

For the last few years, a crisis in margins has been expected in the world glycols market, as it becomes saturated by oversupply, but there is strong underlying demand in this area to support long term growth, according to results released in a recently study by Tecnon OrbiChem.

The MEG market is oversupplied by around 3.5 million tons in 2010 and 2011 (assuming that plants run at an average 90% of capacity). By 2012, however, this oversupply will have fallen to less than 3 million tons and by 2015 to below 2 million tons. By 2017, consumption is forecast to exceed capacity (at 90% utilisation) by almost 1 million tons.

In fact, further new plants will be announced between now and then and it is likely that many of these will be in China, perhaps as joint ventures with Middle East producers. New project opportunities in Saudi Arabia are slowing down as feedstock is no longer as easily or as cheaply available as it was in the past.

The global MEG and other fibre intermediates markets have been hit hard by the global recession, which was felt by all the world's major economies by the last quarter of 2008, and which was showing signs of coming to an end in some regions by mid 2009.

Projected consumption of MEG has dropped during this crucial period from 6.3% for 2006-2016 at the time of the last assessment to 4.8% for 2007-2017 at the time of the current analysis. World capacity utilization for 2016 has dropped from 98% to 89.2%. Effectively, the need for new capacity announcements has been delayed by several years and in the medium term, overcapacity will be more pronounced than expected before the recession hit.

The medium term oversupply situation will be partly managed by temporary shutdowns and reduced operating rates - particularly in Taiwan and Korea. However, in the next year or so, announcements of permanent closures are also expected in Northeast Asia. Rationalisation has already been announced in the US and Europe and more may be in the cards. Dow's Taft 1 will undergo conversion to EO-only in Q4 2010 and Taft 2 will be permanently shut down. Dow's Wilton plant was also closed in January 2010. So, by the end of 2010, a substantial volume (over 1 million tpa) of older capacity will be removed from the market. However, new capacity is over 2 millions tpa. (Note that in fact Taft 2 has been idled since early 2009.)

There has been some long-expected price deterioration and, according to many calculations, prices are already close to break-even margins in Northeast Asia. European prices have been somewhat firmer but these, too, are under downward pressure.

Ethylene values will provide some kind of floor, although how firm a floor has yet to be tested. Crude oil and naphtha prices will be an important factor and these have been wildly volatile in 2009 and 2010, after dropping down to levels that reflected the recessionary demand fall-off in 2008. The question of how far below marginal cost glycols prices can go in Europe, the US and Northeast Asia is a key one for the producing industry, as well as for downstream buyers.

It is likely that, in this context of diminishing margins for naphtha-based manufacturers, a producer in Northeast Asia may announce that it will permanently shut down a unit. Every piece of evidence points toward crude oil prices over \$70/bbl for the foreseeable future. The uncertain Chinese buying patterns on the consumer side and the erratic supply habits of Iran on the seller side will add sporadic volatility to the market. This has been the case in the past, but Iran's larger capacity makes it a more formidable force than it has been previously.

A growing trend to focus on value-added EO derivatives, such as ethanolamines and ethoxylates as MEG margins come more and more under threat will characterise the coming years. Several projects are already underway in China, Thailand, Japan and Saudi Arabia with more announced for the Middle East and China.

Having said this, ethanolamines supply has been growing faster than projected demand in the past few years and some new projects may be delayed or scaled down. Demand growth of around 5-6% meets supply growth of around 10% in the short term with a flurry of new builds from 2007 to 2011. However, global ethanolamines supply and demand projections are fairly balanced in the longer term with demand growth of around 6% between 2007-2017 close to capacity growth at around 5.4%. Ethoxylates demand should grow at least 5% globally and could surge forward massively as developing markets like India begin to show their potential requirements.

Overall, demand for EO is expected to show signs of rapid recovery but this is in the context of some lost demand, as the projected production growth rate has fallen about 1% from the last assessment to 4.9% from 2007-2017. This is mainly as a result of the economic slowdown. Estimated 2010, world EO consumption was down over 3 million tons on what had been projected in 2007. The foundations of this market are firm, however, with on one side, the strength of the polyester market, the fastest growing fibre market in the world giving underlying strength to MEG demand, and on the other, very strong growth markets like ethoxylates to support purified EO offtake.

Tecnon OrbiChem has recently updated and released statistical information up to 2008-2009 and forecasts to 2020 for several fibre intermediate areas, including a broad-based World Synthetic Fibres Analysis, as well as reviews for Polyamide, Polyester, Ethylene Glycol and Paraxylene/PTA. An updated supply/demand balance has also recently been completed for PET.

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