



The lifting of Iranian sanctions: What this means for Middle East polymers

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Agenda

Iran sanctions deal

Crude Oil and PE and PP trends

PVC and PS performance

Outlook

Most sanctions on Iran have been lifted... What next?

- ▶ Most Iranian sanctions lifted in January
- ▶ US sanctions still remain
- ▶ Iran eyes Europe for bulk movement of crude, polymers
- ▶ Major shift in trade flow: Middle East → Asia

Iran's petrochemical projects	
Product	Capacity ('000 tonnes/year)
PP	750
LLDPE/HDPE	1,200
LDPE	600
Expected start-up: 2016-2018	

Source: National Petrochemical Company of Iran

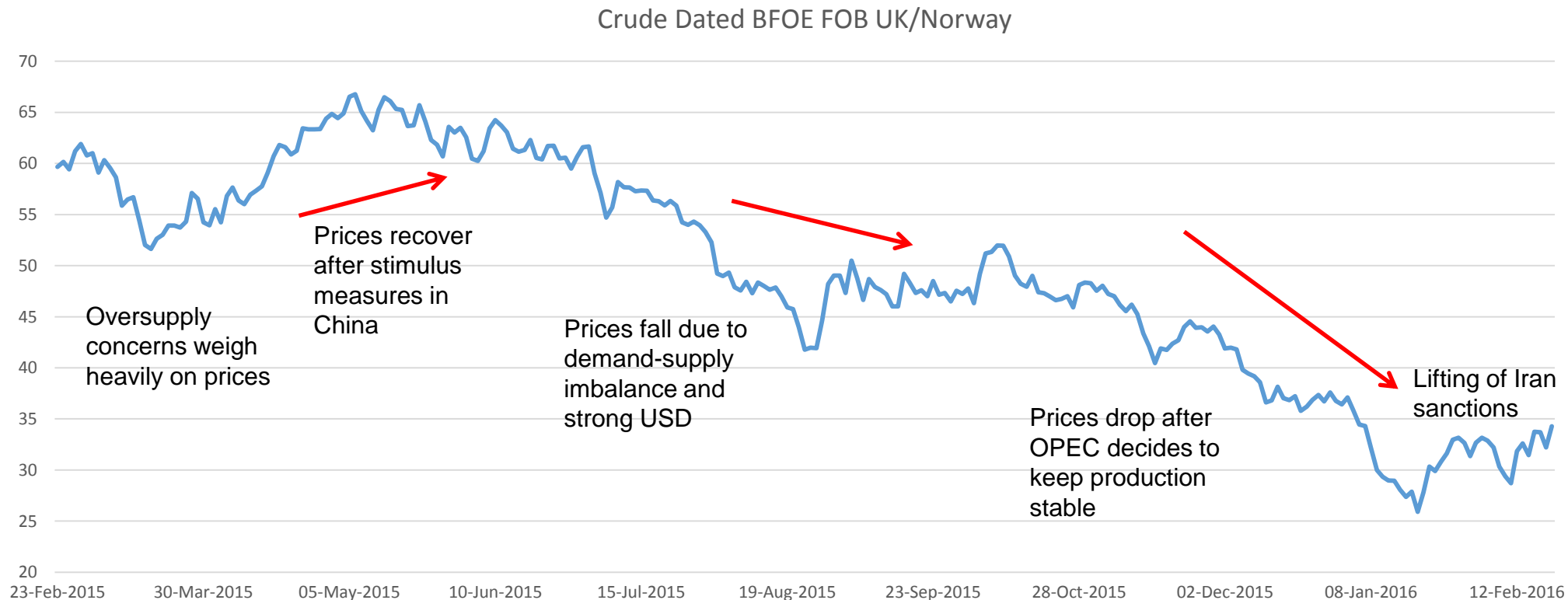
Swift return?

- ▶ No clear financial framework yet
- ▶ Insurance guidelines still pending
- ▶ Banks with assets in the US still worried about dealing in Iran
- ▶ Iran can resume polymer exports to Europe once SWIFT reinstated

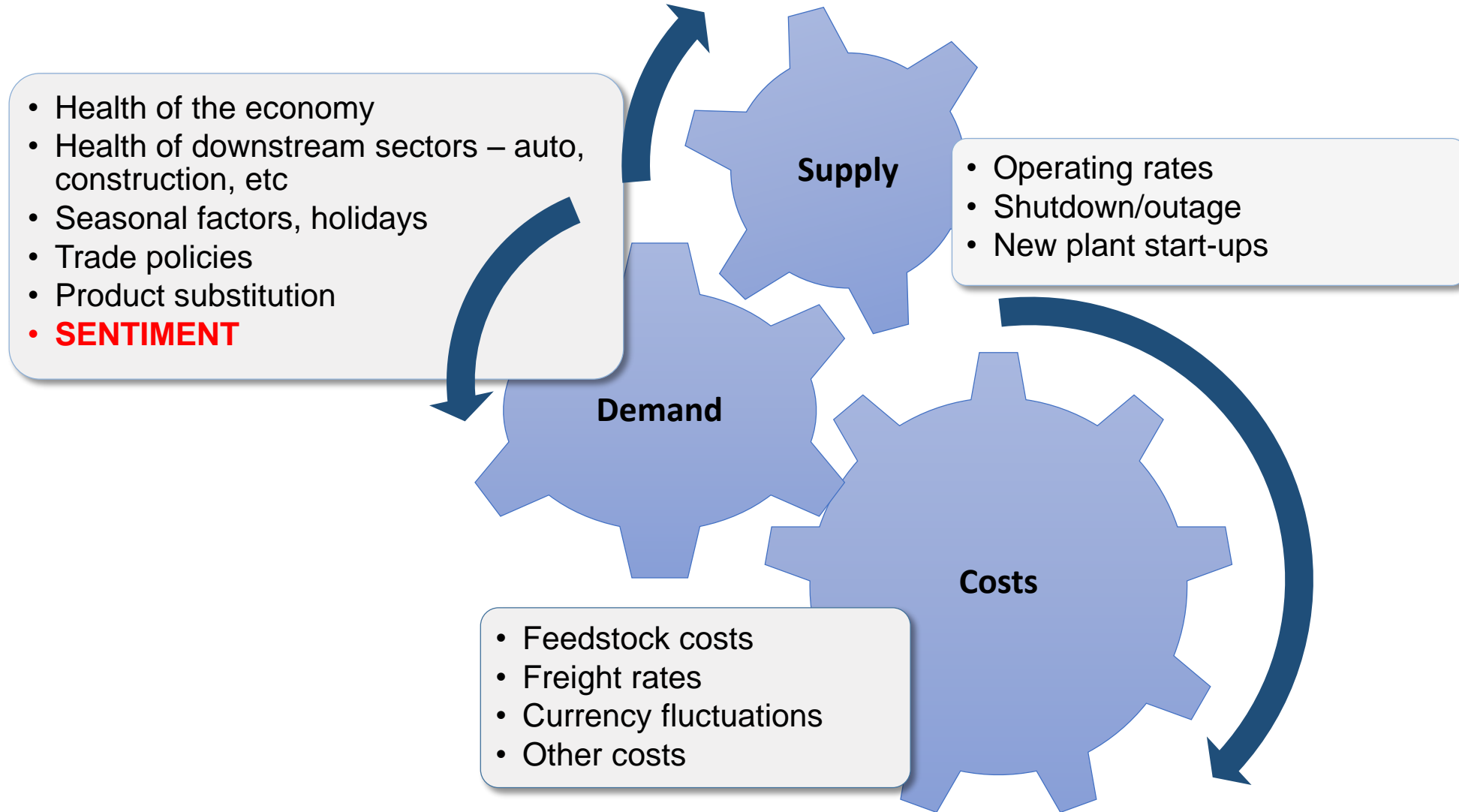


Concerns on crude oil

- ▶ Volatility in crude prices continues
- ▶ The million-dollar question: where will crude prices go next?

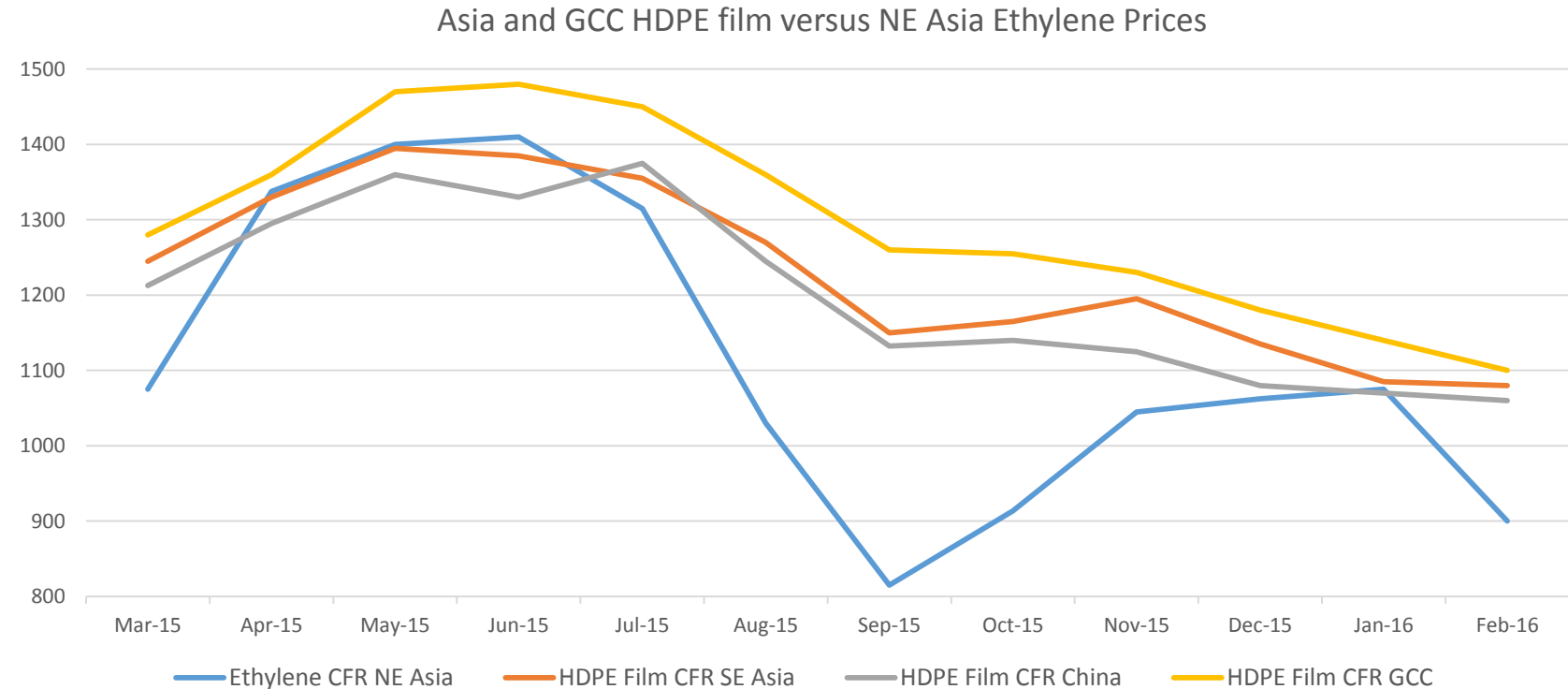


Key price drivers



HDPE film demand improves after Lunar New Year

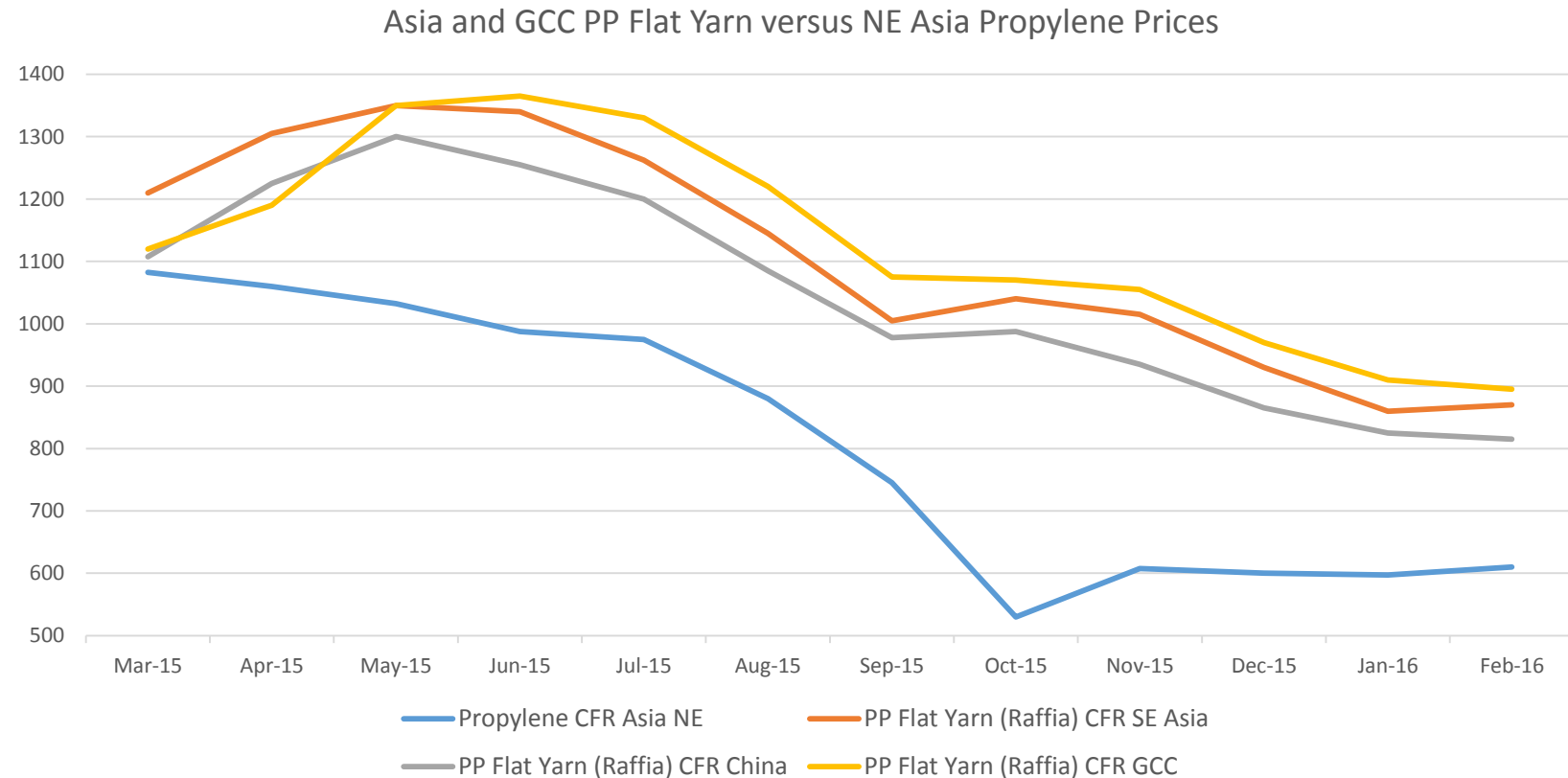
- ▶ HDPE film prices in Asia: mid-to-high \$1,000s/tonne in December 2015
- ▶ Convertors bearish on lack of price direction and concerns of further declines
- ▶ HDPE offers in Asia typically track price movements in China's spot market



Source: ICIS

PP prices recover in early 2016

- ▶ In May 2015, PP prices were above \$1,300/tonne in most parts of Asia
- ▶ By December 2015, PP prices plunged below \$1,000/tonne
- ▶ Currently, PP raffia prices are recovering in Asia due to tightening supply



Source: ICIS

H1 Outlook

Supply

- ▶ New supply from Borouge and Sadara could push prices down, according to market players
- ▶ PE supply could increase after Iranian sanctions lifted

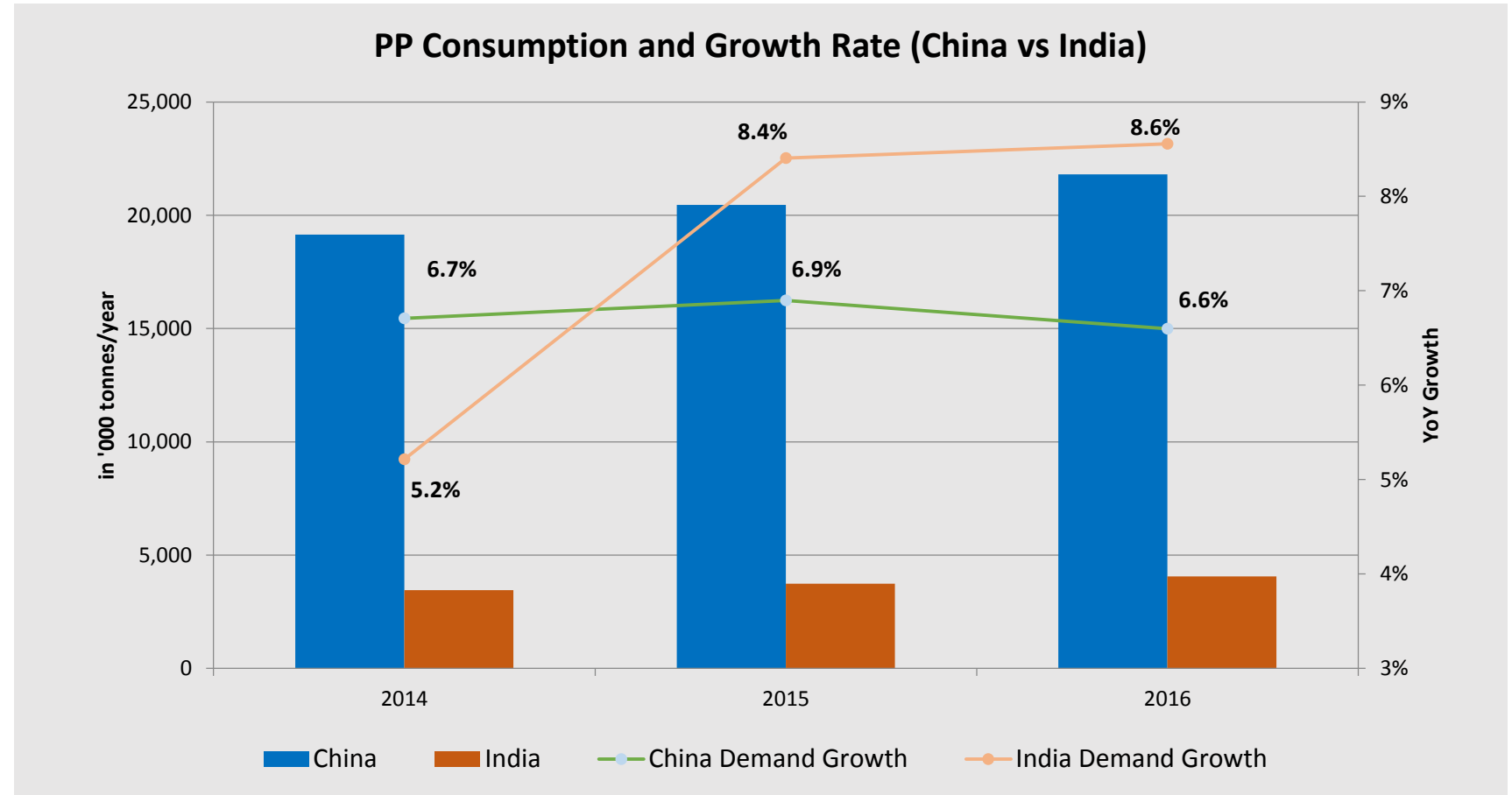
Demand

- ▶ Low inventories could boost restocking
- ▶ Downstream demand fundamentally soft on weakening macroeconomic conditions



Asia PP demand & consumption

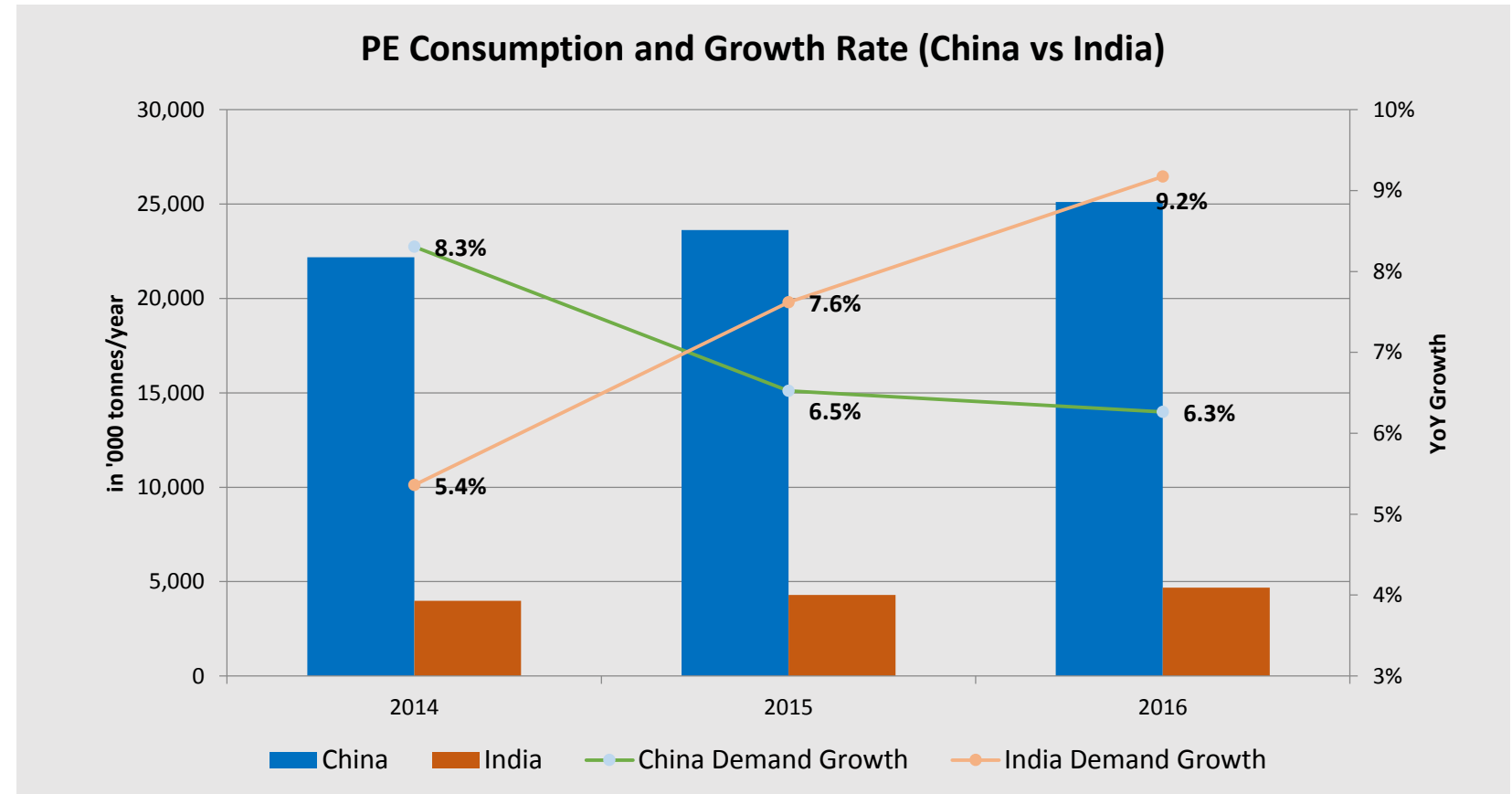
- ▶ Demand growing in sectors in India such as packaging and industrial applications
- ▶ China's PP demand growth expected to be slightly higher than 6% in 2015 and 2016



Source: ICIS Supply and Demand Database

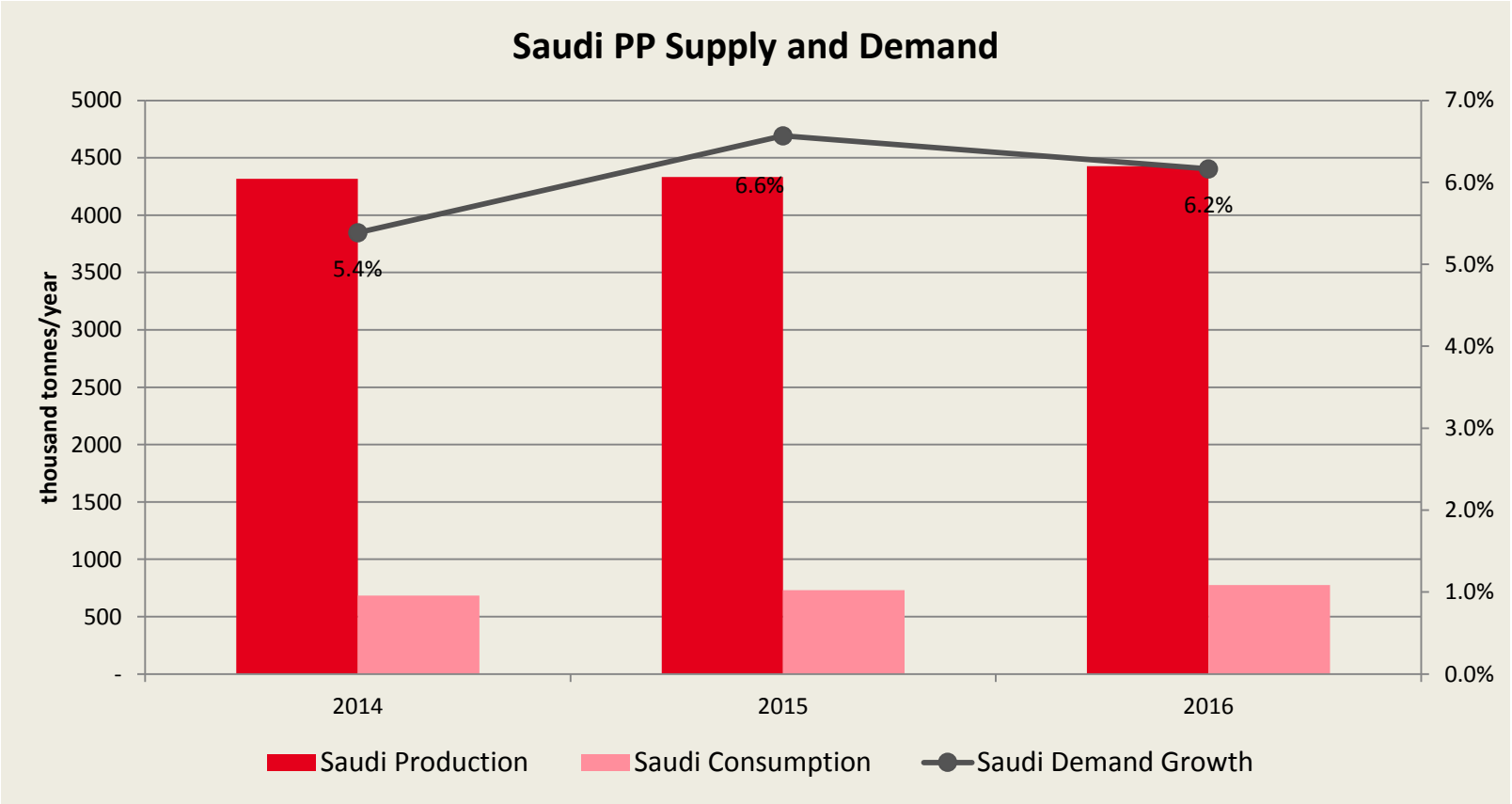
Asia PE demand & consumption

- ▶ China's polymer demand growth to slow down
- ▶ Volatility leads to conservatism in the market; existing consumption not reflective of true demand



Source: ICIS Supply and Demand Database

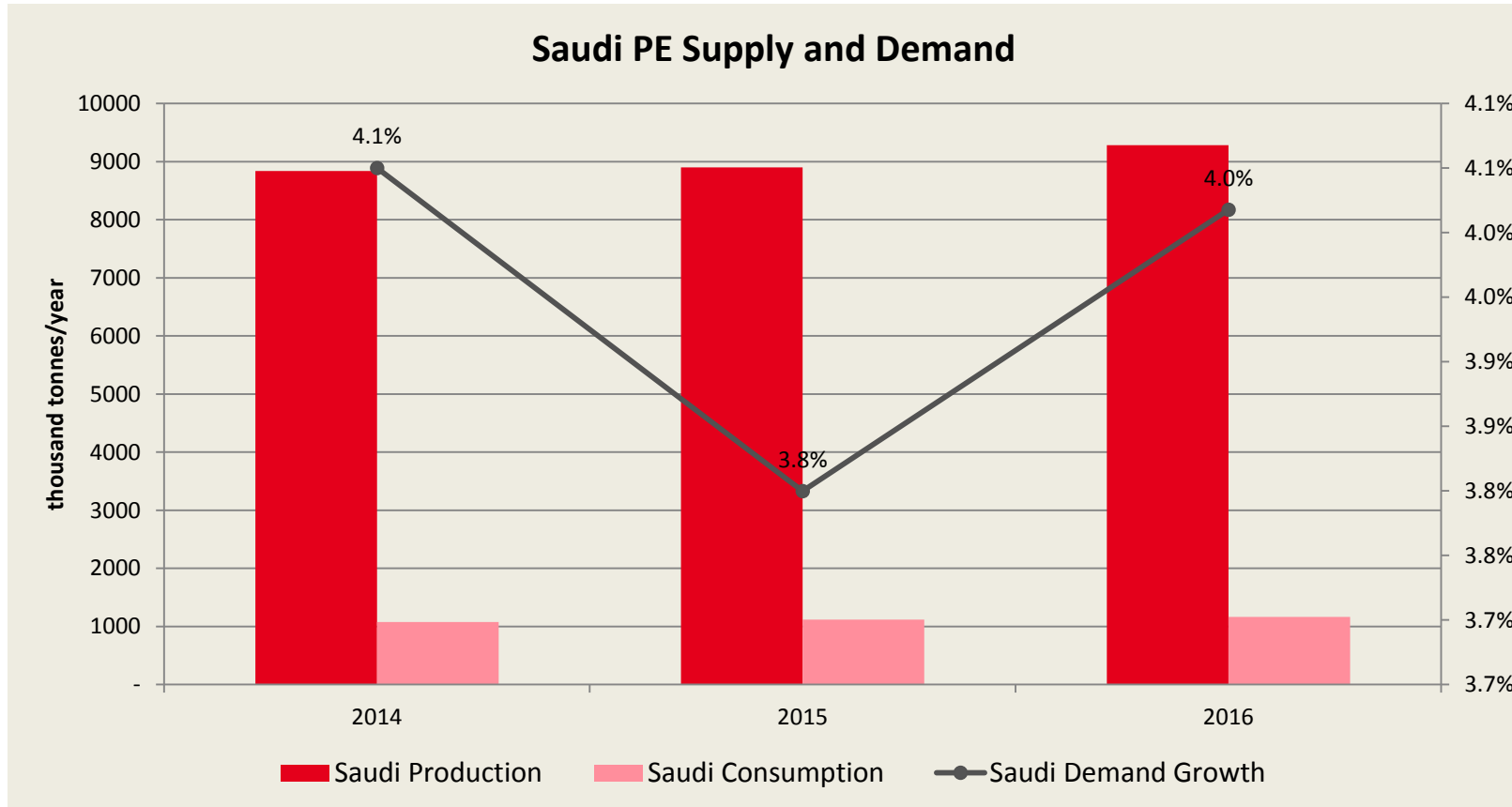
Saudi PP demand & consumption



Source: ICIS Consulting

- ▶ Saudi Arabia to continue to be a major PP production hub
- ▶ PP growth estimates more promising than PE because of burgeoning packaging sector

Saudi PE demand & consumption

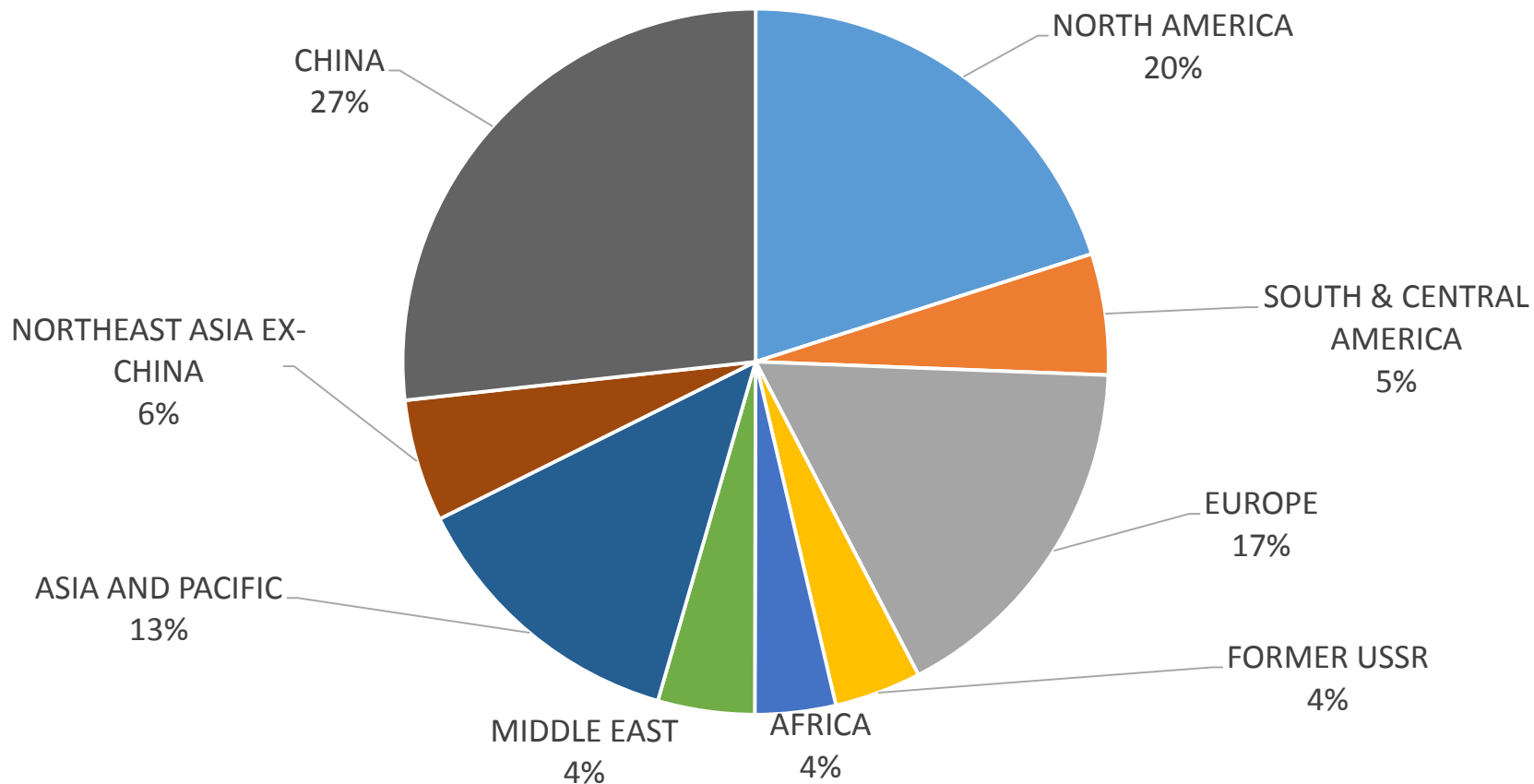


Source: ICIS Consulting

- ▶ Domestic consumption marginal compared to production
- ▶ Growth expectations capped at 3-4% in 2015 and 2016

A global economy dependent on China

HDPE Consumption in 2015

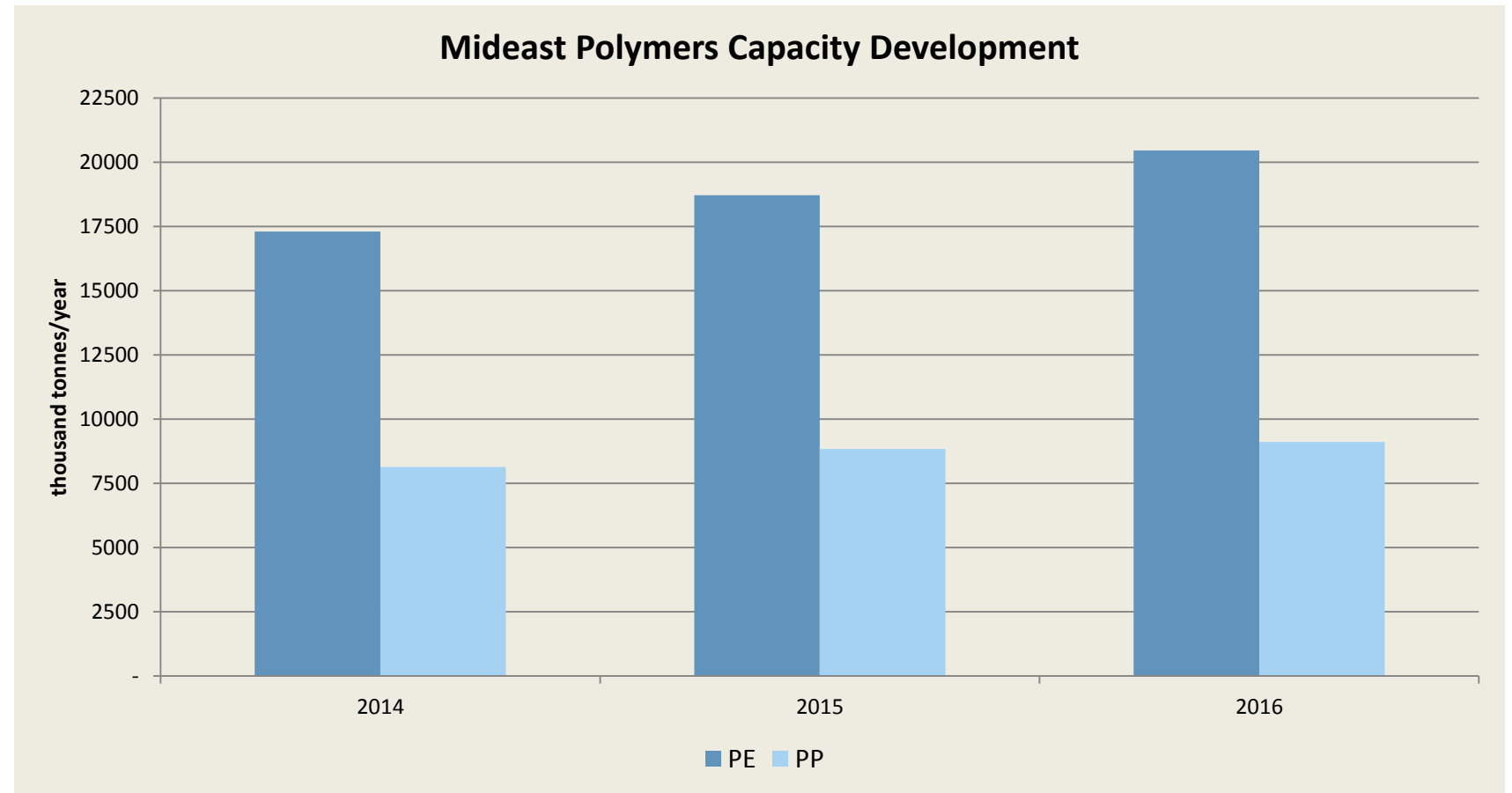


Source: ICIS Consulting

- ▶ Global growth heavily dependent on China
- ▶ We may see lower growth from China despite stimulus and monetary measures
- ▶ For HDPE, China took a 27% share of 40m tonnes global consumption in 2015

Middle East as major polymer exporter

- Propensity to embark on new petrochemical and plastic initiatives high in the Middle East
- Once new projects come on stream, Middle East will consolidate position as major exporter



Source: ICIS Consulting

New capacities add to supply pressure

- ▶ Borouge more than doubled olefins and polyolefins capacity
- ▶ Sadara Chemical on track to start up 1.5m tonne/year mixed-feed cracker in 2016

Company	Product	Capacity	Location	Start Up
Borouge	PP	960,000 tonnes/year	Abu Dhabi	2015
	LLDPE and HDPE	1.08m tonnes/year		
	LDPE	350,000 tonnes/year		
Sadara	LDPE	350,000 tonnes/year	Jubail	2016
	Amines	210,000 tonnes/year		
	Glycol Ethers	200,000 tonnes/year		
	Propylene Glycol	70,000 tonnes/year		
	Methyl di-isocyanate (MDI)	400,000 tonnes/year		
	Toluene di-isocyanate (TDI)	200,000 tonnes/year		
	Polyether Polyols	390,000 tonnes/year		
Orpic	Polyethylene (PE)	838,000 tonnes/year	Sohar	2018
	PP	215,000 tonnes/year		
	Benzene	46,000 tonnes/year		

Iran could add further pressure

- ▶ Petrochemical production ramping up to support European demand
- ▶ Operating rates increasing, start-up dates of ongoing projects being brought forward
- ▶ Iran's NPC plans to raise petrochemical production to 120m tonnes/year in 2017 from around 59m tonnes/year

Iran's New Polymer Capacity ('000 tonnes/year)				
Bakhtar Petrochemical Co	LLDPE/HDPE	300	Mahabad	2016
	LDPE	300	Sanandaj	

PVC in Iran: Sufficient export availability

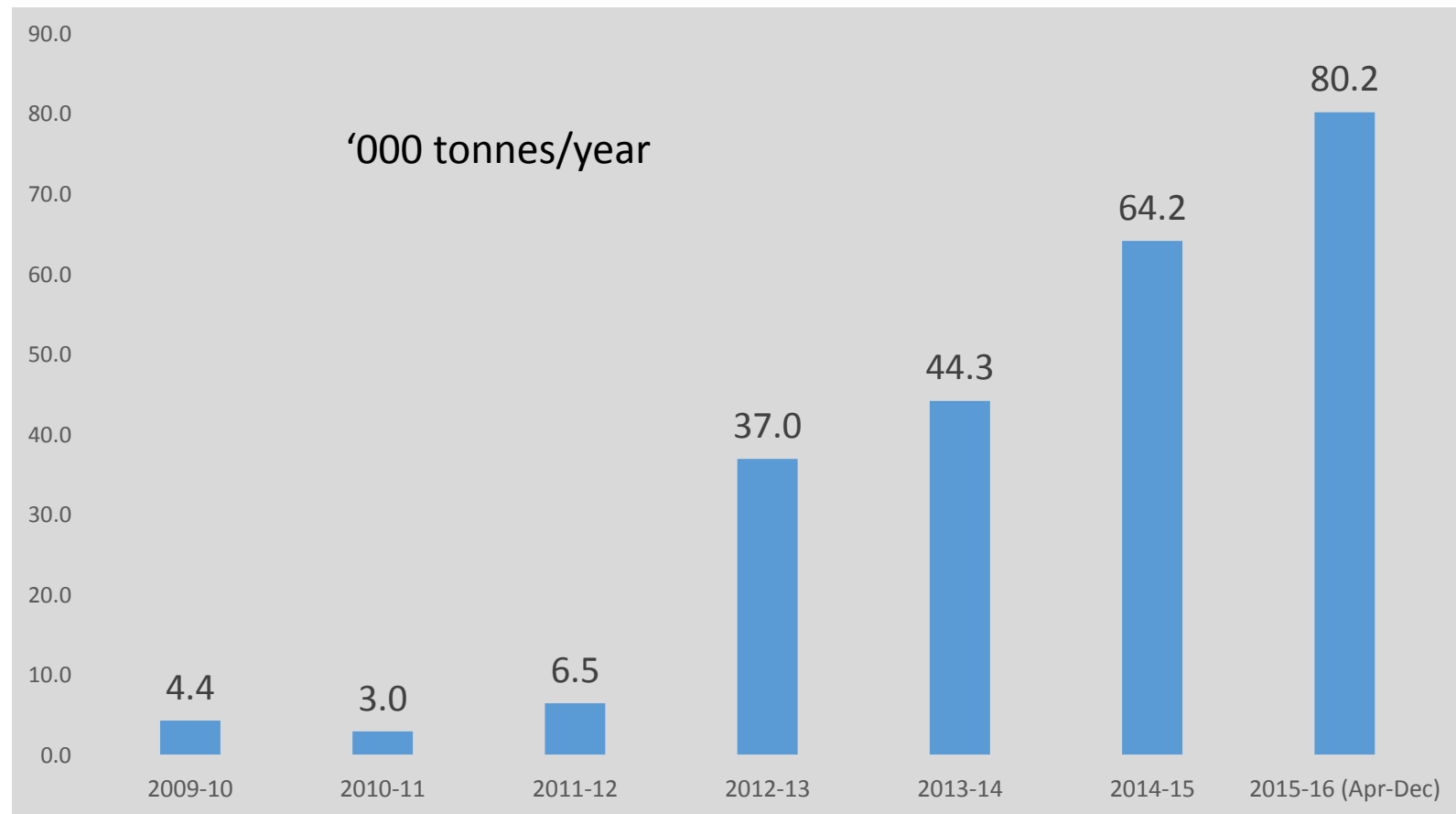
Plant	Production capacity (‘000 TPA)
Abadan PC	110
Arvand	300
Basparan Bandar Imam	192
Behran Oil	70
Ghadir	170
Total production	842
Domestic consumption	720
Export availability	122

Source: ICIS Consulting

- ▶ High export potential
- ▶ Progress on sanctions after March
- ▶ India, Turkey, SE Asia: natural markets

Iranian exports to India

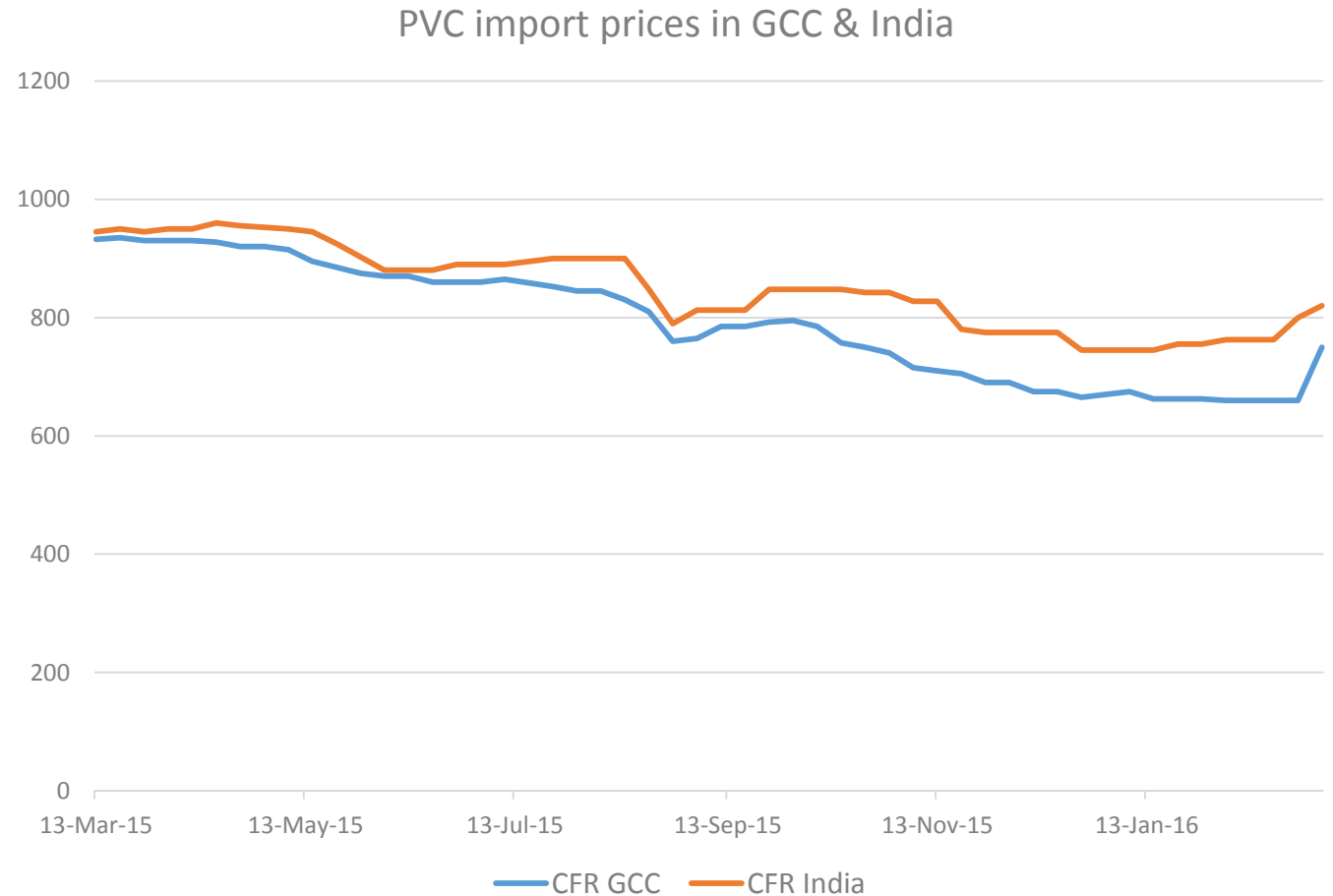
- ▶ Iran's exports to India have surged despite sanctions
- ▶ Currently sold on cash basis
- ▶ Lifting of sanctions could boost numbers
- ▶ Other markets – Turkey, SE Asia



Source: Department of Commerce, India

Iran to have limited impact on GCC PVC market

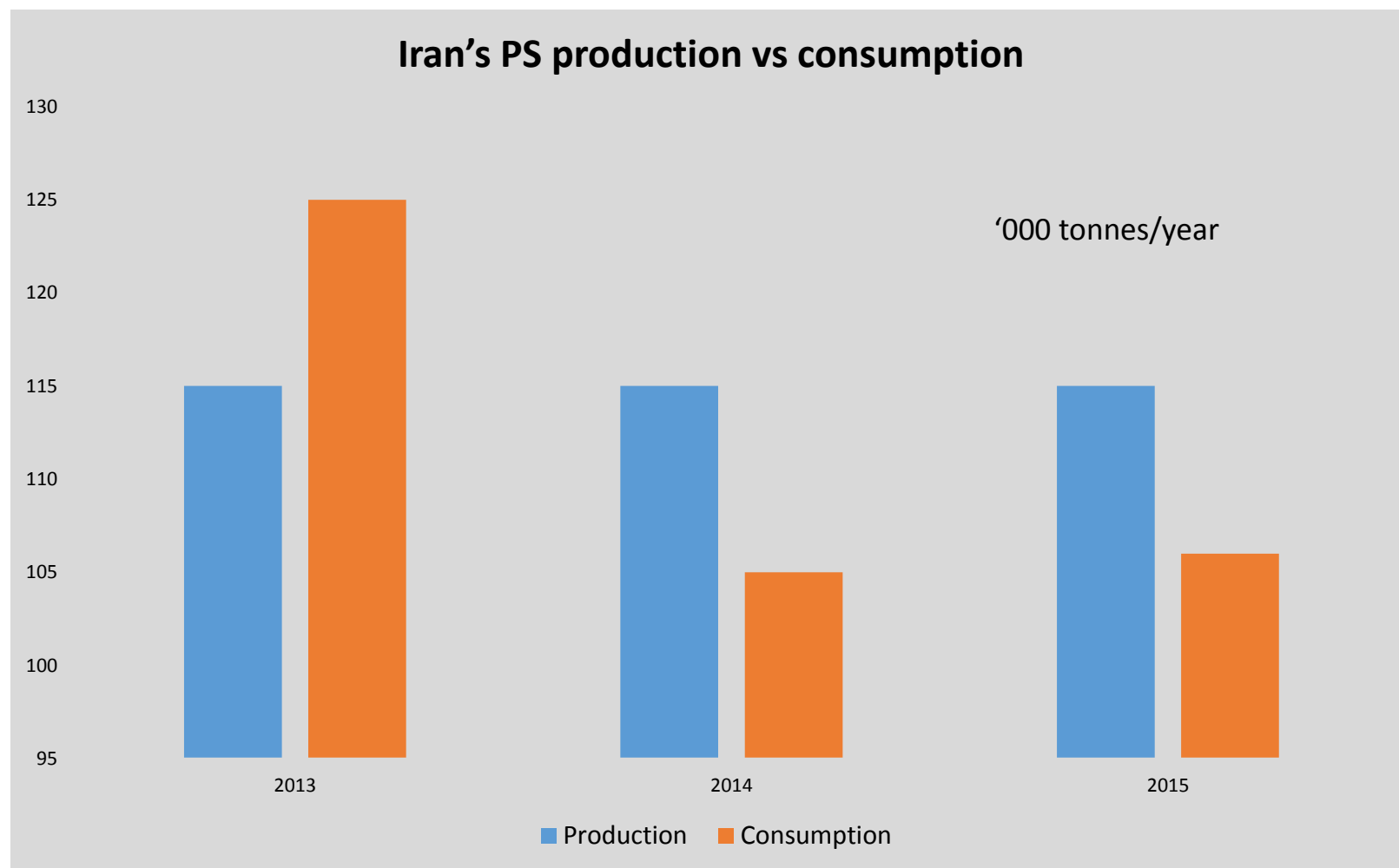
- ▶ GCC to continue sourcing from the US
 - US remains competitive
- ▶ Better netbacks
 - No anti-dumping duties (ADDs) in India
 - Trade agreements with Turkey
- ▶ Political relationship



PS in Iran: supply & demand

- ▶ Self-sufficient
- ▶ Main producer: Tabriz Petrochem
 - GPPS: 25,000 tonnes/year
 - HIPS 1: 40,000 tonnes/year
 - HIPS 2: 54,000 tonnes/year
- ▶ Total EPS production: 75,000 tonnes/year in 2015
 - New start up: Kimia Dalahu
- ▶ PS* imports depend on arbitrage, demand season

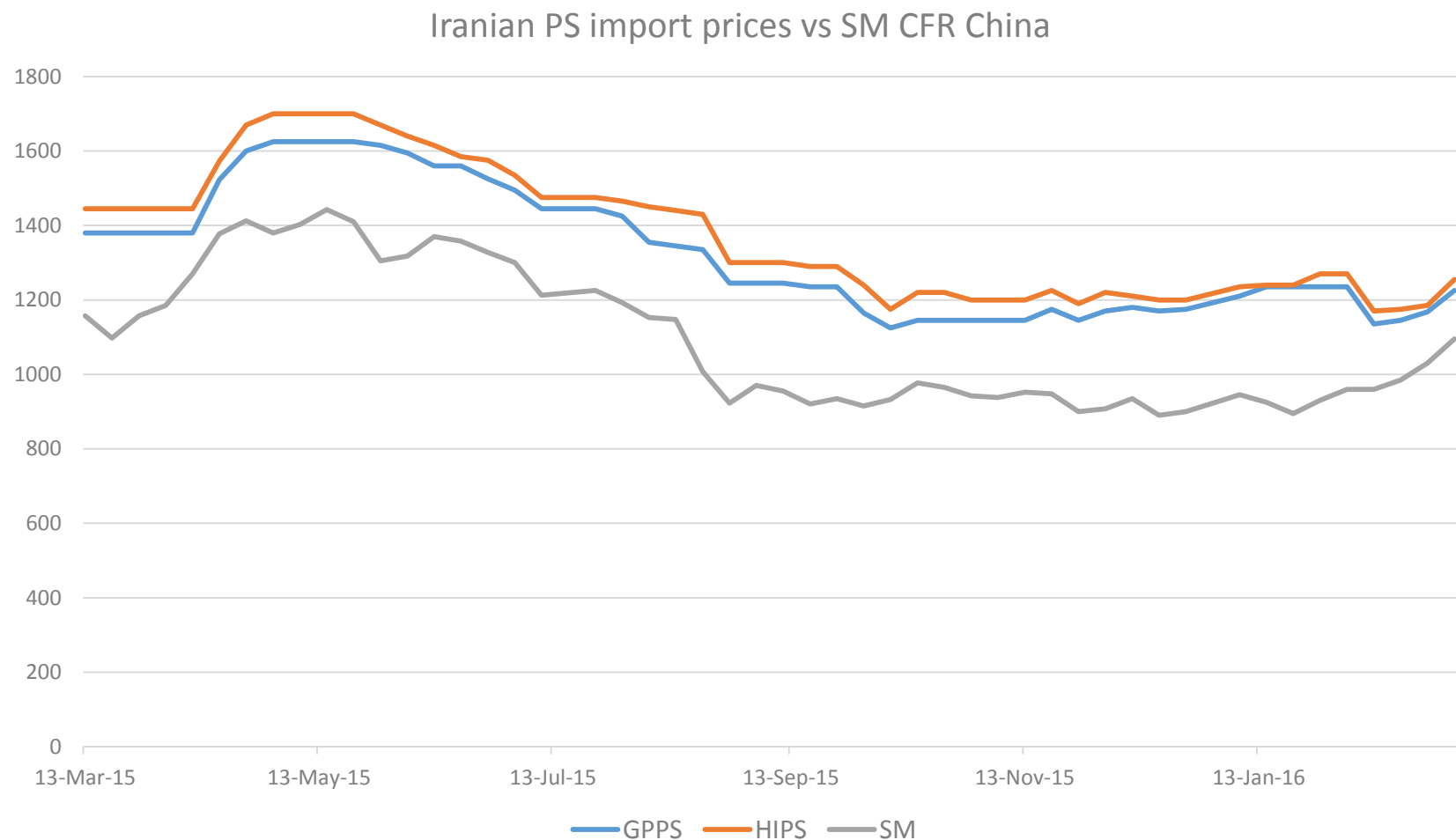
* Refers to GPPS and HIPS



Source: ICIS Consulting

Iran's PS import prices vs China's SM import prices

- ▶ PS prices sensitive to monomer price movements
- ▶ Domestic availability influences arbitrage
- ▶ Supply from Taiwan, South Korea



Source: ICIS

H1 Outlook

Supply

- ▶ Bank approvals to be put in place
- ▶ PVC export availability to remain sufficient

Demand

- ▶ Indian PVC importers await clear direction
- ▶ PS continues to be dictated by arbitrage – more choice in imports



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