TRCC CANADA
Monthly Bulletin

TRCC Canada

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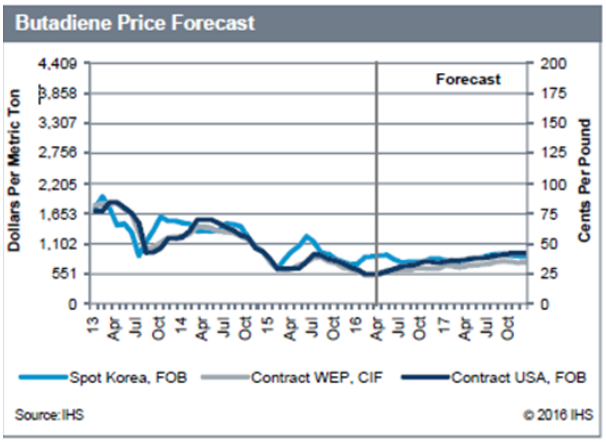
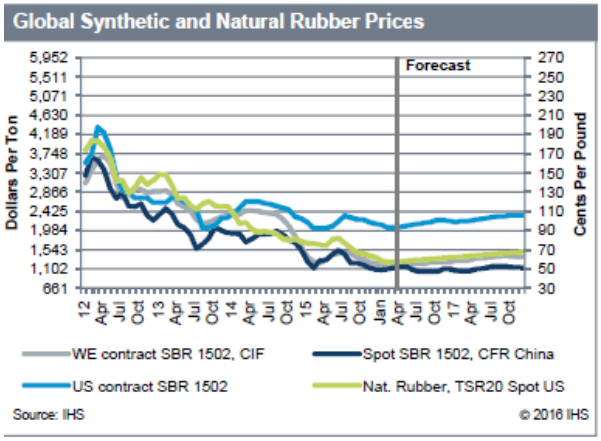
Executive Summary

Butadiene:
IHS Chemical's marker for the April US butadiene contract increased to 30.6 cents per pound ($675 per ton). This reflects a split settlement with final nominations ranging from 29 to 35 cents per pound. In Asia, the average butadiene price for March increased to $1,063/ton. The European contract price for March was €495/ton. The April contract price increased to €585/ton.



Synthetic Rubber:
Globally, synthetic rubber markets are mixed. Rising feedstock costs in Asia continue to put downward pressure on margins and operating rate cuts are expected to continue. In West Europe, relatively low feedstock costs continue to contribute to an advantaged production position. In North America, producers still remain disadvantaged compared to Europe



Natural Rubber:
The average natural rubber prices increased sharply as a result of an export cut from the International Tripartite Rubber Council (ITRC), which comprises Thailand, Indonesia, and Malaysia. As a result, the average price for SICOM increased sharply to 58.11 cents per pound (about $1,280 per ton), up $200 per ton compared with the February average. The prices in Europe and New York also increased sharply to 60.86 cents per pound and 66.03 cents per pound, respectively.

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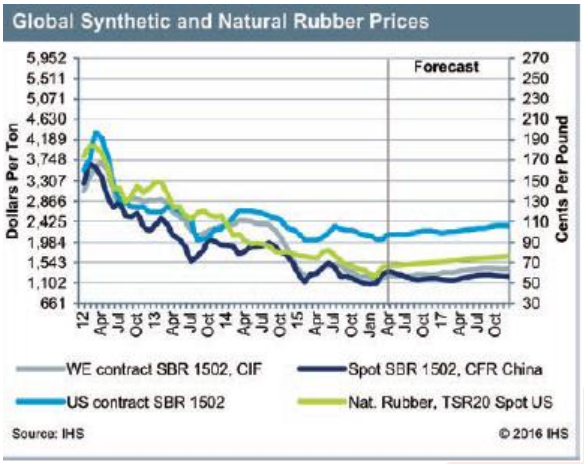
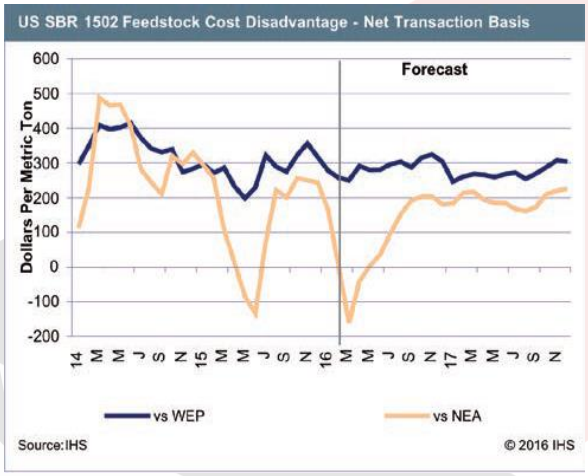
Synthetic Rubber

Monthly Market Summary

United States

In the United States, the synthetic rubber market conditions remain competitive on the sales side, although feedstock remains abundant. IHS view of the market remains cautiously optimistic, given the encouraging fundamentals for both OE and replacement tire demand growth. Of course, as they note, the fundamentals have been encouraging for quite some time now and the actual performance has not improved significantly. Obviously, domestic sales of synthetic rubber require not only increasing tire demand, but also increasing domestic tire production. While passenger car tire imports from China are down significantly because of the import tariffs imposed last year, imports from other countries are higher. The resulting market dynamics for rubber producers are challenging, and will remain so in the near term. One of the challenging market dynamics facing North American rubber producers is the competitiveness of imported material. In a market of modestly growing demand, increased imports are certainly a threat to domestic producers. According to our production models, US producers remain roughly $300 per ton disadvantaged compared with their European competitors with the April butadiene price settlements in the two regions. However, even with the butadiene price increases in both North America and West Europe in April, synthetic rubber raw material costs in Asia remain higher. IHS current outlook calls for costs in Asia to stay roughly equivalent to North America for the balance of the quarter. After that, costs in Asia should trend down to around $200 per ton lower than in North America. The spread between North America and West Europe should remain relatively stable. In fact, this is one of the dynamics that butadiene producers and consumers in North America monitor closely because it is in no one's interest to see significant damage to domestic rubber production volumes, and by extension, butadiene demand.





IHS Chemical's posting for the March medium-buyer negotiated SBR 1502 price rolled over in the 91 to 95 cents per pound range. The IHS Chemical posting for SBR 1712 also rolled over in the

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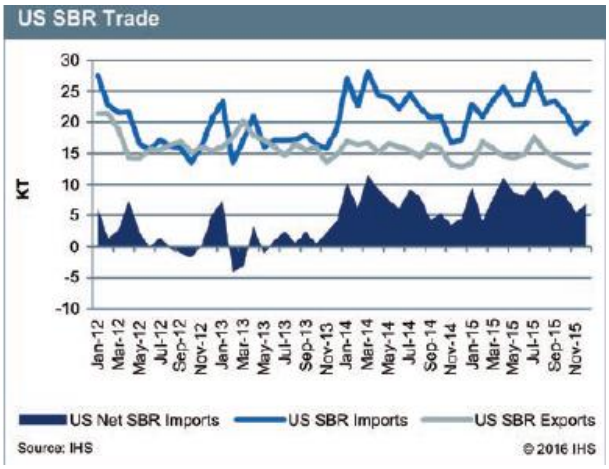
74.5 to 78.5 cents per pound range. The IHS Chemical PBR price rolled over in the 81 to 85 cents per pound range.

Market Analysis



We have noted a number of times the concern of North American SBR producers regarding increased imports. In this month's market analysis IHS presents a historical view of the recent trade history to illustrate the concern. This analysis considers the combined trade volume of sSBR and eSBR since the trade data do not consistently break down the difference. Note that beginning in January 2014 there was a step change increase in imports while exports have remained relatively constant. As the US is a consistent net importer of SBR one might question the need for this level of export. It is important to remember that several of the larger sSBR and eSBR producers are tire companies that supply some of their international demand for rubber with US production. The level of net import increase is significant in the market. According to the IHS capacity database, US production capacity for SBR is just over 100 KTM (thousand tons per month). The increase in net imports between the 2012/2013 average of just over 1.6 KTM and the 2014/2015 average of just under 7.6 KTM equates to just over 5 percent of nameplate capacity. This would be significant if the SBR producers were running at something approaching nameplate capacity. However, they are not. With average operating rates below 60 percent of nameplate capacity according to our most recent balances, a consistent reduction of 5 percent of nameplate is significant.

An important question is what drives the imports, is it pushed into the market by exporters looking for additional markets or is it pulled into the market by US consumers. As might be expected, the answer is some of each. Clearly SBR operating rates in most geographies are not what producers would hope them to be. As a result they seek additional sales opportunities and the US market is an attractive target. At the same time, a number of rubber consumers in the US are expanding their supply sources in hopes of capturing economic benefits of lower production costs in other regions and leverage over domestic suppliers. In our view, this is one of the most important market dynamics for US rubber producers and for US butadiene producers.

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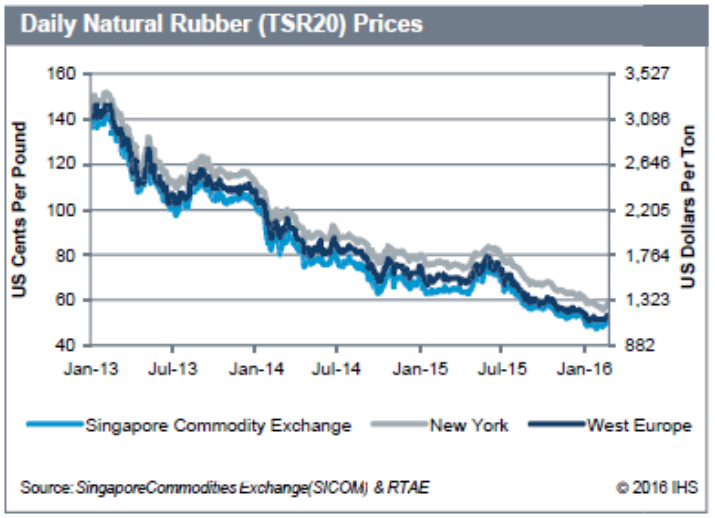
Natural Rubber

Monthly Market Summary



The average natural rubber prices increased sharply as result of an export cut from the International Tripartite Rubber Council (ITRC), which comprises Thailand, Indonesia, and Malaysia. The ITRC agreed to reduce the export volume of 615,000 tons from March until the end of August, and agreed to increase domestic usage. The measures were taken to support or help the group's own natural rubber industry, which was hurting because of persistently weak prices. As a result, the average price for SICOM increased sharply to 58.11 cents per pound (about $1,280 per ton), up $200 per ton compared with the February average. The prices in Europe and New York also increased sharply to 60.86 cents per pound and 66.03 cents per pound, respectively. Although the measures affected prices quite substantially in a short period of time, there are still doubts about whether the measures can keep prices higher. TOCOM natural rubber futures also increased sharply in March by about $200 per ton compared with the February closing price. The February RSS3 contract closed at ¥144 per kilogram (around $1,252 per ton), while the March contract closed at ¥167 per kilogram (around $1,465 per ton). Monthly future prices on the TOCOM were averaging within the range of ¥167–177 per kilogram throughout the next six months. The export cut also had a big impact on the TOCOM natural rubber future prices as well.

Market Analysis

Natural and synthetic rubber price have similar price trend as their major demand center is the automotive industry. Natural and synthetic rubber can be substituted when producing the tires to a certain degree depending on the tire specification. Tires produced for the much of the developed world have tighter specification so the flexibility to shift between natural and synthetic rubber is limited. However, there are other tire markets where the level of substitution is much broader given the local conditions. Natural and synthetic rubber prices have been pressured by global weak demand. However, with recent measures by Southeast

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Asia to reduce the volume of exports and tighten the global markets, natural rubber price has increased substantially within a short period of time. The synthetic rubber price also increased. Producers were pressured by increasing butadiene costs, but given some relief from the increased natural rubber price. Even so, some producers had to reduce the operating rates as their rubber price flexibility was not as great as the increasing butadiene price. As seen in the graph, both natural and synthetic rubber prices started to increase in late February. However, according to our models, incremental synthetic rubber margins remain negative so there is still upward pressure on both synthetic and natural rubber prices.

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