
TRCC CANADA

Monthly Bulletin



TRCC Canada

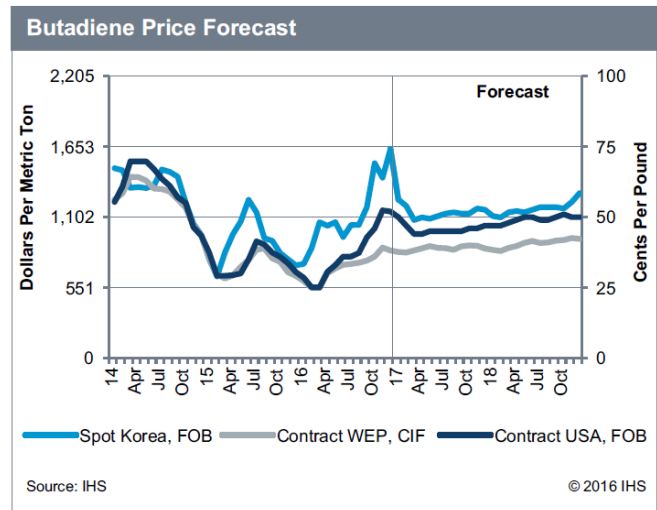
Leading World Technologies Through Innovation

December 2016 Issue



Butadiene:

In the US, IHS Chemical's marker for the December US butadiene contract price decreased 0.4 cents per pound to 52.0 cents per pound (\$1,146 per ton). In Asia, the Taiwan domestic contract price was \$1,411 per ton for November deliveries. In Europe, the December butadiene contract price rolled over at €800 per mt.



Synthetic Rubber:

Synthetic Rubber producers in North America have seen demand hold steady with some marginal upside. Delays in the antidumping complaint against imports from a few countries has increased uncertainty for E-SBR import prices. Price increases in natural rubber are putting upward pressure on Asia's synthetic rubber prices. Synthetic rubber demand in Asian markets remains healthy. European synthetic rubber producers continue to benefit from export opportunities into the Asian markets. Domestic demand slowed in line with the tire and automotive sectors.

Natural Rubber:

The average natural rubber prices continued to increase in all three regions as the export-cut program continues into December. The lower prices of natural rubber have made it more attractive than synthetic rubber, increasing demand and pressuring inventories

Crude C4s Monthly Market Summary

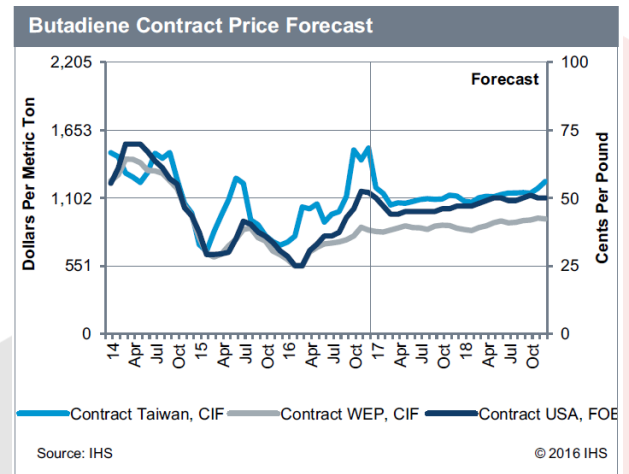
North America

For much of November, global crude oil prices were relatively flat. All attention was focused on the OPEC meeting on 30 November and the prospect of a production-cut agreement. The expected agreement was reached and oil prices responded by increasing on the last day of the month. The OPEC agreement calls for member countries and select nonmember countries, most prominently Russia, to reduce production by roughly 1.2 million barrels per day. IHS is still analyzing the agreement and developing an opinion of its impact on the market. IHS does not expect the full 1.2 million barrel per day cut to be achieved. However, they do believe the reduction will be enough to bring the market into balance, somewhere between 500,000 and 700,000 barrels per day. IHS is in the process of updating their price forecasts to reflect the new dynamic. Natural gas prices in November decreased some from October, but not significantly.

Butadiene

Contract Prices

The Taiwan domestic contract price was \$1,411 per metric ton for November deliveries. The December US butadiene contract price marker posted by HIS Chemical decreased 0.4 cents per pound to 52.0 cents per pound (\$1,146 per metric ton). The nominations were not split this month. The European contract price for November was €800 per metric ton. The December contract price rolled over at €800 per metric ton.



Monthly Market Summary

North America

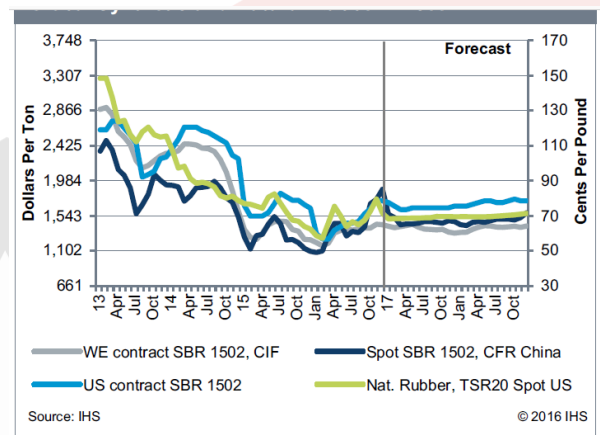
Butadiene demand appears to be holding the gains from recent months. One might have expected a decrease in demand owing to year-end dynamics. However, with the tight inventory controls that seem to be in place all year, there is limited ability to lower them further at the end of the year. Looking ahead to the beginning of 2017, there is no reason to expect significant demand growth. One factor that could have an impact on US SBR production is the antidumping complaint that has been filed against imports from certain countries. The hearing on this matter was delayed, so the uncertainty will continue for a few months longer. US spot prices for November were largely set in late October and early November when prices in Asia were still relatively high. The current spot opportunity to sell December volume for delivery into Asia would result in a netback to US producers of over 60 cents per pound. However, IHS believes the current market tightness will be short lived and is largely caused by buyers in China looking for prompt material. The January price will be much lower than current levels, likely resulting in export netbacks to US producers below 50 cents per pound, well below December contract levels.

Synthetic Rubber Monthly Market Summary

United States

In the United States, the synthetic rubber volumes remain relatively flat, although there does appear to be a positive bias. Delays in moving the antidumping complaint against imports from Poland, Mexico, Brazil, and South Korea toward resolution have increased the uncertainty regarding the actual E-SBR price from imported sources. The resolution will take place well after contract volumes are committed for 2017. As a result, there has been a bit of upside to volumes in the domestic market. It remains to be seen whether this is sustainable as fundamental indicators remain flat and our expectation for 2017 is for slow growth.

Relative regional feedstock costs for synthetic rubber producers continue to be an important market dynamic, especially for North American rubber producers. The current market dynamics are seen on the graph. In the short term, contract butadiene prices in Europe will be much lower than prices in North America and Asia. Rubber producers in Europe will have a large cost advantage for the next couple of months before it falls back to more typical levels. Asia, on the other hand, will become more competitive with North America in the near term. In the medium term, we expect synthetic rubber producers in West Europe to maintain their \$200–300 per ton cost advantage. Rubber producers in Asia will see their feedstock costs return to

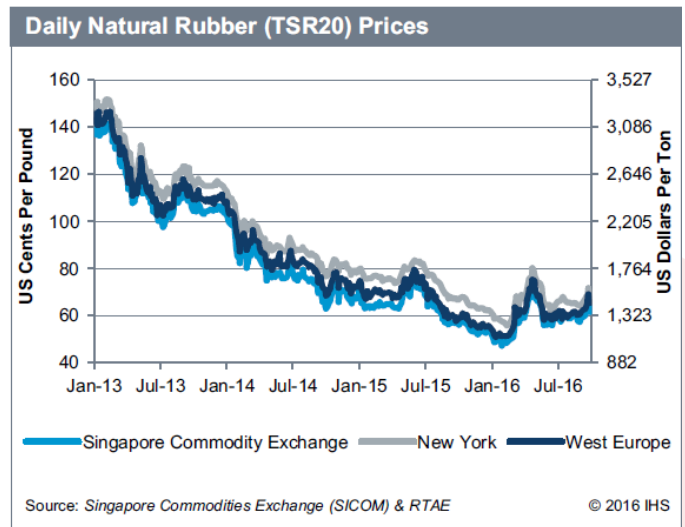




levels similar to North America. Costs in Asia will be somewhat lower than in North America, but probably not enough to open the arbitrage window on a consistent basis. IHS Chemical's posting for the November medium buyer negotiated SBR 1502 price increased by 4.5 cents per pound from October to the 76.5 to 80.5 cents per pound range. **Rising butadiene prices continued to drive the market higher.** The HIS Chemical posting for SBR 1712 also increased by over 4.5 cents per pound to the 60.0 to 64.0 cents per pound range. The IHS Chemical PBR price increased by 5 cents per pound to the 93 to 97 cents per pound range.

Natural Rubber Monthly Market Summary

The average natural rubber prices increased sharply in November in all three regions. The average price for SICOM increased to 74.77 cents per pound (about \$1,648 per ton), about \$178 per ton higher compared with the October average. The prices in Europe and New York also increased, marking 77.75 cents per pound and 79.47 cents per pound, respectively. TOCOM natural rubber futures also increased sharply in November by about 56.4 yen (JPY) per kilogram compared with the October closing price. The October RSS3 contract closed at JPY172.4 per kilogram (around \$1,660 per ton), while the November contract closed at JPY228.8 per kilogram (around \$2,188 per ton).



The natural rubber prices are expected to decrease in the coming months as the export-cut program will be ending in December. The recent sharp increase in natural rubber prices started when substitution between natural and synthetic rubber, especially with PBR, started. Also, the export-cut program was extended to December, after initially being scheduled to end in September. With all this bullish market sentiment, some of the speculative buying started, which eventually increased the natural rubber price sharply. However, this bullish market sentiment will be easing as the export-cut program comes to an end. The production of natural rubber in some regions has increased, especially India and Cambodia, although their market share is not big enough to have a huge influence over the global natural rubber market. Therefore, these factors will negatively influence the natural rubber market and eventually the natural rubber price is expected to decrease

Market Analysis

The natural rubber price has been increasing continuously over last few months. Currently, natural rubber is around the mid- \$1,700s per ton range. In China, some end users have started to substitute



PBR with natural rubber since the natural rubber price was much cheaper than synthetic rubber prices. As a result, the natural rubber price has continued to increase. When looking at the natural rubber inventory in Qingdao, it has decreased in line with the price increase. The natural rubber inventory in Qingdao recently fell below 50,000 tons for the first time in the last five years, but slightly increased in November as Chinese buyers started to build inventory again. The rubber inventory is expected to increase in the coming months as Chinese buyers will be preparing for the Lunar New Year holiday in January 2017

