

## LatAm Petrochemicals

# Monthly Petrochemical Monitor: Mixed performances in January

Industry Overview

## BofA Monthly Petrochemical Monitor

In our BofA Monthly Petrochemical Monitor, we track the performance of the most important petrochemical spreads for the companies within the LatAm coverage. Any feedback and suggestions are more than welcome!

### Mixed spreads in January

During January, petrochemicals spreads presented a mixed performance. We saw positive performances for PE spreads. On the other hand, PVC and PET spreads tightened in the month. PP spreads were mostly flattish. We highlight that all the spreads continue well below their 5-year historical average amid weak demand and low operating rates.

### PE: Strong spreads amid supply disruption

PE spreads improved in January explained by higher PE prices due to supply disruptions. In addition, the price hike announced in December was achieved, but it was partially offset by an increase in feedstock prices. Producers are anticipating yet another increase for February.

### PP: Mixed spreads amid still weak demand

Asian spreads were up and North American flattish MoM, while European spreads were down 8%. Asian spreads improved despite the still weak demand. For the North American market, producers remained pressured by high propylene prices. Regarding the European market, spreads narrowed due to the decrease in PP prices.

### PVC: unfavorable supply & demand pressured PVC prices

Asian PVC spreads dropped 33% MoM, explained by lower PVC and higher Naphtha prices. PVC prices remained under pressure due to an unfavorable S&D scenario amid resumption of operations after maintenance stoppages and still limited demand.

### PET: integrated margins down despite PET price increase

PET integrated margins were down to US\$168/ton in January. PET prices increased in January with an uptick in activity, and summed up with resilient crude oil prices, firmer upstream markets, increase in costs, and punctual increase in demand due to the restocking movement ahead of Lunar New Year. The increase in PET prices, however, was not enough to offset the rise in PTA and MEG prices.

### EPS: Spreads down amid higher styrene prices

In January, EPS spreads narrowed to US\$603/ton, down 14% MoM, driven by an increase in feedstock prices. EPS prices were flat MoM at US\$1,609/ton. Regarding Styrene, prices surged in the end of January driven by higher production costs, unplanned outages, mainly forced by the freezing weather in the Gulf Coast, a tight benzene market and increased demand from Europe.

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Equity  
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PE – Polyethylene

PVC – Polyvinyl chloride

PP – Polypropylene

PET – Polyethylene terephthalate

PTA – Purified terephthalic acid

MEG – Monoethylene glycol

EPS – Expandable polystyrene

MoM – Month-over-month

CMA – Chemical Market Analytics

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# Monthly Petrochemical Monitor: Mixed performances in January

During December, petrochemicals spreads presented a mixed performance. We saw positive performances for PVC and PET spreads. On the other hand, PE and PET spreads tightened in the month. PP spreads were mostly flattish. We highlight that all the spreads continue well below their 5-year historical avg. amid weak demand and low operating rates.

## Exhibit 1: Summary of petrochemical spreads performance LTM

Overall spreads are significantly below vs. 1-year ago figures

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
US PE - Naphtha	272	337	383	345	382	301	249	243	265	330	267	235	285
MoM %	-11%	24%	14%	-10%	11%	-21%	-17%	-3%	9%	25%	-19%	-12%	21%
US PE - Ethane	768	872	884	878	822	706	586	683	742	766	723	720	753
MoM %	21%	13%	1%	-1%	-6%	-14%	-17%	17%	9%	3%	-6%	0%	5%
Asian PP - Naphtha	305	358	338	321	393	316	292	278	244	293	275	278	292
MoM %	-2%	17%	-6%	-5%	22%	-20%	-8%	-5%	-12%	20%	-6%	1%	5%
US PP - Propylene	441	441	441	441	441	441	441	441	441	441	441	441	441
MoM %	-46%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EUR PP - Propylene	266	255	251	262	248	237	233	229	227	218	228	233	215
MoM %	3%	-4%	-1%	4%	-6%	-4%	-2%	-1%	-1%	-4%	5%	2%	-8%
Asian PVC - Naphtha	120	166	240	177	224	215	187	158	176	190	112	139	93
MoM %	-12%	38%	45%	-26%	27%	-4%	-13%	-16%	11%	8%	-41%	24%	-33%
Asian PET Integrated Margin	238	260	252	257	260	216	177	183	145	189	191	192	183
MoM %	-9%	9%	-3%	2%	1%	-17%	-18%	3%	-21%	30%	2%	0%	-5%
EPS Margin	1,120	1,062	1,253	1,123	1,000	975	697	339	403	523	736	703	603
MoM %	-18%	-5%	18%	-10%	-11%	-3%	-29%	-51%	19%	30%	41%	-4%	-14%

Source: BofA Global Research and Chemical Market Analysis

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## PE: Strong spreads amid supply disruption

US PE-Naphtha increased in January (+21% MoM) explained by higher PE prices (up approx. 9% MoM) partially offset by a 4% MoM increase in Naphtha prices to US\$657/ton.

US polyethylene surged by 8.8% in January to US\$942/ton (vs. US\$866/ton in December), a predictable outcome following December's announcement of a 5cpp (approximately US\$110/ton) hike in contract prices for the month. While the intended increase was achieved, it was somewhat offset by an increase in costs and higher discounts tied to 2024 supply contracts. Producers are anticipating another 5cpp increase for February.

The cost hike was primarily fueled by a rise in shipping expenses attributed to the repercussions of the Red Sea conflict. The attacks in the region prompted shipping companies to impose substantial hikes to offset higher insurance costs and prolonged voyage times.

On the supply side, in January, the Gulf Coast faced a significant disruption due to an intense cold blast, leading several PE producers to implement precautionary shutdowns. According to estimates from CMA, approximately 8-9% of production capacity in US and Canada was affected. The freezing conditions also impacted inventory levels and sales mix, with players scaling back export sales to prioritize higher margins in the domestic market.

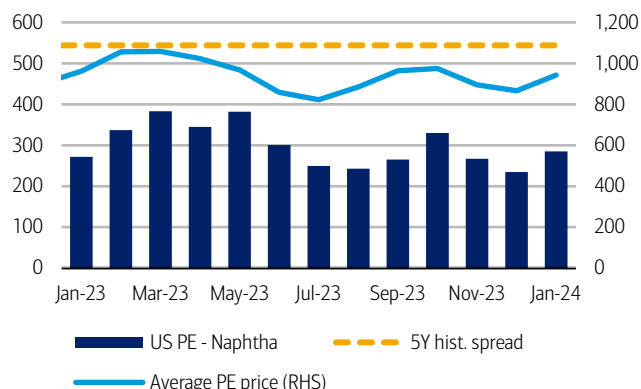
US PE-Ethane spreads were up MoM in January by 5% as the increase in ethane prices was not enough to offset the hike in Polyethylene. Ethane prices rose to US\$186/ton (+35.6% MoM) after registering the lowest level in the last 43 months in December.

US PE-Naphtha spreads increased to US\$285/ton in January, up 21.4% vs. US\$235/ton in December, and remain significantly below the 5-year average of US\$544/ton. US PE-

Ethane spreads clocked in US\$753/ton, up almost 5% MoM, from US\$720/ton in the previous month, and still below the 5-year average of US\$920/ton.

#### Exhibit 2: North America PE – Naphtha spread (US\$/ton)

Spreads increased 21% MoM

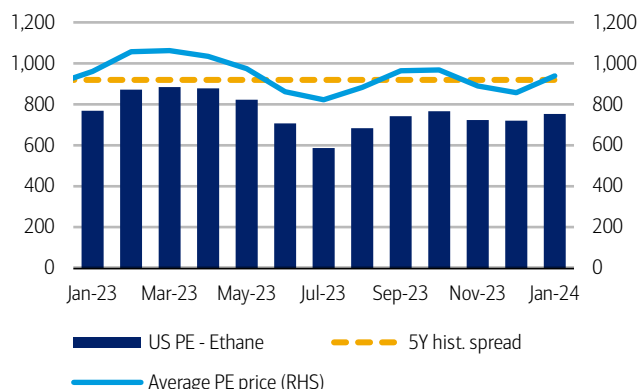


Source: BofA Global Research, Chemical Market Analytics, Bloomberg | \* avg = 40% HDPE, 30% LDPE and 30% LLDPE

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#### Exhibit 3: North America PE – Ethane spread (US\$/ton)

Spreads up 5% MoM



Source: BofA Global Research, Chemical Market Analytics | \* weighted average = 71% HDPE and 29% LDPE

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## PP: Mixed spreads in January

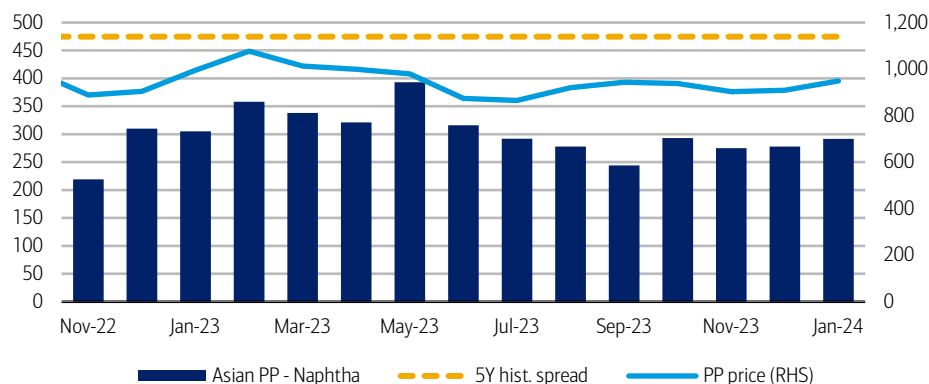
PP spreads were mixed in January. Asian spread was up 5% MoM, while North American spread remained flat and European was down 8% in the period.

Asian PP-Naphtha spreads were 5% up month-over-month. Polypropylene prices rose 4% MoM to US\$949/ton in January, while Naphtha increased 4% MoM. Over the month, the sentiment in the Asian PP market was subdued, with limited import offers reflecting overseas suppliers' concerns over poor netback margins, sluggish demand, and higher logistics costs. Buyers remained cautious, refraining from exceeding their requirements, which led to weak demand. Looking ahead, we believe that the market should remain weak, as the outlook for demand after Lunar New Year is likely to remain soft.

Asian PP-Naphtha spreads increased to US\$292/ton, up from US\$278/ton in December. This figure is well below the 5-year historical of US\$475/ton.

#### Exhibit 4: Asia PP – Naphtha spread (US\$/ton)

Spreads increased 15% MoM in November



Source: BofA Global Research, Chemical Market Analytics

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As for the North American market, PP-propylene spread was flat MoM as PP producers remain pressured by high propylene prices amid demand. PP supply in North America remains volatile, experiencing several disruptions during January. Market participants seem to believe that significant propylene supply improvements in February are unlikely due to seasonal maintenance activities on crackers and production units, which leads us to believe that PP prices should continue to increase – and spreads to remain flat.

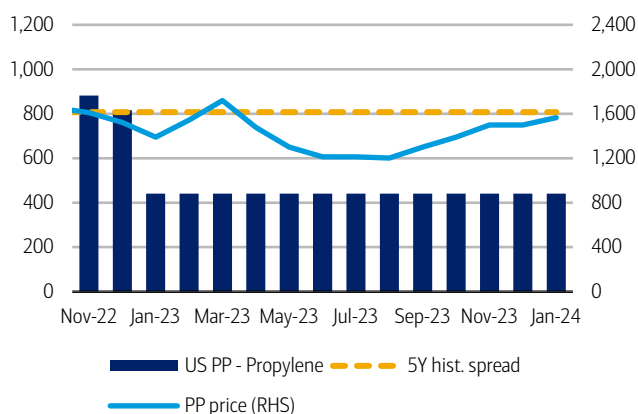
Moreover, producers are grappling with low margins. PP buyers have expressed skepticism about margin increases without structural changes in supply and demand dynamics. Concerns also rise regarding local price fluctuations driven by conflicts in the Red Sea region.

Regarding the European market, spreads narrowed due to the decrease of PP prices (down 1% MoM) –propylene prices remained flat during the period. During January, PP demand in Europe was reportedly quiet, driven by the winter holidays. However, CMA reported that producers are preparing to push PP prices up aiming to recover their margins. Despite the still low demand, market participants are confident that the price hike will likely be supported by higher delivery costs caused by the situation in the Red Sea at least for another month.

US PP-Propylene spreads averaged US\$441/ton in January –flat MoM and still significantly below the 5-year average figure of US\$807/ton. European PP-propylene spreads averaged US\$215/ton in January, -8% vs. US\$233/ton in the previous month and well below the 5-year average of US\$371/ton.

**Exhibit 5: US PP – Propylene spread (US\$/ton)**

Spreads were flat MoM

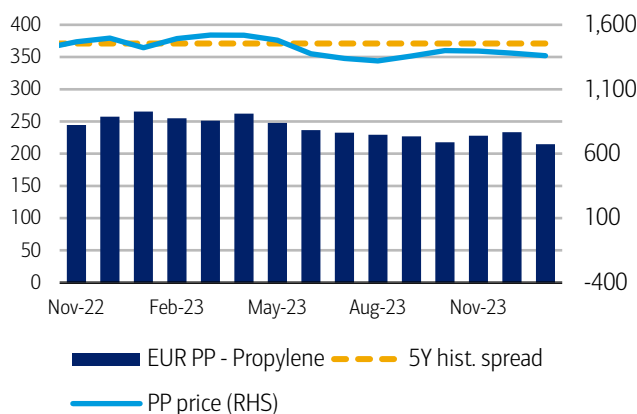


Source: BofA Global Research, Chemical Market Analytics

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**Exhibit 6: European PP – Propylene spread (US\$/ton)**

Spreads were down 8% MoM



Source: BofA Global Research, Chemical Market Analytics

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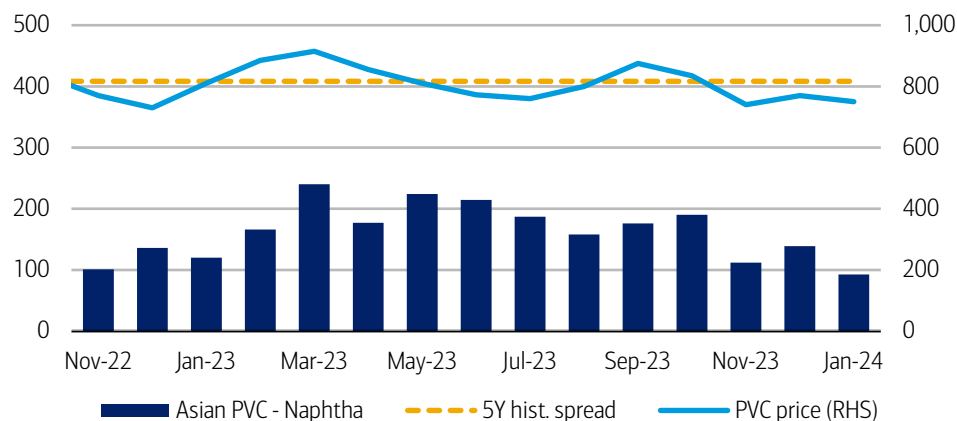
## PVC: Spreads narrowed amid higher supply

Asian PVC spreads declined 33% MoM, after November's 24% recovery, explained by lower PVC and higher Naphtha prices. PVC prices remained under pressure due to an unfavorable supply & demand scenario. Many producers concluded their scheduled maintenances in December and resumed normal operations in January, increasing PVC availability in the market amid a still weak demand. Construction activity in China continued slow during the winter months, and Lunar New Year festivities also curtailed demand. Additionally, the incremental demand witnessed from the restocking movement in India during December dissipated in January.

Asian PVC-Naphtha spreads were US\$93/ton, 33% drop vs. US\$139/ton reported in December, which is still way below the historical average of US\$408/ton.

**Exhibit 7: Asian PVC – Naphtha spread (US\$/ton)**

Spreads decreased 33% in January



Source: BofA Global Research, Chemical Market Analytics

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**PET: Spreads 9% down due to cost pressure**

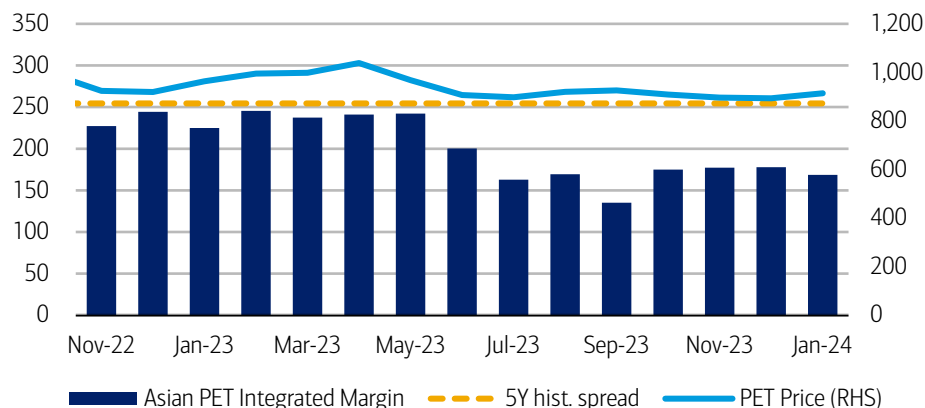
PET integrated margins were down to US\$168/ton in January vs. the US\$178/ton in December. After a quiet month in December, January saw an uptick in orders, and summed up with resilient crude oil prices, firmer upstream markets, increase in costs, and punctual increase in demand due to the restocking movement ahead of Lunar New Year, domestic PET prices slightly increased to US\$914/ton. The increase in PET prices, however, were not enough to offset the rise in PTA and MEG prices.

According to CMA, while January showed improvement in the price trend, February poses challenges for the PET market players. Temporary slowdowns are expected during the Lunar New Year holidays, with logistics likely to become a challenge. In the export market, trading activity is anticipated to decrease as major producers hesitate to engage in bulk transactions due to uncertainty about feedstock costs. CMA forecasts a gradual increase in feedstock costs in the coming months, largely driven by expected higher energy prices.

PET prices were up 2% MoM (US\$914/ton) along with a still weak demand, resulting in lower integrated margins of US\$94/ton, which is still below the 5-year historical figure for PET integrated margin of US\$271/ton.

**Exhibit 8: Asian PET Integrated margin (US\$/ton)**

Margins down 5% in January



Source: BofA Global Research, Chemical Market Analytics | PET Integrated margin considers yields 84% of PET margin and 34% of PTA margin, PET margin considers yields of 84% from PTA and 34% of MEG, PTA margin considers yields of 66% of PX

**Exhibit 8: Asian PET Integrated margin (US\$/ton)**

Margins down 5% in January

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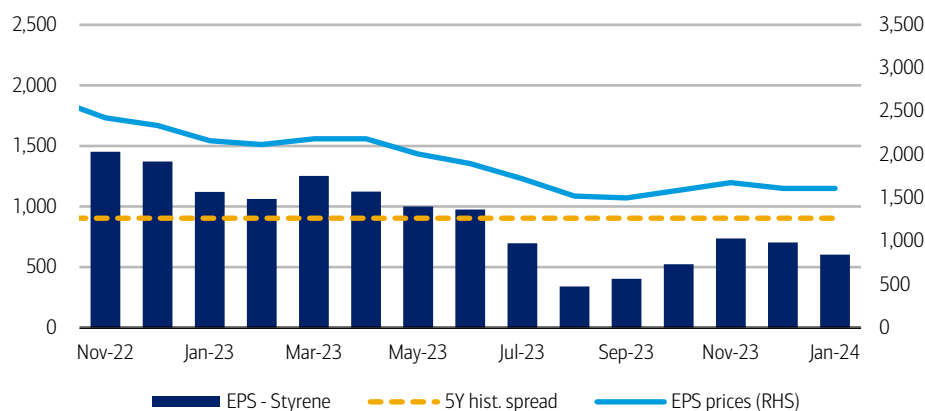
**EPS: Spreads down amid higher styrene prices**

In January, US EPS spreads narrowed to US\$603/ton (down 14% MoM), driven by an increase in feedstock prices. EPS prices were flat MoM at US\$1,609/ton.

Regarding Styrene, prices have surged in the end of January driven by higher production costs, unplanned outages, mainly forced by the freezing weather in the Gulf Coast, a tight benzene market and increased demand from Europe. Styrene rose to US\$1,071/ton in January, an increase of 11% MoM vs. the US\$964/ton recorded in December.

**Exhibit 9: EPS – Styrene spread (US\$/ton)**

Margins were down 14.3% vs. December



Source: BofA Global Research, Chemical Market Analytics

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**Exhibit 10: Summary of petrochemical prices and spreads performance LTM**

Spreads continue low vs. 5-year historical

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
<b>US PE - Naphtha</b>	<b>272</b>	<b>337</b>	<b>383</b>	<b>345</b>	<b>382</b>	<b>301</b>	<b>249</b>	<b>243</b>	<b>265</b>	<b>330</b>	<b>267</b>	<b>235</b>	<b>285</b>
Average PE price	962	1,056	1,058	1,023	968	859	822	885	964	975	895	866	942
Naphtha price	690	719	675	678	586	558	573	642	699	645	628	631	657
<b>US PE - Ethane</b>	<b>768</b>	<b>872</b>	<b>884</b>	<b>878</b>	<b>822</b>	<b>706</b>	<b>586</b>	<b>683</b>	<b>742</b>	<b>766</b>	<b>723</b>	<b>720</b>	<b>753</b>
Average PE price	961	1057	1062	1034	974	862	822	883	964	968	889	857	939
Ethane price	193	185	178	156	152	155	236	199	222	202	166	137	186
<b>Asian PP - Naphtha</b>	<b>305</b>	<b>358</b>	<b>338</b>	<b>321</b>	<b>393</b>	<b>316</b>	<b>292</b>	<b>278</b>	<b>244</b>	<b>293</b>	<b>275</b>	<b>278</b>	<b>292</b>
PP price	995	1,077	1,013	999	979	874	865	920	943	938	903	909	949
<b>US PP - Propylene</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>	<b>441</b>
PP price	1,389	1,543	1,720	1,477	1,301	1,213	1,213	1,202	1,301	1,389	1,499	1,499	1,565
Propylene price	948	1,102	1,279	1,036	860	772	772	761	860	948	1,058	1,058	1,124
<b>EUR PP - Propylene</b>	<b>266</b>	<b>255</b>	<b>251</b>	<b>262</b>	<b>248</b>	<b>237</b>	<b>233</b>	<b>229</b>	<b>227</b>	<b>218</b>	<b>228</b>	<b>233</b>	<b>215</b>
PP price	1,423	1,493	1,520	1,519	1,480	1,376	1,339	1,320	1,358	1,400	1,397	1,380	1,360
Propylene price	1,157	1,238	1,269	1,257	1,232	1,139	1,106	1,091	1,131	1,183	1,169	1,146	1,145
<b>Asian PVC - Naphtha</b>	<b>120</b>	<b>166</b>	<b>240</b>	<b>177</b>	<b>224</b>	<b>215</b>	<b>187</b>	<b>158</b>	<b>176</b>	<b>190</b>	<b>112</b>	<b>139</b>	<b>93</b>
PVC price	810	885	915	855	810	773	760	800	875	835	740	770	750
<b>Asian PET Integrated Margin</b>	<b>238</b>	<b>260</b>	<b>252</b>	<b>257</b>	<b>260</b>	<b>216</b>	<b>177</b>	<b>183</b>	<b>145</b>	<b>189</b>	<b>191</b>	<b>192</b>	<b>183</b>
PET Price	963	995	998	1,039	968	907	898	920	926	909	897	893	914
PTA price	754	775	791	843	773	752	775	790	809	771	752	740	760
MEG price	517	520	510	507	504	465	471	468	481	464	478	496	534
PX price	1,015	1,033	1,059	1,128	1,000	989	1,037	1,067	1,131	1,039	1,005	987	1,018
<b>EPS Margin</b>	<b>1,120</b>	<b>1,062</b>	<b>1,253</b>	<b>1,123</b>	<b>1,000</b>	<b>975</b>	<b>697</b>	<b>339</b>	<b>403</b>	<b>523</b>	<b>736</b>	<b>703</b>	<b>603</b>
EPS prices	2,161	2,116	2,183	2,183	2,006	1,896	1,720	1,521	1,499	1,587	1,675	1,609	1,609
Styrene prices	1,107	1,121	989	1,127	1,070	980	1,088	1,258	1,166	1,133	1,000	964	1,071

Source: BofA Global Research, Chemical Market Analytics

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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