
TRCC CANADA

Monthly Bulletin



TRCC Canada

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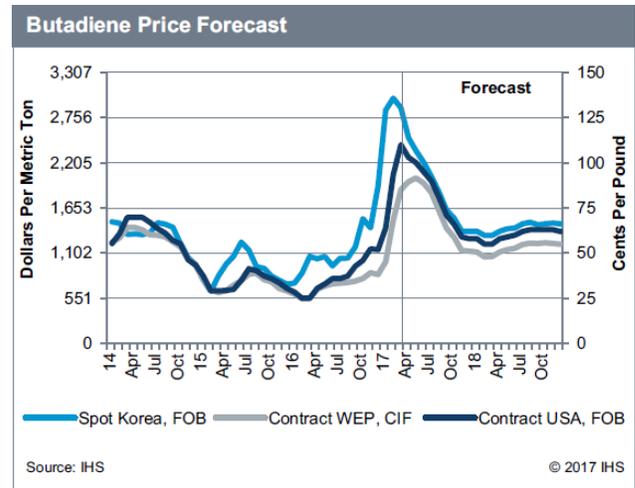
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Executive Summary

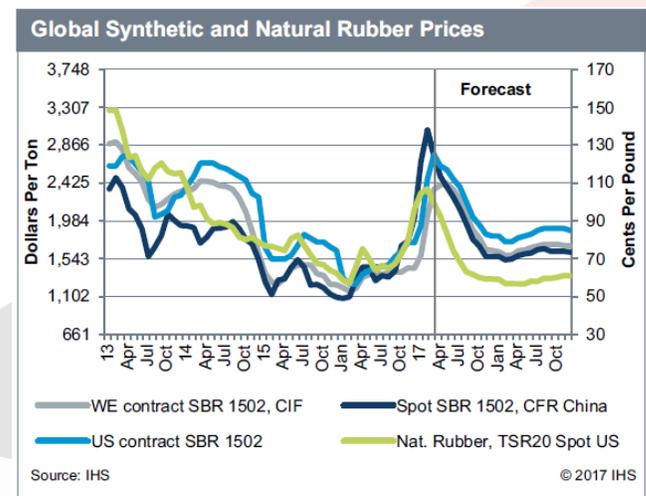
Butadiene:

The US, IHS Chemical's marker for the March US butadiene contract price increased 16.5 cents per pound (\$364 per metric ton). The maintenance season is continuing in Asia, which has started from Southeast Asia and is moving to Northeast Asia. The supply will be expected to remain tight in the coming months in Asia. In Europe, butadiene exports attractiveness, supply concerns, and strong demand supported the rapidly rising butadiene prices.



Synthetic Rubber:

In the United States, synthetic rubber domestic demand remains relatively flat. Consumers are facing difficulties due to new import tariffs and reports of an eSBR producer ceasing operations. Feedstock costs for synthetic rubber production in Europe moved up strongly, leading to major hikes for synthetic rubber prices. In Asia, synthetic rubber prices were volatile in the month. Prices started the month upwards but were trending down by the end.



Natural Rubber:

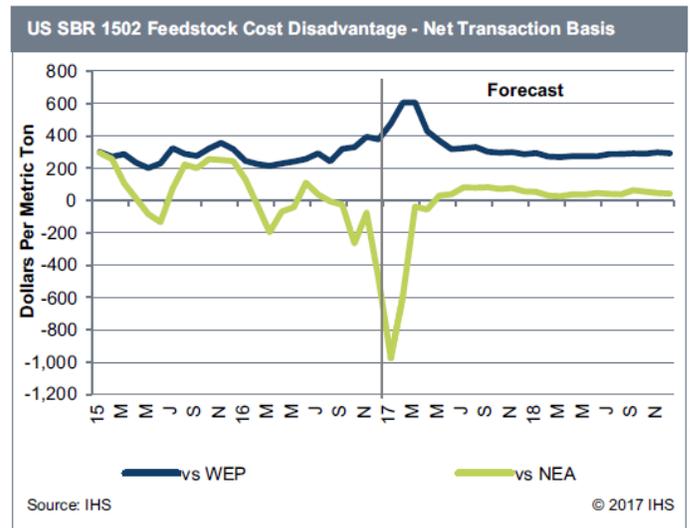
The average natural rubber prices increased slightly again in February in all three regions. The average price for SICOM increased to 99.79 cents per pound (about \$2,200 per ton), about \$80 per ton higher compared with the January average. Concerns over natural rubber supply after the loading in Thailand have eased throughout the month and natural rubber prices decreased.

Synthetic Rubber

Monthly Market Summary

United States

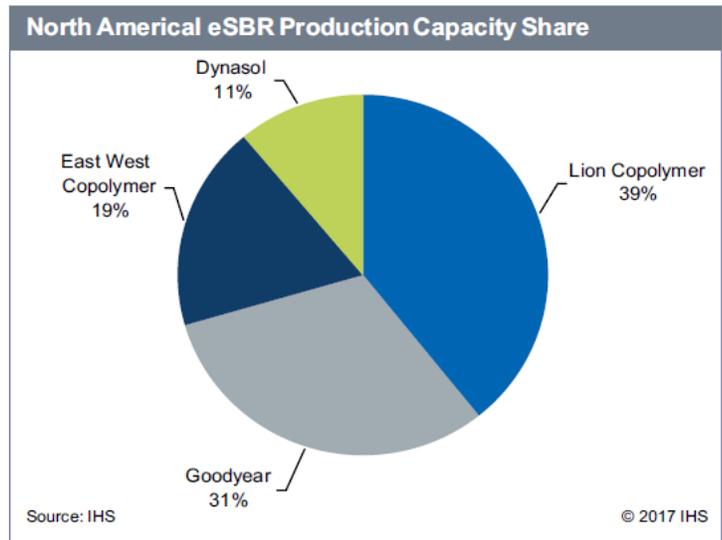
In the United States, synthetic rubber domestic demand remains relatively flat. There continues to be significant discussion regarding the policies of the Trump Administration in the United States targeting automotive imports, but it will be a while before that converts from discussion to reality. Two significant things have happened in the emulsion SBR (eSBR) market this month. First, the US International Trade Commission (ITC) released a preliminary finding implementing stiff antidumping duties against importers from Poland, Mexico, Brazil, and South Korea. The duties range from 11.63% to 44.3%. These duties will be collected at the border pending the final determination, which is expected later in the summer. Second, one of the US eSBR producers is reportedly ceasing operations. Official word is still forthcoming, although we have been told by a number of market players that material is not currently available from one of the suppliers. This is certainly causing difficulties for rubber consumers, given the tight butadiene market and the previously mentioned duties being collected on volume from some of the larger importing countries.



Relative regional feedstock costs for synthetic rubber producers are the dominant market dynamic. The current market dynamics are seen on the graph. For North American synthetic rubber producers, the data show an expected return to more typical market conditions over the next few months. The butadiene market in Asia appears to have begun the downward portion of the price cycle. This means in February, the eSBR cost disadvantage for producers in Asia dropped nearly \$400 per ton. At nearly \$600 per ton, it was still extremely large. However, over the next few months falling butadiene prices around the world should allow differentials to return to more normal levels. The same trend is expected in Europe, where the large European advantage should return to a more historically consistent level. IHS Markit's posting for the February SBR 1502 contract price increased to the 110 to 114 cents per pound range. Rising butadiene prices will drive the March contract price higher by roughly 12–14 cents per pound. The February spot price for SBR 1502 was a high as 120 cents per pound, but volume is extremely limited. The IHS Markit February posting for SBR 1712 also increased to the 93.5 to 97.5 cents per pound range. The IHS Markit February PBR price increased with butadiene prices to the 134.5 to 138.5 cents per pound range.

Market Analysis

The eSBR market in North America is currently undergoing a couple of key “extra-market” events. As noted above, preliminary antidumping duties will be collected from a number of key importing companies. Additionally, one of the region’s eSBR producers, East West Copolymer, has reportedly begun a formal sale process. In this month’s market analysis, IHS takes a high level look at the eSBR market conditions in North America. In North America there are currently four producers of commodity-grade eSBR: Lion Copolymer, Goodyear, East West Copolymer, and Dynasol. Company ownership has changed significantly over the past few years. East West Copolymer is the plant in Baton Rouge, Louisiana that used to be owned by Lion Copolymer. Lion Copolymer is the plant in Port Neches, Texas that used to be owned by Ashland and before that ISP. Dynasol is the plant in Altamira, Mexico that used to be owned by Negromex. These plants have been producing eSBR under one name or another, especially the units in Baton Rouge and Port Neches, for many years. Some of them go all the way back to the birth of the US synthetic rubber industry during World War II.



In recent years, the eSBR market for North American producers has been challenging to say the least. IHS documents the raw material cost disadvantage that these producers face compared with some of their foreign competition on a regular basis in our report. The eSBR producers in West Europe enjoy a consistent and significant raw material cost advantage that ensures that the arbitrage window is generally open. Incremental butadiene supply to North America would require increased imports and therefore buying volume away from alternate markets, primarily Asia, which is less cost effective than increasing imports of eSBR. So the North American niche is challenging to say the least. The eSBR producers are important to ensure that the domestic butadiene market consumes all of the available supply; however, the production capacity is higher than what is needed to accomplish that task. North America is currently a net importer of eSBR. The trade balance has varied a lot over the years, primarily driven by the ability of eSBR producers to compete in the export markets. For example, in 2011, when synthetic rubber prices were extremely high, US producers were able to export to Asia and generate very attractive margins even with higher-cost imported butadiene. That dynamic is much weaker today. As a result, we expect the region to remain a net eSBR importer at least for the medium term. Operating rates will also remain under pressure. IHS current balances show eSBR operating rates in North America below 60% of nameplate capacity well into the 2020s.

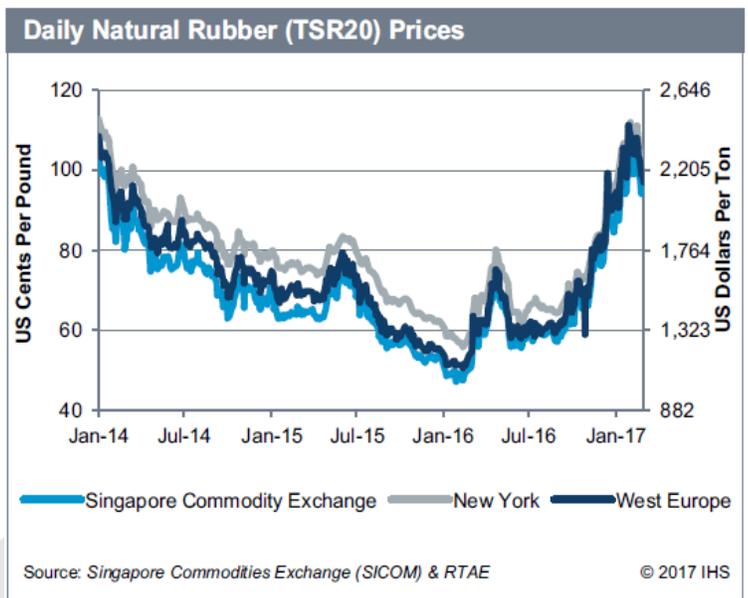
As noted above, IHS do not have firm announcements of the near-term future of the Baton Rouge asset. Over the past 15 years, the plants in Baton Rouge and Port Neches have each been shut down

and restarted under new ownership after a brief period. This could certainly happen again. However, in the event that the Baton Rouge unit was not restarted for whatever reason, what would the impact be on the market? Average eSBR operating rates in the region would increase by about 12%. They would still remain below 70% assuming production remains constant. This is a key assumption since there are other butadiene consumers that could get some of whatever contract butadiene supply becomes available. This has happened before. So eSBR consumers would see downside risk for domestic supply precisely at the time that imports from many of the key import sources face significant duties for what the US ITC has preliminarily termed anticompetitive behavior. There is no readily apparent upside for the North American eSBR consumer in this situation.

Natural Rubber

Monthly Market Summary

The average natural rubber prices increased slightly again in February in all three regions. The average price for SICOM increased to 99.79 cents per pound (about \$2,200 per ton), about \$80 per ton higher compared with the January average. The prices in Europe and New York also increased slightly again as well, marking 104.12 cents per pound and 106.81 cents per pound, respectively. TOCOM natural rubber futures also increased again in February by about 24 yen (JPY) per kilogram compared with the January closing price. January contract closed at JPY307 per kilogram (around \$2,673 per ton), while the February contract closed at JPY331 per kilogram (around \$2,897 per ton). Concerns over natural rubber supply after the flooding in Thailand



have eased and natural rubber prices decreased. Thailand's government has supplied about 80,000 tons of its inventories to the market to ease the supply disruptions. The final determination for antidumping duties against Chinese tires came out in February. The United States International Trade Commission (USITC) has determined that US industry is not materially injured or threatened with material injury by reason of imports of truck and bus tires from China that the US Department of Commerce has determined are subsidized and sold in the United States at less than fair value. However, it is not clear whether tire exports to the United States will resume immediately. Natural rubber prices are expected to decrease in the coming months because synthetic and natural rubber can be substituted, and also because butadiene and synthetic rubber prices are expected to decrease in the coming months.

Market Analysis

When looking at natural and synthetic rubber prices, the price ratio between the two will roughly remain between 0.8 and 1.2. Natural and synthetic rubber can substitute each other to some extent, although not completely. This factor plays a role in setting the range of price difference between the two. The substitution rate differs by tire producers and kind of tires. The low-grade tires will have higher substitution rates, while high-performance tires will have very low substitution rates. Currently, the price of synthetic rubber is higher than the natural rubber price, widening the ratio between synthetic and natural rubber. When comparing the SICOM TSR 20 and Asia SBR 1502, the ratio is still within the above-mentioned range. However, when SICOM TSR 20 is compared with PBR, the ratio is below 0.8, meaning that synthetic rubber prices are much higher than natural rubbers. Therefore, tire producers will switch some of synthetic rubber (depending on their composition ratios) to natural rubber, which is cheaper. As of result, the ratio will then range between 0.8 and 1.2 again.

