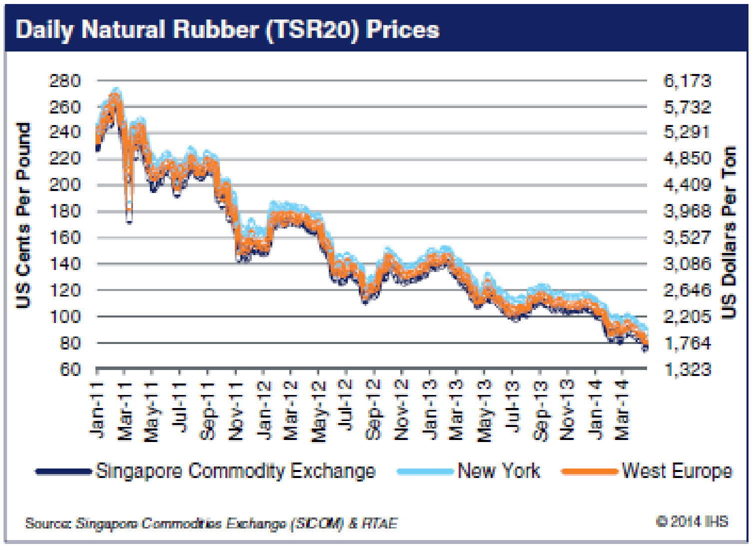
Natural Rubber

Monthly Market Summary



Natural rubber prices decreased in April, the second monthly price decrease in a row. The average price on the SICOM fell by 6.6 cents per pound from March to 80.7 cents per pound ($1,778 per ton). This is the lowest monthly price since July 2009. Daily futures on the SICOM traded between 75 and 86 cents per pound for the month, reaching the low point at mid-month and closing the month at 81 cents. Current price levels are roughly 30 – 40 cents per pound lower than during April 2013. Natural rubber prices have been affected by slower growth in the major economies and robust global natural rubber supplies. According to the International Rubber Study Group, an output surplus of about 430,000 tons is forecast for 2014. Total days of inventory for 2013 was calculated at 109 days, the second highest inventory level since HIS Chemical began tracking this statistic in 2002. The number of days inventory is calculated as the annual supply minus annual demand divided by the estimated demand per day. As shown in the graph Daily Natural Rubber (TSR20) Prices, prices have continued to trend lower over the past three years. Prices in NewYork and West Europe also decreased in April, falling by around 6 cents and averaging 92 and 86 cents per pound, respectively.

TOCOM natural rubber futures decreased strongly in April, ending the month roughly $470 per ton lower than the March closing price. The April RSS3 contract closed at $1,930 per ton. Monthly prices on the TOCOM through October 2014 also decreased dramatically from last month, ranging from $1,959 to $1,969 per ton.TSR20 futures on the SICOM closed at $1,778 per ton in April, a decrease of about $150 per ton from the March contract price. SICOM TSR20 futures prices through October 2014 were also lower than the strip at the end of last month, ranging from $1,710 to $1,760 per ton. TSR20 prices in New York were roughly 6 cents lower than March, averaging just under 92 cents per pound. IHS Chemical forecasts that US TSR20 prices will increase slightly in May to 93 cents per pound and move higher through the rest of 2014, averaging 99 cents per pound for the year. US TSR20 prices averaged $1.25 per pound in 2013, which had been the lowest annual price since 2009.

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