Butadiene (Asia-Pacific)

By Ai Teng Lim
18-Mar-2022

Overview | Outlook | Prices | Upstream | Downstream | Production | Analytics

Please click here for full details on the criteria ICIS uses in making these price assessments.

OVERVIEW

- **Prices surge with firmer deals done**
- **Buying interest for spot up with contractual allocation cuts**
- **Derivative margins are squeezed**

Asian spot prices for butadiene (BD) surged, tracking firmer deals done and discussions heard throughout the week.

Sellers chased higher prices in a bid to recoup strong upstream costs and lift depressed cracker margins.

Spot availabilities were limited, as BD production has slowed down with a heavy wave of upstream cracker operating rate cuts planned for March and April.

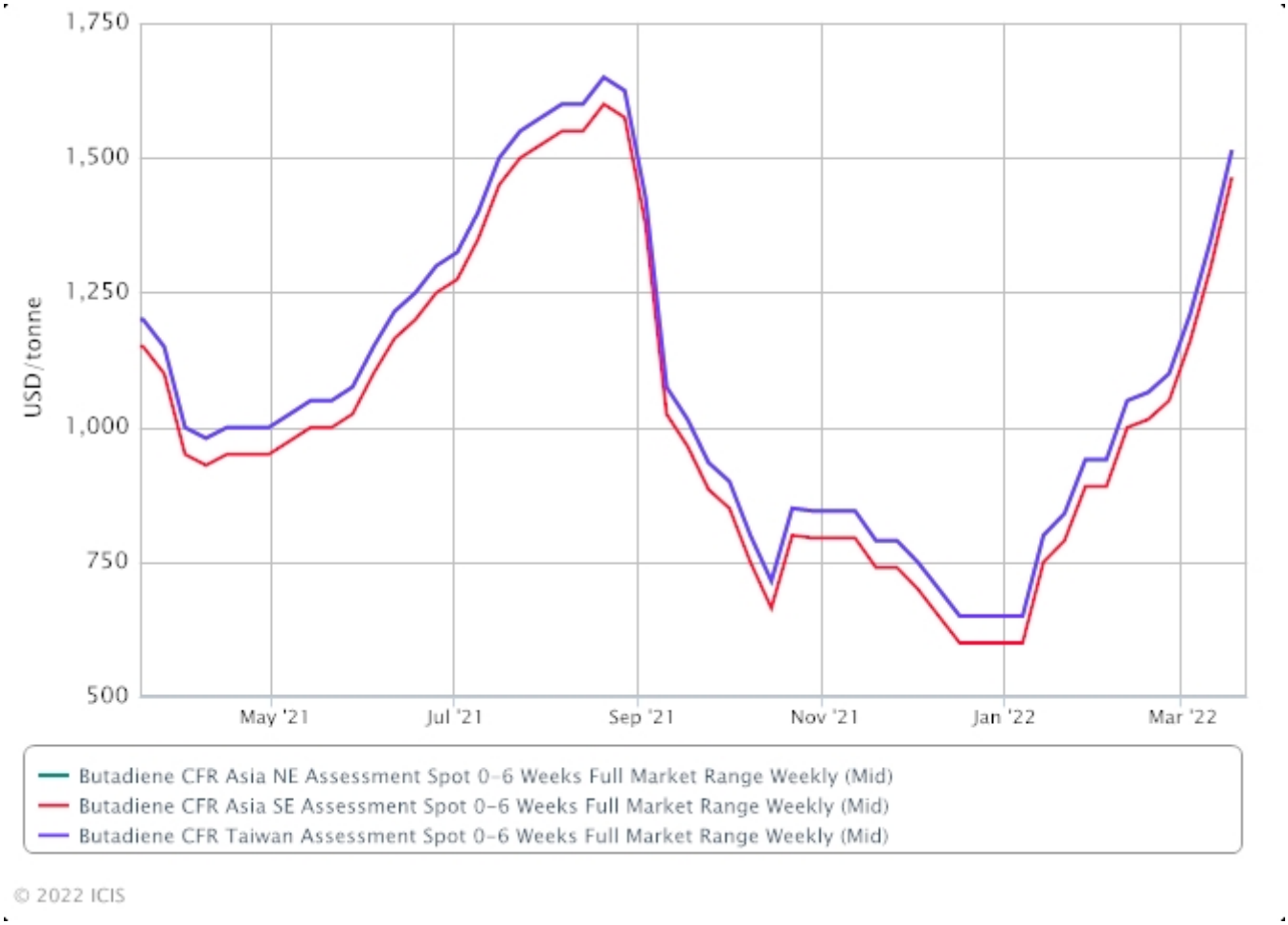
Some contract allocations were cut also, market sources said, prompting affected customers to seek replacement volumes from the spot market.

Those buyers who see the urgency and need to cover contractual shortfall raised bids to narrow gaps with sellers' expectations and secure some volumes.

Others retreated to the sidelines, saying that the current asking prices for BD have risen too high and beyond the affordability line for their downstream markets.

For the latter sector of end-users, they may consider instead, moderating operating rates of their downstream plants to reduce usage of BD and keep costs down, market sources said.

Demand outlook is also clouded, as concerns grew about how production momentum in China may pan out if the tight covid-related restrictions on movements are extended, and also if auto plant operations could weaken if the ongoing Russia-Ukraine conflict serves to aggravate further the perennial global shortage of chips.



OUTLOOK

- **Spot availabilities likely to stay low if cracker op rate cuts are extended**
- **Crude volatility is another factor to watch**
- **Downstream demand outlook murky**

PRICES

SPOT PRICES - PRICE RANGE FOR THE WEEK

			Price Range		Four Weeks Ago	US CTS/lb
Butadiene						
FOB China	USD/tonne	+250	1500.00-1600.00	+250	1000.00-1100.00	68.04-72.57
CFR NE Asia	USD/tonne	+150	1450.00-1580.00	+180	1030.00-1100.00	65.77-71.67
CFR Taiwan	USD/tonne	+150	1450.00-1580.00	+180	1030.00-1100.00	65.77-71.67
CFR SE Asia	USD/tonne	+150	1400.00-1530.00	+180	980.00-1050.00	63.50-69.40

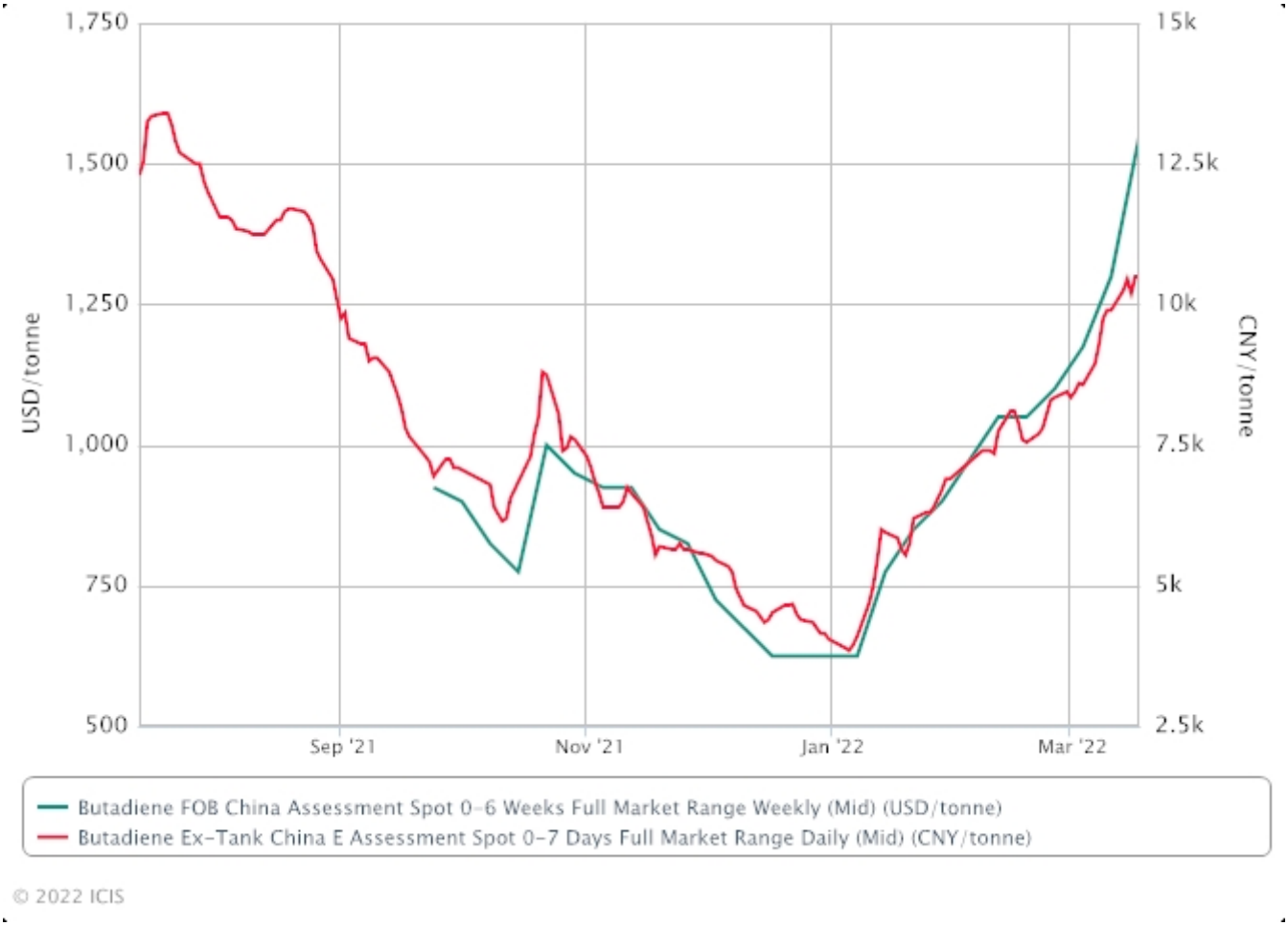
China

FOB China assessments rose, taking into consideration buy-sell indications heard.

However, no deals materialised, given the wide buy-sell gap.

Domestic China prices extended gains week-on-week as offers rose in a tightly-supplied market.

Price (CNY/tonne)	18 March	11 March
DEL east China	10,400-11,000	10,000-10,200



Northeast Asia

CFR northeast Asia assessments rose, with both ends of the range lifted to capture the full range of transactions heard closed in the course of the week, for April shipment to northeast Asian destinations.

Cargo availabilities are limited, and for remnant volumes available to lift in April, selling indications, albeit converted to delivered NE Asian terms, were heard at or over the high-end of the published range.

Buying indications remained capped at the lower end of the published range, which end-users said are already eating into their derivative margins and barely tenable.

CFR Taiwan assessments were raised in tandem with changes in CFR NE Asian assessments.

Monthly Contract DEL, $/tonne	Feb 22	Jan 22	Dec 21	Nov 21	Oct 21	Sep 21	Aug 21

Taiwan FPCC	1,040	795	780	885	870	1,175	1,545
Korea YNCC	1,015	835	645	800	790	1,050	1,650

Southeast Asia

CFR SE Asia assessments were adjusted in line with changes in the CFR NE Asia assessments, in the absence of any discussions or transactions for southeast Asia-bound cargoes.

Two southeast Asia-origin cargoes were sold via tender this week for H1 April lifting. While one cargo was sold on formula basis, the other transaction was concluded on fixed FOB SE Asia terms, with the cargo slated for delivery to NE Asia. The latter is accounted for in the assessments for CFR NE Asia, albeit after factoring in estimated freight costs.

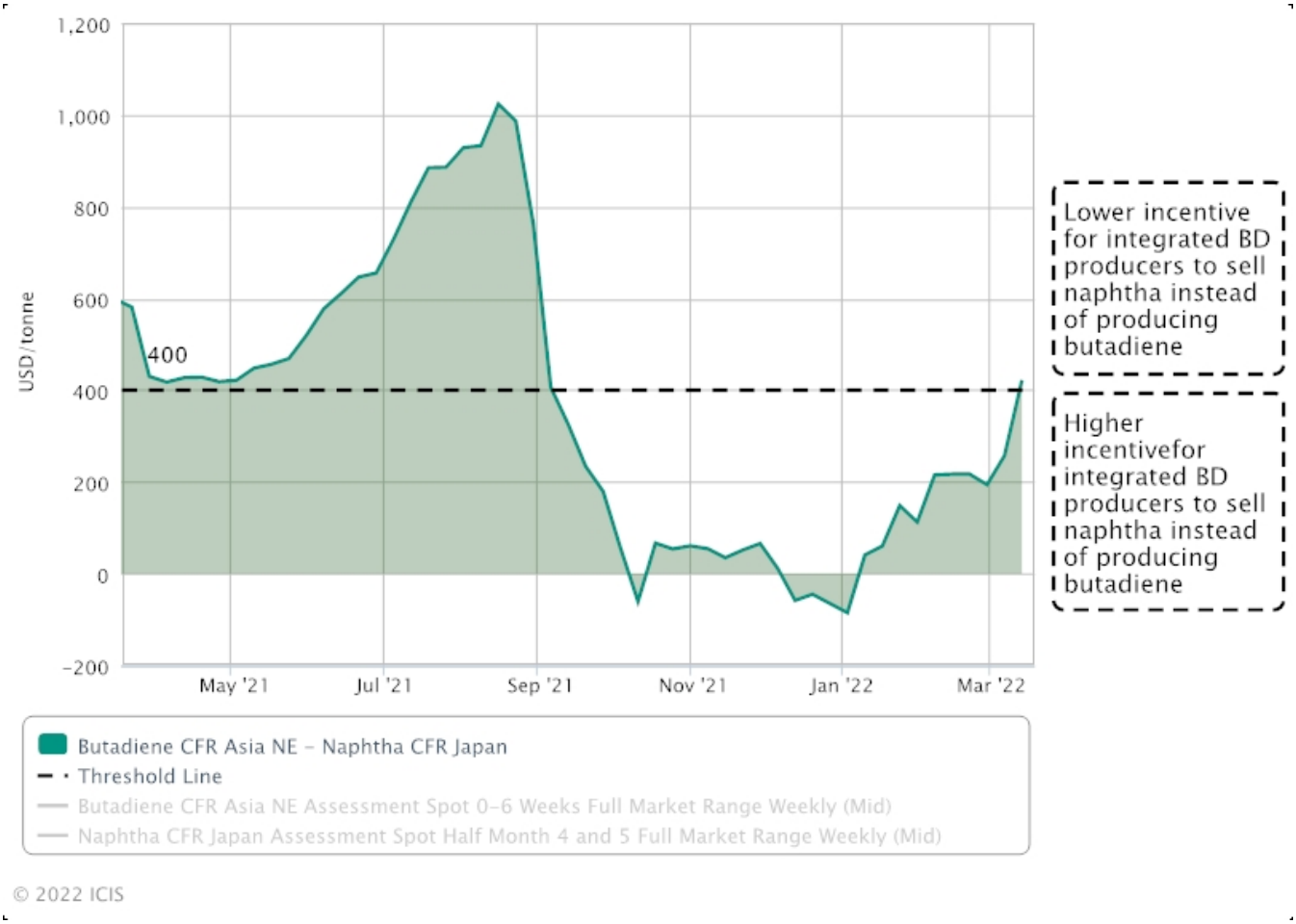
SPOT PRICES - PRICE RANGE AT CLOSE OF BUSINESS FRIDAY

			Price Range		One Week Ago	/
Butadiene						
Ex-Tank E China	CNY/tonne	n/c	10200-10800	n/c	9800-10000	-

UPSTREAM

Asian **naphtha** prices were lower alongside crude oil futures amid hopes on diplomatic talks surrounding the Russia-Ukraine crisis. Emerging demand concerns triggered by COVID-19 lockdowns in China weighed on sentiment. During the week, naphtha's crack spread touched its lowest level so far this month at under $155/tonne.

Feedstock spread between Naphtha CFR Japan and Butadiene CFR NE Asia



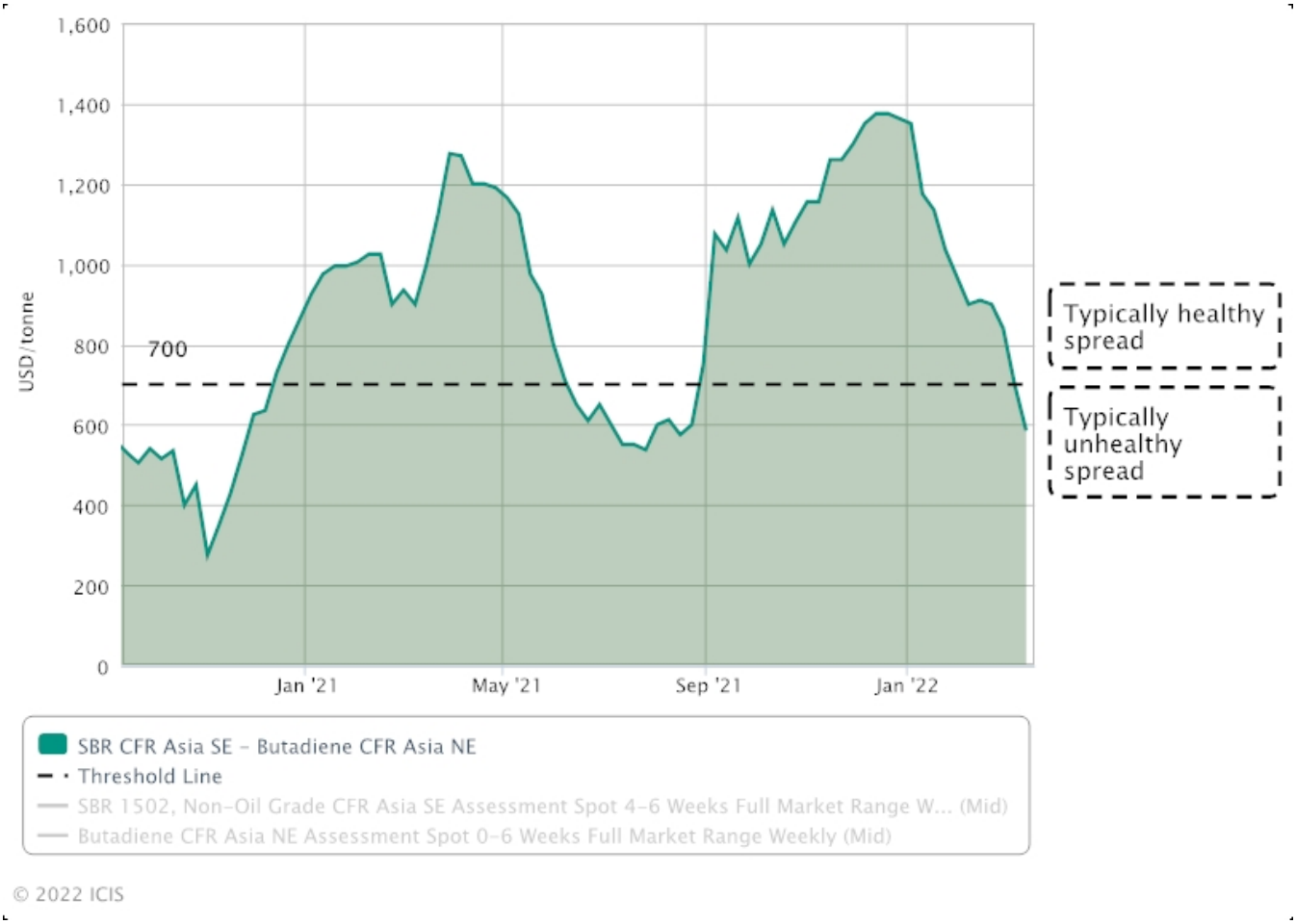
Click here for the Asia feedstocks and petrochemicals weekly summary.

DOWNSTREAM

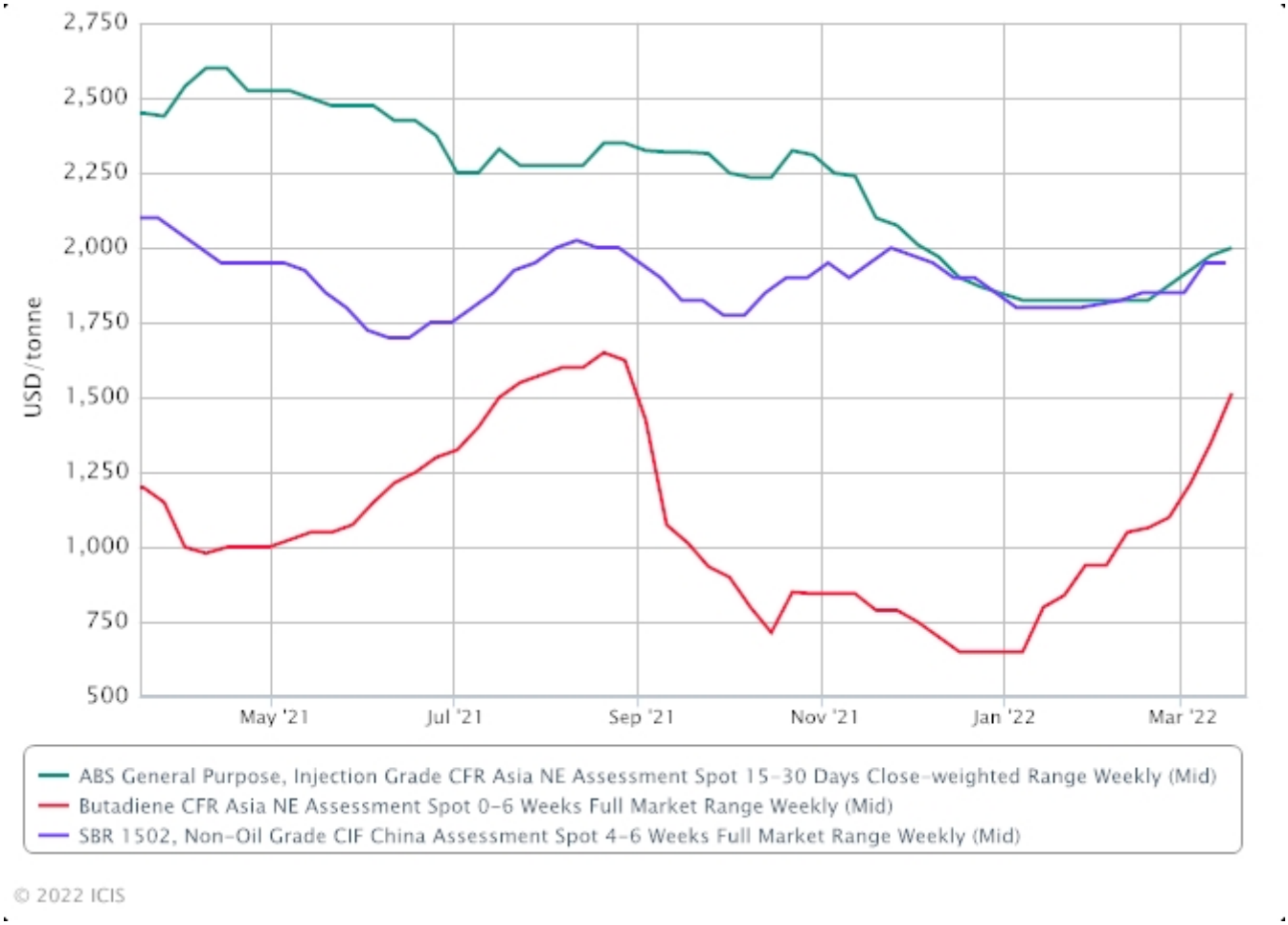
Asian spot discussions for s**tyrene-butadiene rubber (SBR)** imports continued to trend up, as sellers raised offers to cover production cost increases. Buying interest was weighed down by growing demand worries spurred by tightened covid-19 restrictions in China.

The chart below shows the spread between BD and SBR in Asia.

Spread between Butadiene and Styrene Butadiene Rubber Asia



The northeast Asia's spot **acrylonitrile butadiene styrene (ABS)** import prices were flat on limited discussions, following a three-week uptrend. Demand was lacklustre, from weakened derivative projections. Lockdowns in major cities mandated the halt of the production of non-essentials, from which much of ABS end-use consumption was included. Sellers could not reduce their offers to induce buying interest, given the recent feedstock cost surge.



PRODUCTION

The regional BD market remains structurally over-supplied, with more new capacities, including a 200,000 tonnes/year unit in China's Zhejiang province, expected to come onstream within first half of 2022.

However, prompt output remained tight, following a heavy and ongoing wave of cracker operating rate cuts in northeast Asia. Supply was also weighed down by several plant maintenance closures in the February-March window.

Click here for the Asian BD Live Disruption Tracker.

ANALYTICS

ICIS Downstream Automotive Demand Outlook

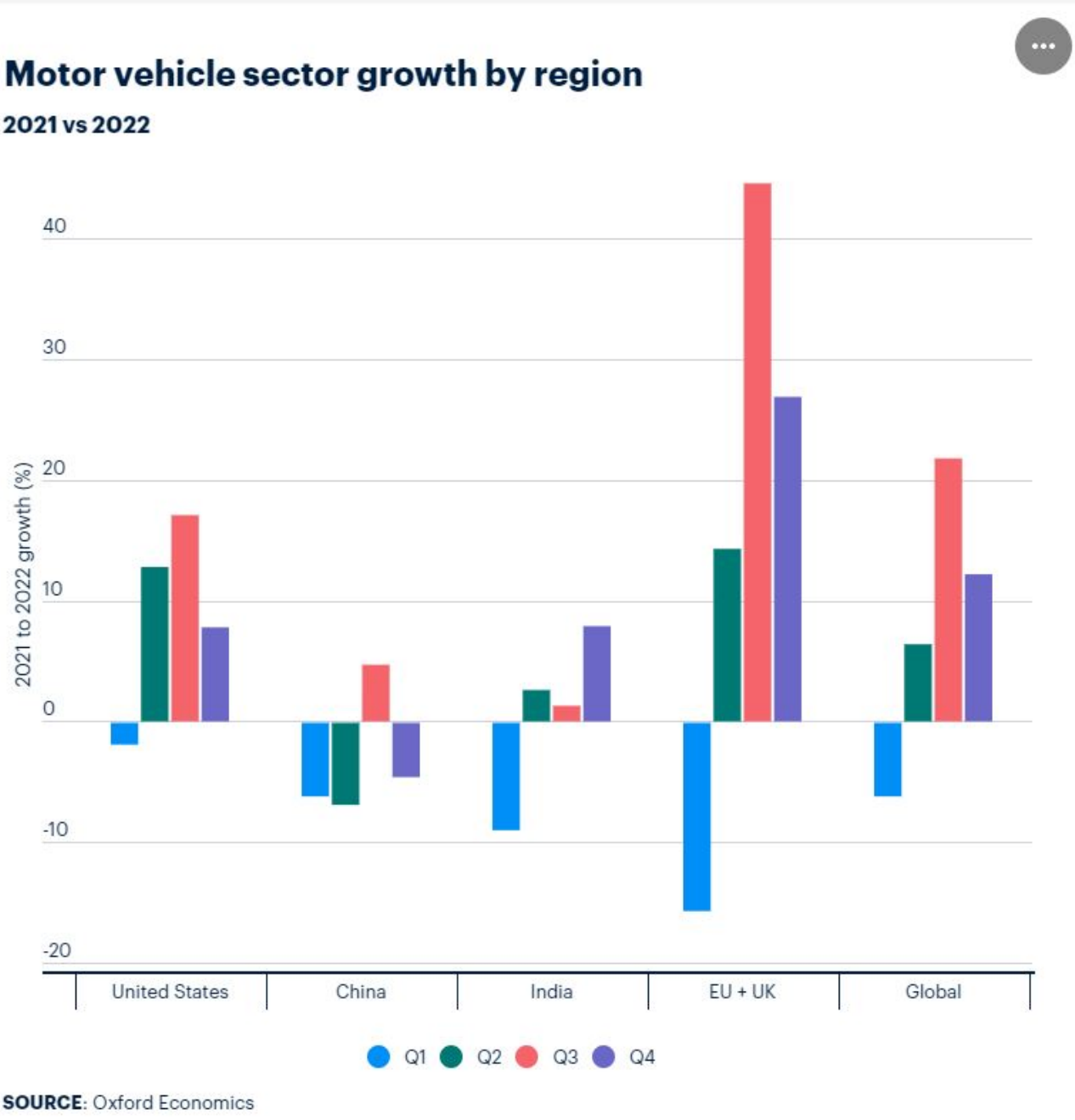
The global automotive industry was already reeling from a chip shortage when Russia's invasion of Ukraine took place. The conflict will severely impact the industry given that Russia is a leading producer of palladium - a key material used in computer chip production. Global automotive output is expected to grow 7.9% year on year in 2022, according to Oxford Economics, although this is down 8.8% from 2019 levels. As a short-to-medium term solution, companies such as Ford are planning to sell cars without chips - with the missing part supplied within a year to free up factory and parking space from partially built vehicles. Companies including Tesla are also looking at selling cars without USB ports or other non-security-related features. Even though there is a lot of money allocated for future chip capacity, it will take time - typically 12 to 18 months - to produce and deliver them. Another key factor is the probability of auto demand destruction due to eroding household incomes. Many are expected to spend conservatively and postpone major asset purchases.

According to the US Census Bureaus, US light vehicle sales fell to 14m units in February from 15m units in January and were down 12% year on year. Unsurprisingly, the finished inventory sales ratio is at a record low.

The European Automobile Manufacturers Association (ACEA) reported a 6% fall year on year in passenger car registrations in January, a historic low. All major European economies posted a double-digit sales contraction. Commercial vehicle registrations were down 11.1% month on month in January, and inventories were at an alarmingly low level. Another direct impact of the conflict is the constrained supply of neon gas, which is used to make microchips. Ukraine is a leading producer of the gas.

According to the China Association of Automobile Manufacturers (CAAM), Chinese car production was down 16.7% month on month in February, but up 1.4% year on year. In contrast to its global peers, China's inventory coefficient at auto dealers is quite high at 1.85 - with levels above 1.5 considered a warning. The increase has mainly been attributed to renewed pandemic concerns in cities such in Guangdong and Suzhou and led to further movement controls. India's Federation of Automobile Dealers Associations (FADA) reported a 9.2% year on year decrease in auto retail sales in February, which was down 20.7% compared to February 2020 - before COVID-19 hit. FADA said, "Till the time Russia-Ukraine conflict doesn't come to an end, FADA changes its outlook from neutral to negative."

By **Jincy Varghese**, ICIS demand analyst (jincy.varghese@icis.com)



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