

The Challenges of Rebalancing a Market

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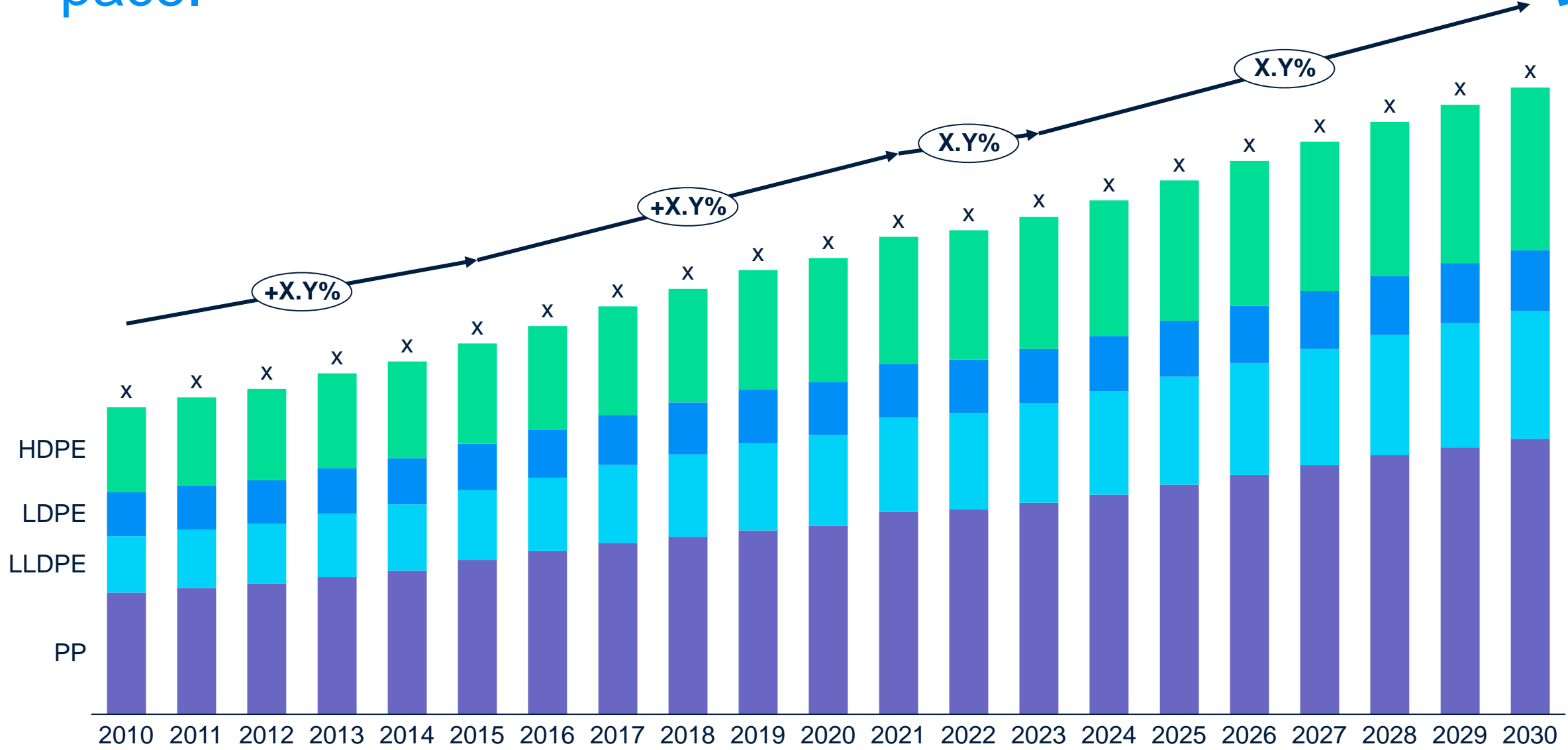
The Challenges of Rebalancing a Market

Agenda:

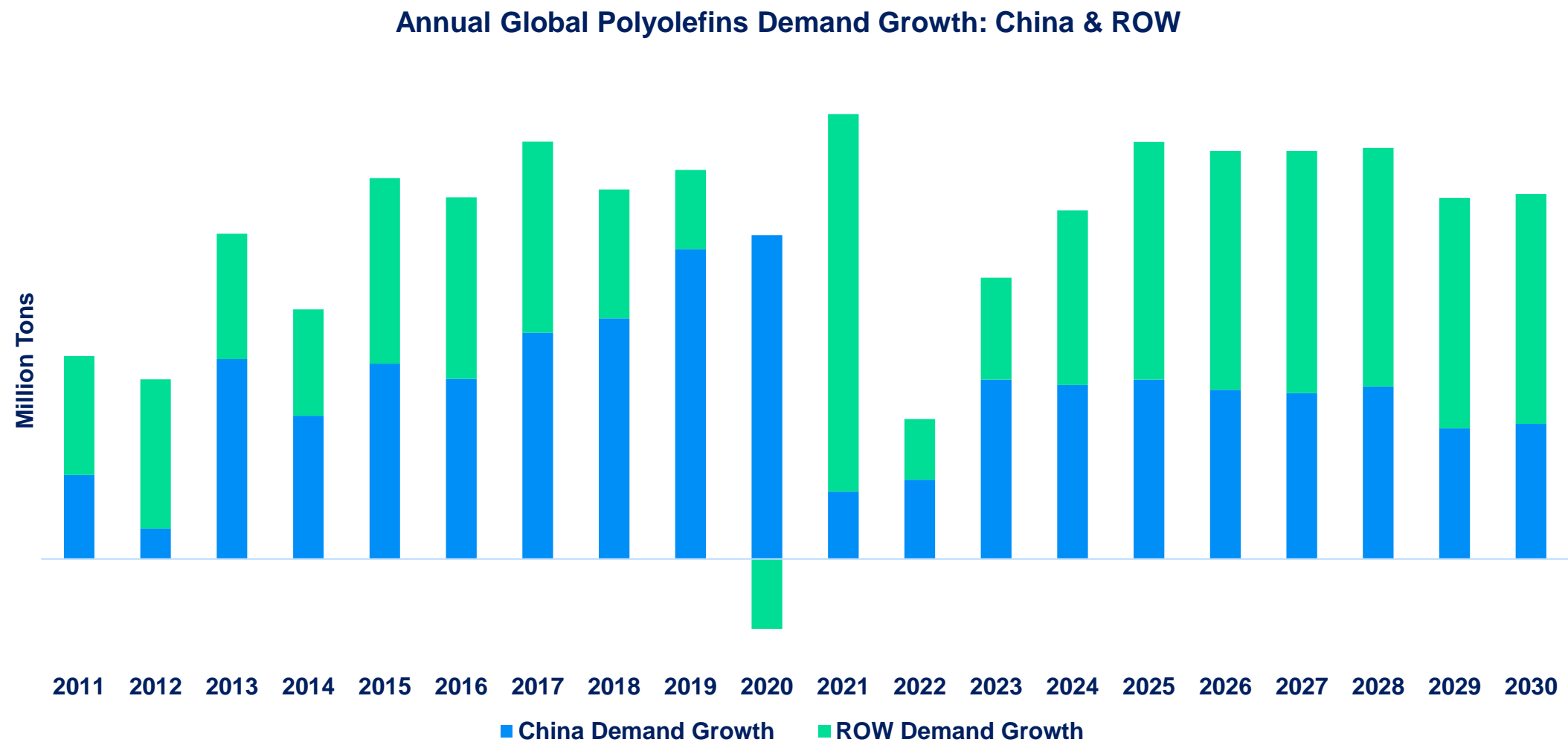
- PE & PP Demand Growth
- Just how much over-capacity?
- Influence & dependence of North America on LATAM
- Global Over-Capacity - Rightsizing



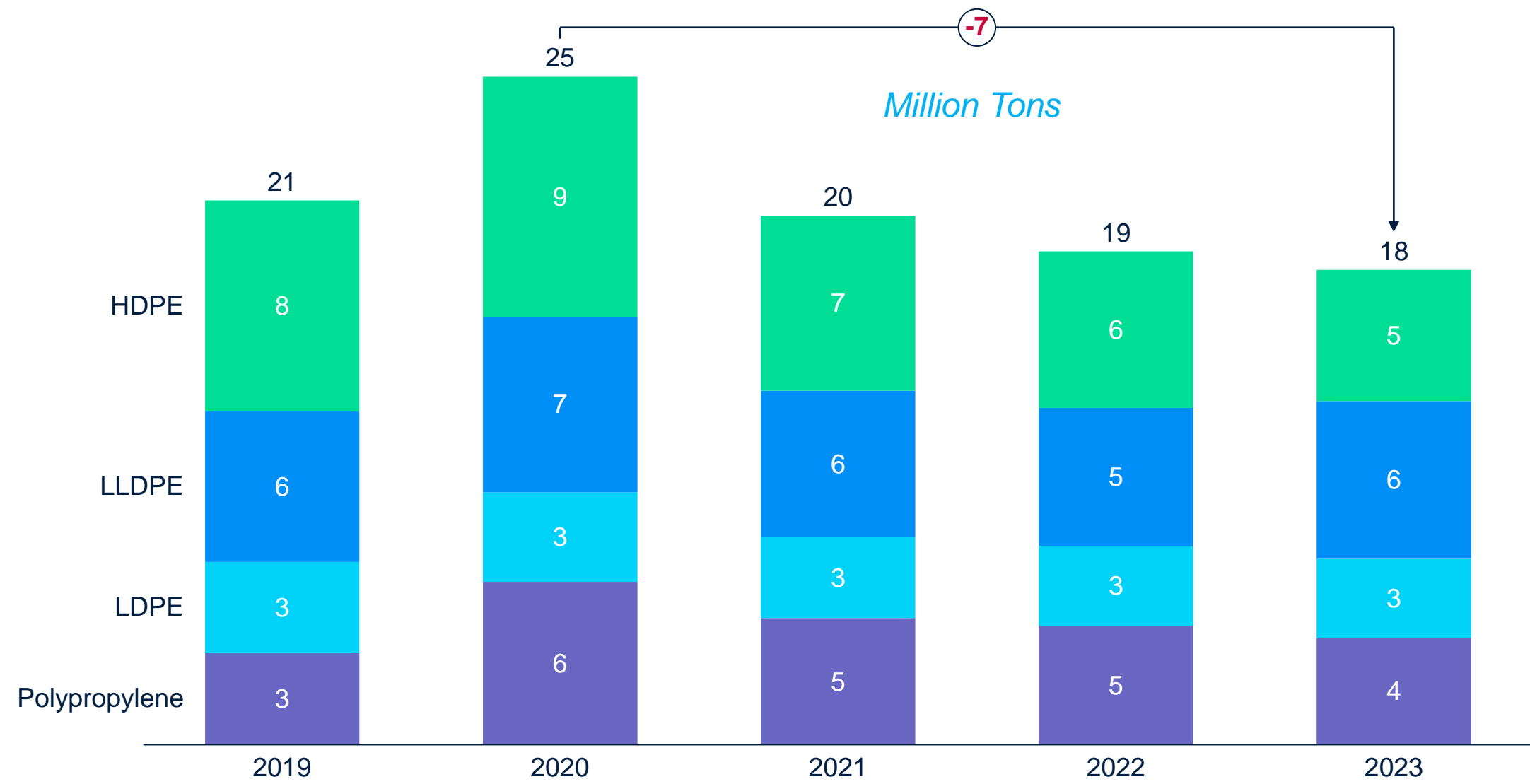
Global polyolefins keep growing but at a slightly slower pace.



China will carry less of the growth load in future years!



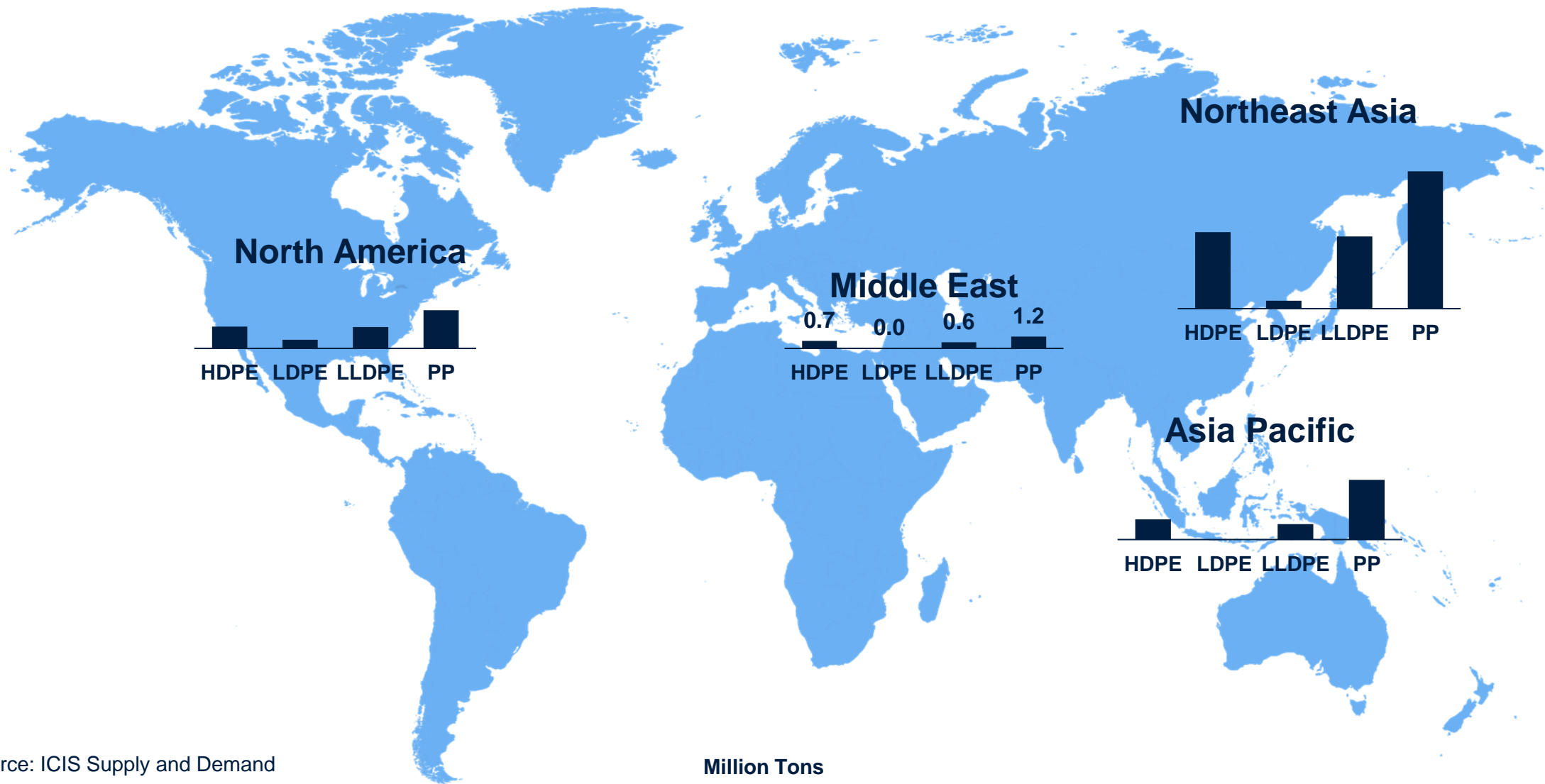
China Imports Decline: *Extensive New Capacity & Soft Demand*



SOURCE: ICIS Supply & Demand

2023: Annualized YTD September

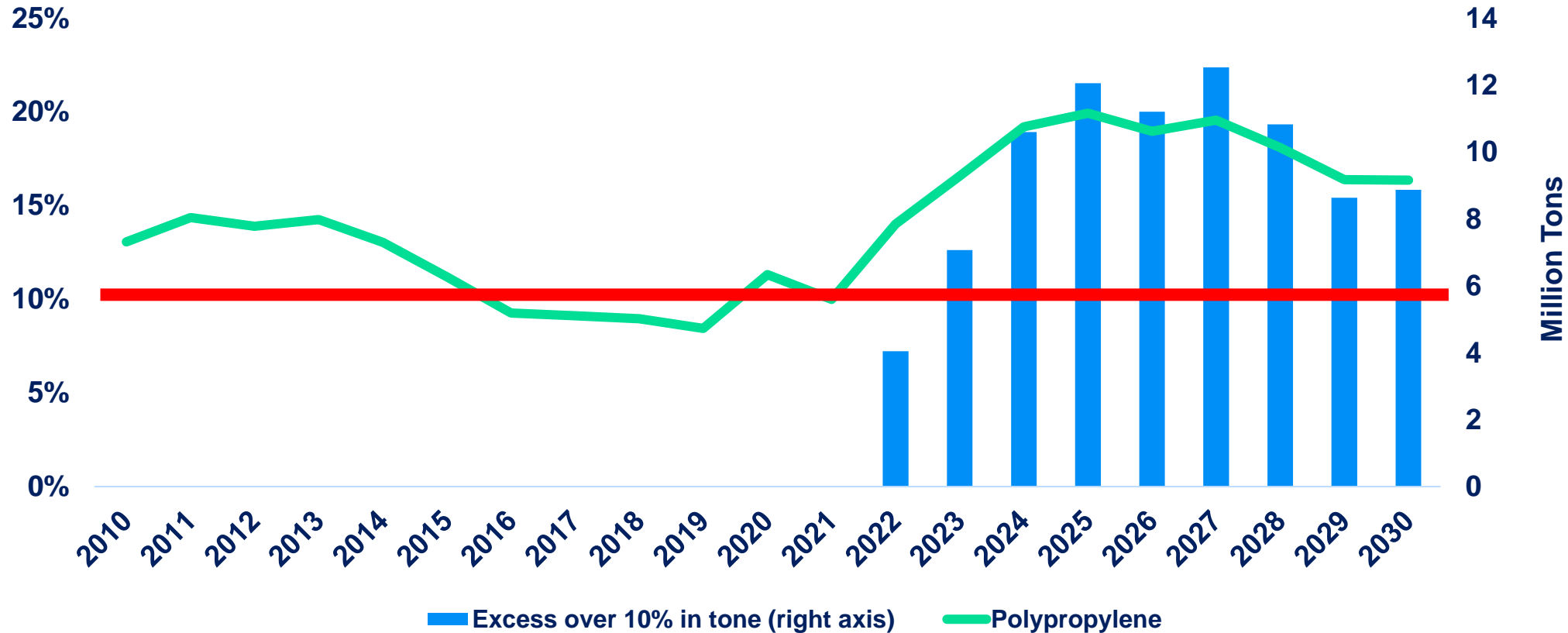
Capacity additions by Region (2022 – 2027)



Shutdowns are required to balance the market!



Global Excess Polypropylene Capacity

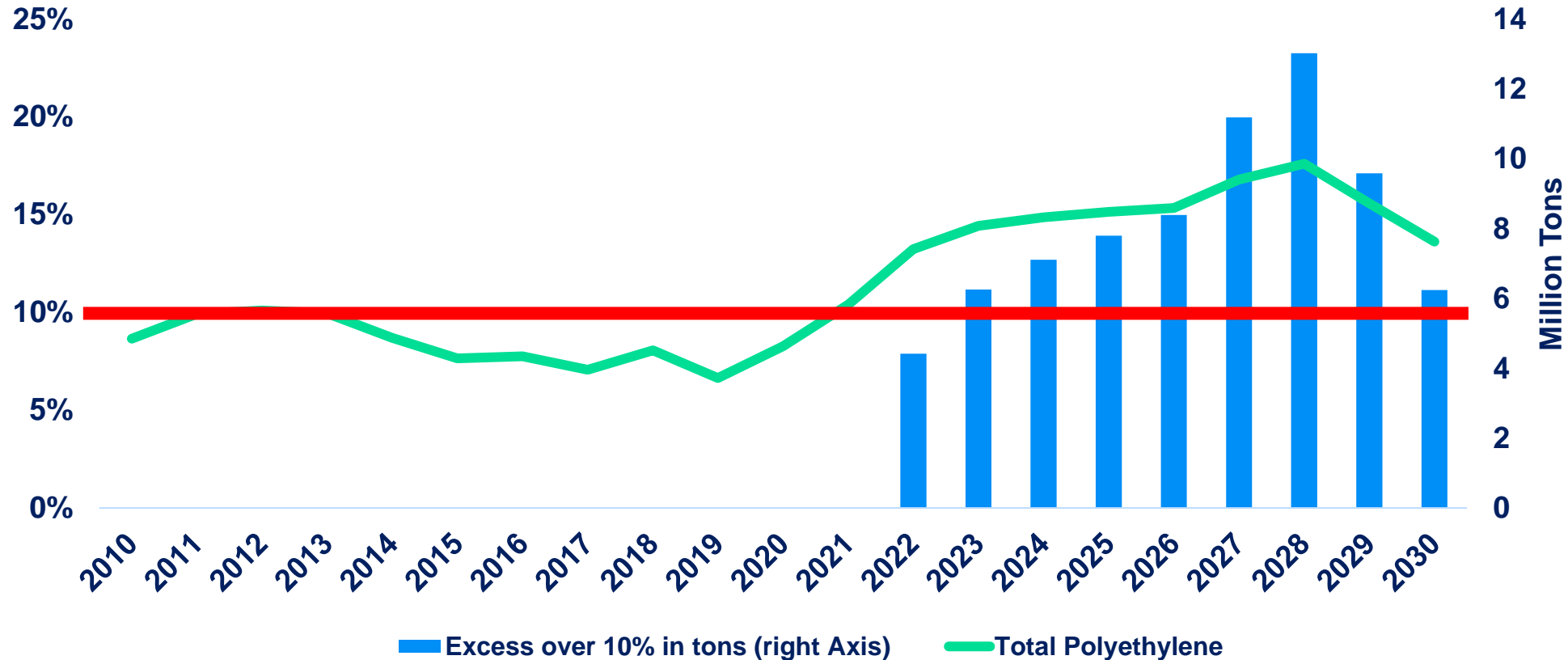


Expecting continued strong growth + taking advantage of low-cost regions + striving for self-sufficiency = **Excessive Capacity Additions**

Shutdowns are required to balance the market!

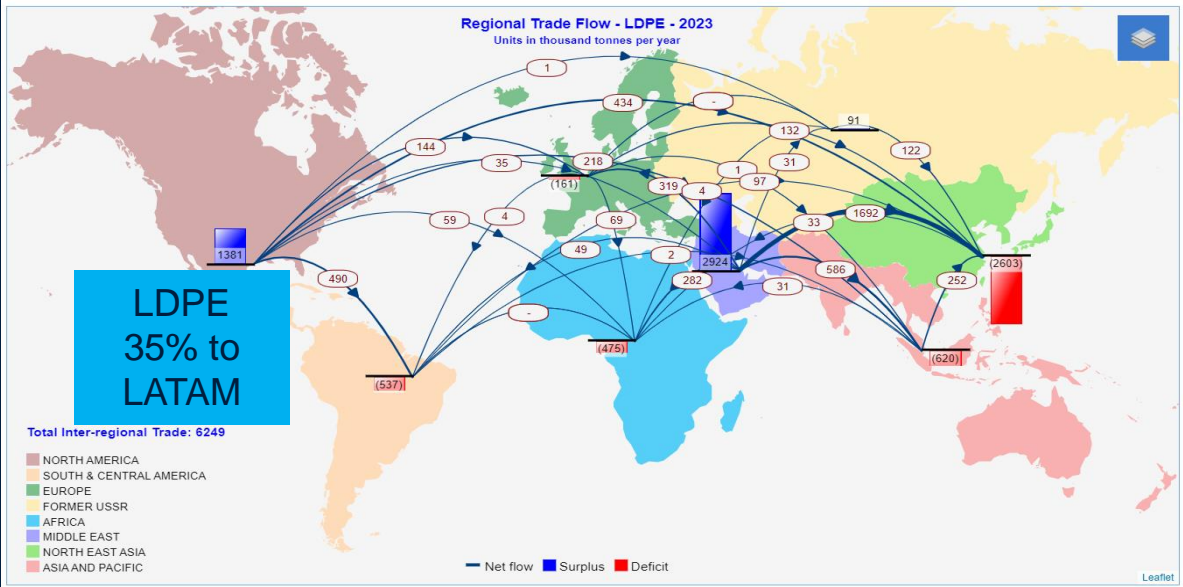


Global Excess Polyethylene Capacity

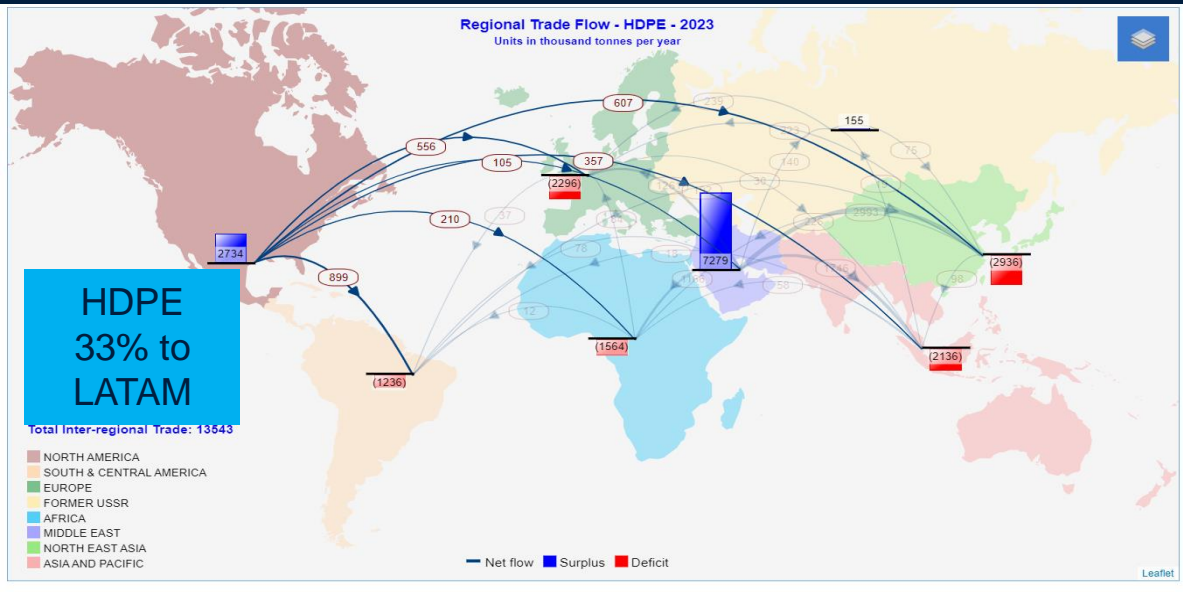
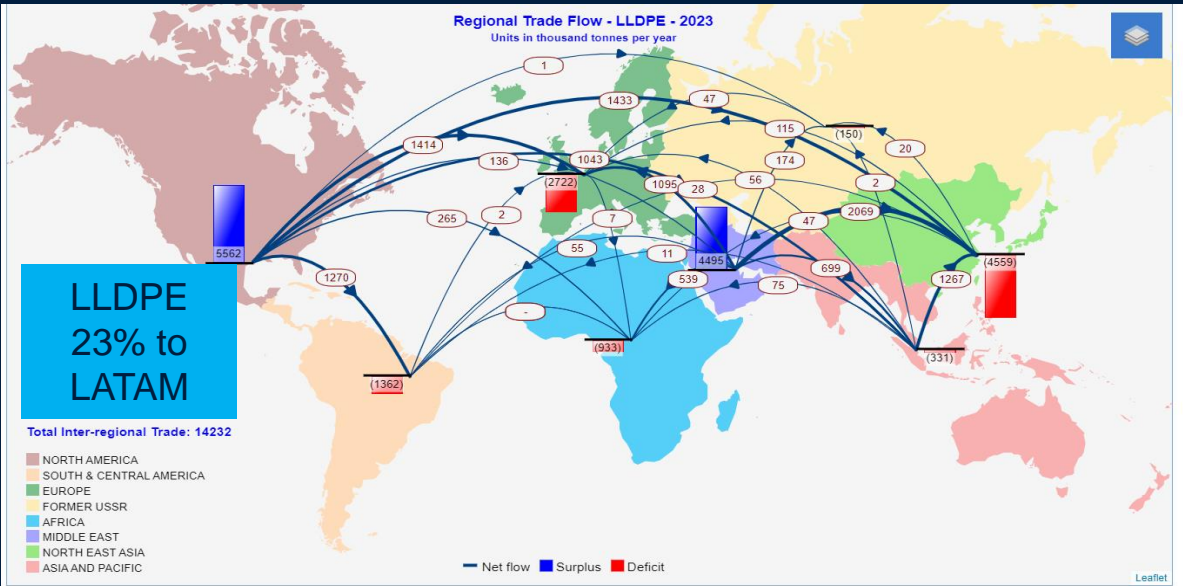


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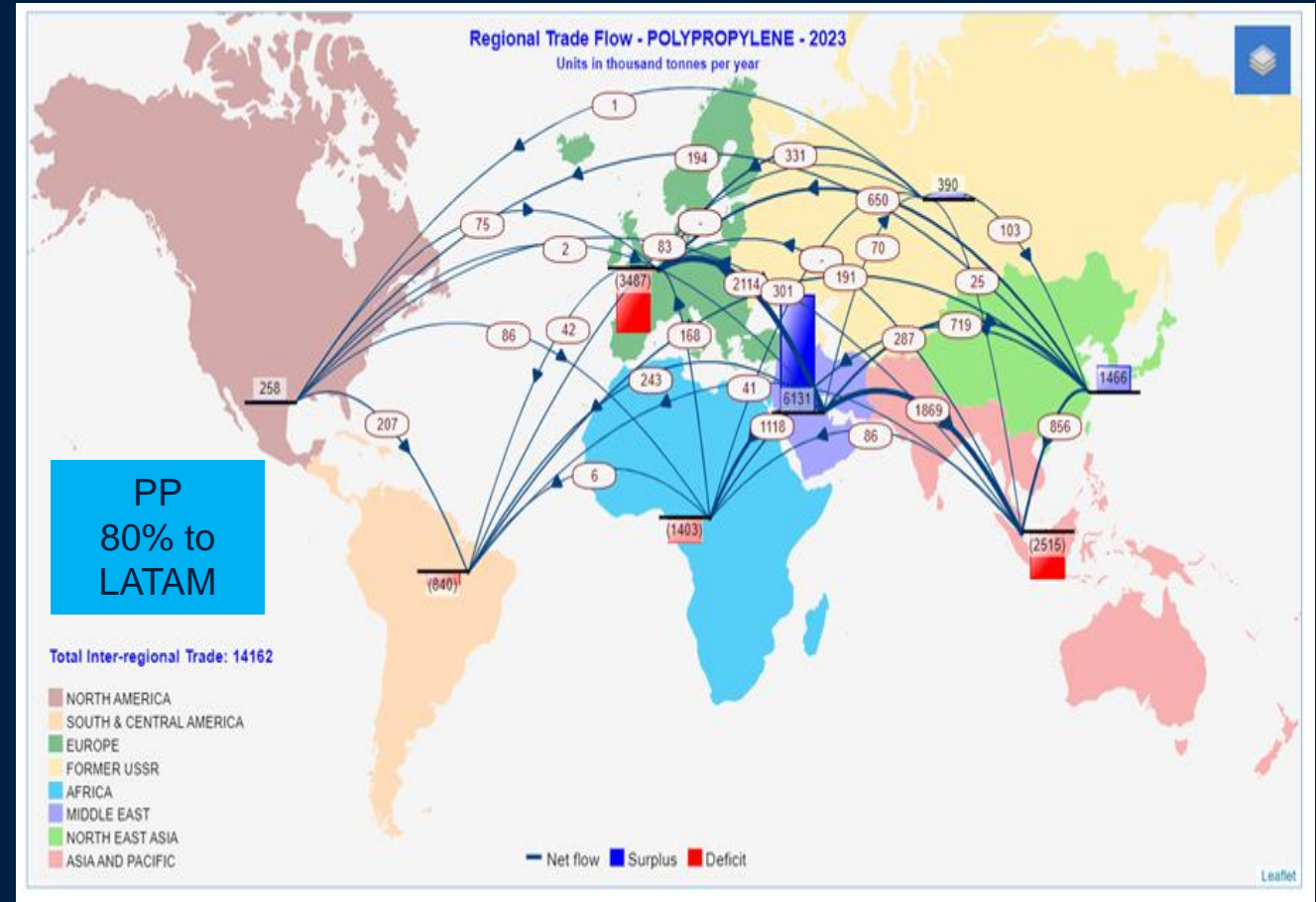
How important are US exports? Extremely for PE!



SOURCE: ICIS Supply & Demand

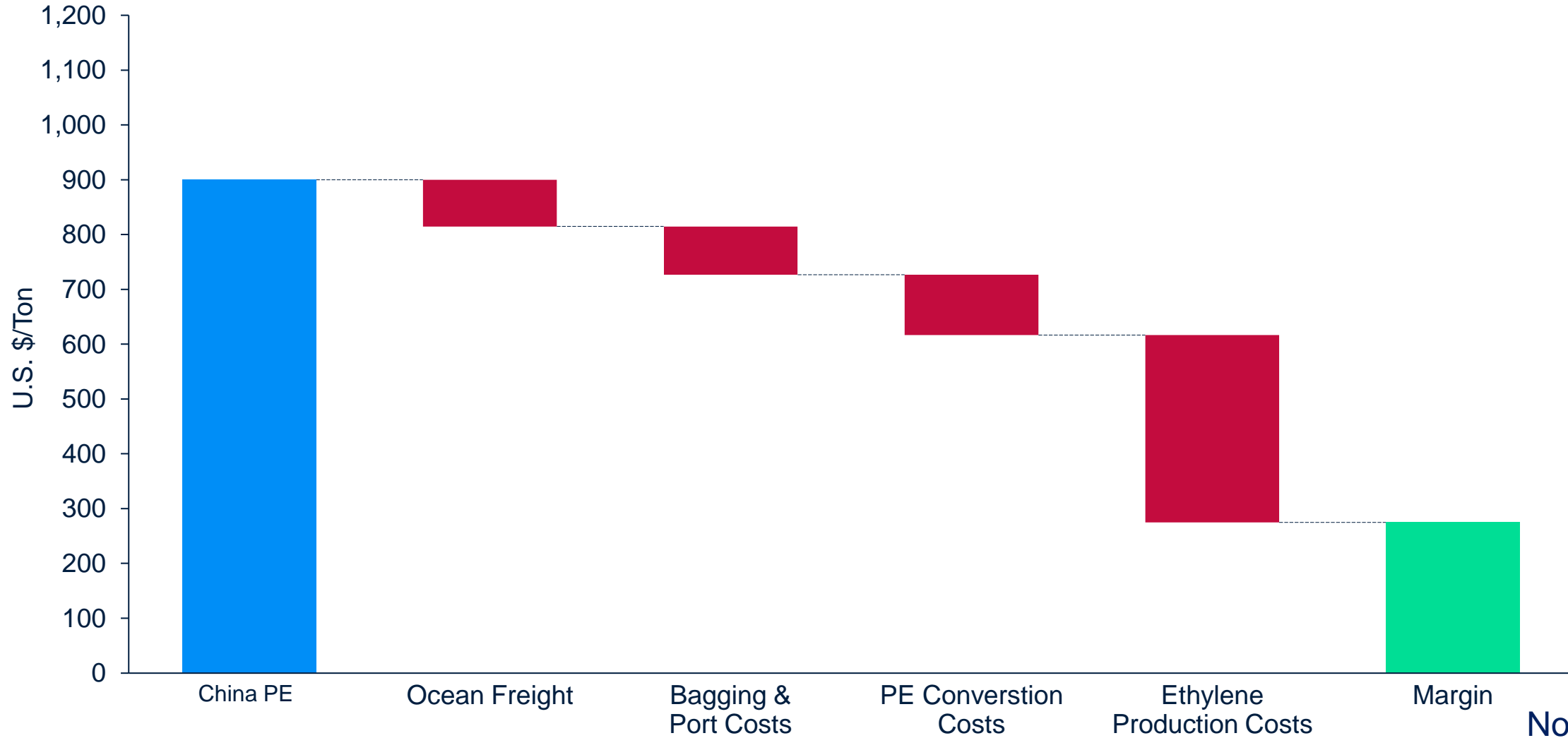


Polypropylene, larger portion but smaller volumes.



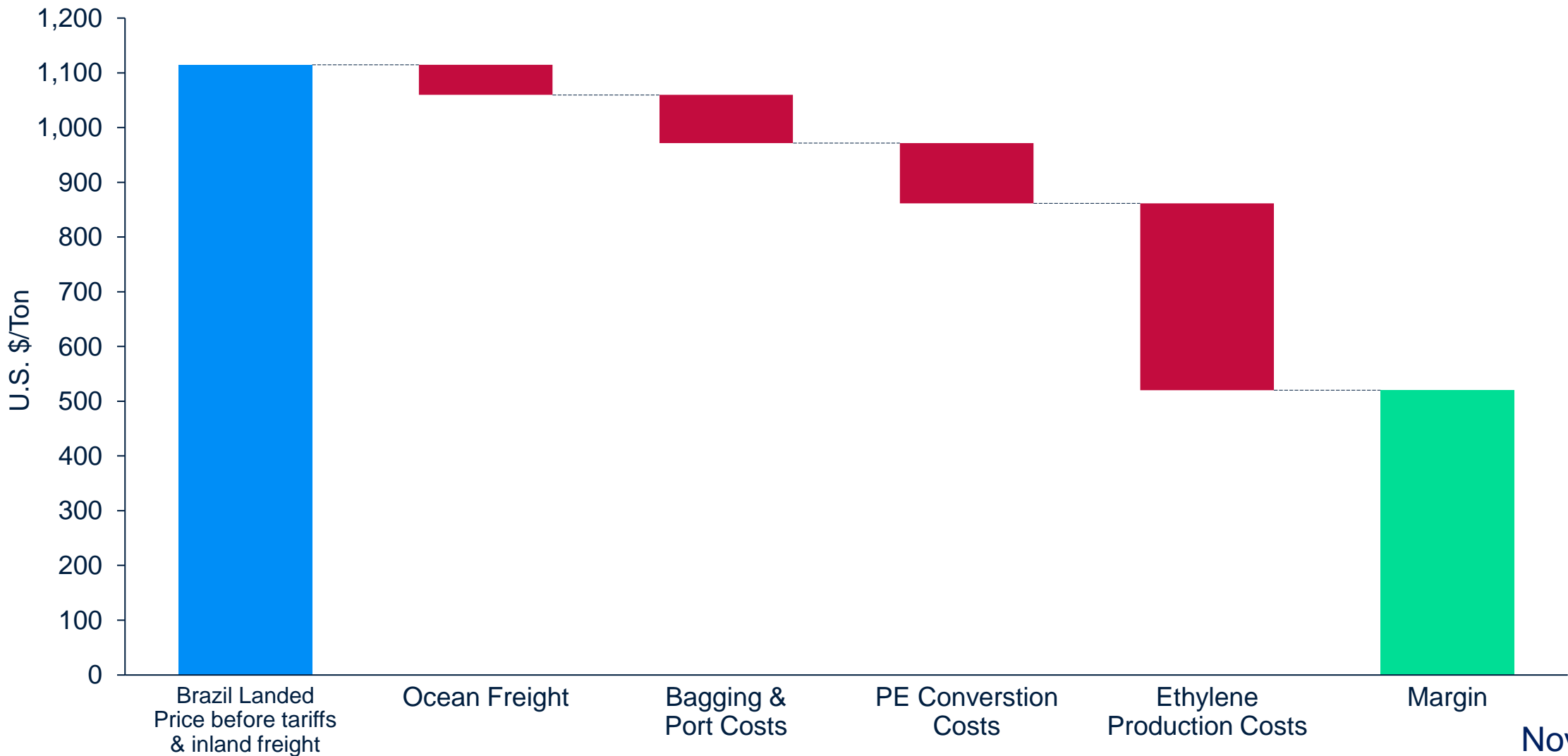
SOURCE: ICIS Supply & Demand

North America is a low-cost producer and will generate a positive margin on PE exports worldwide

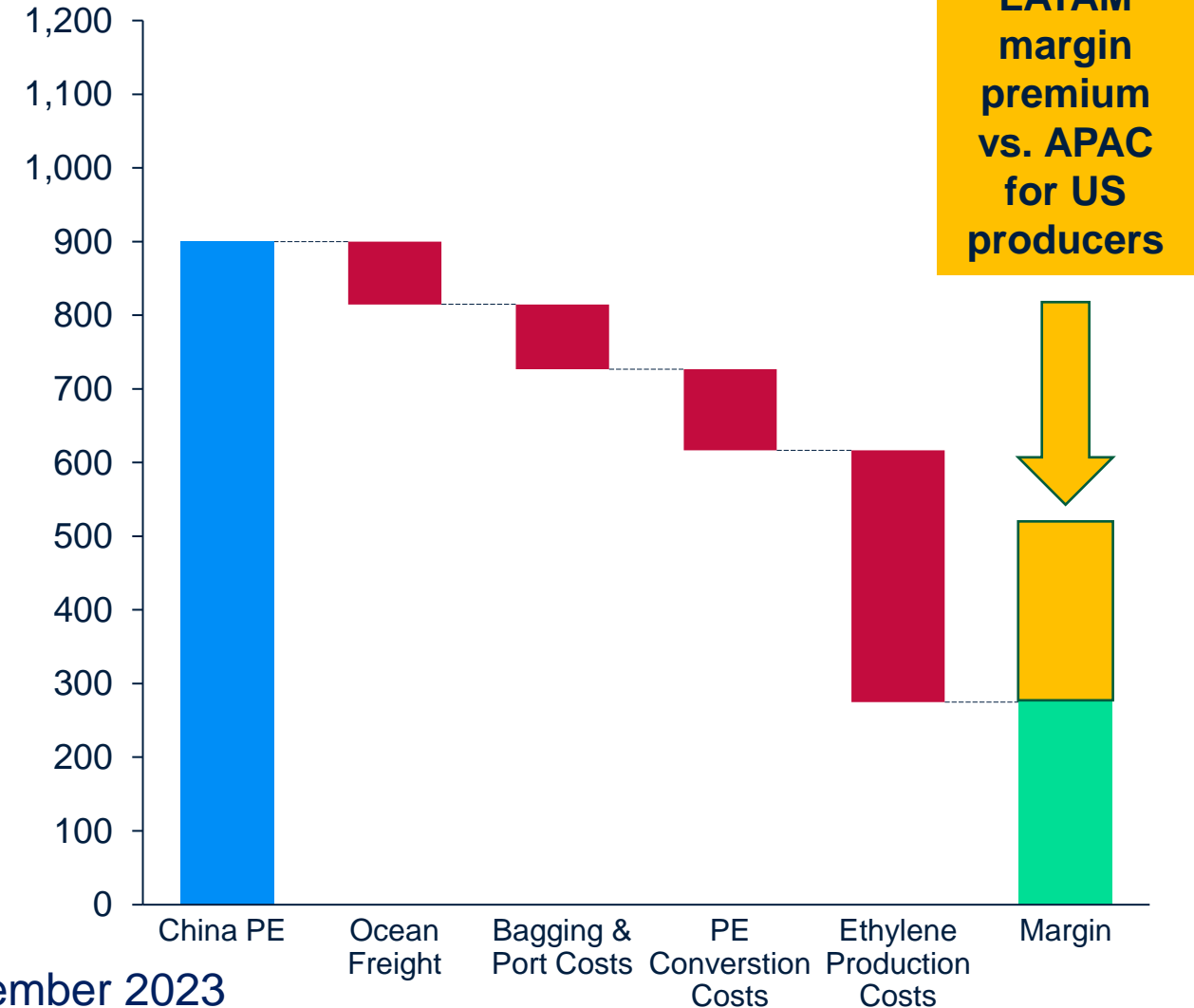
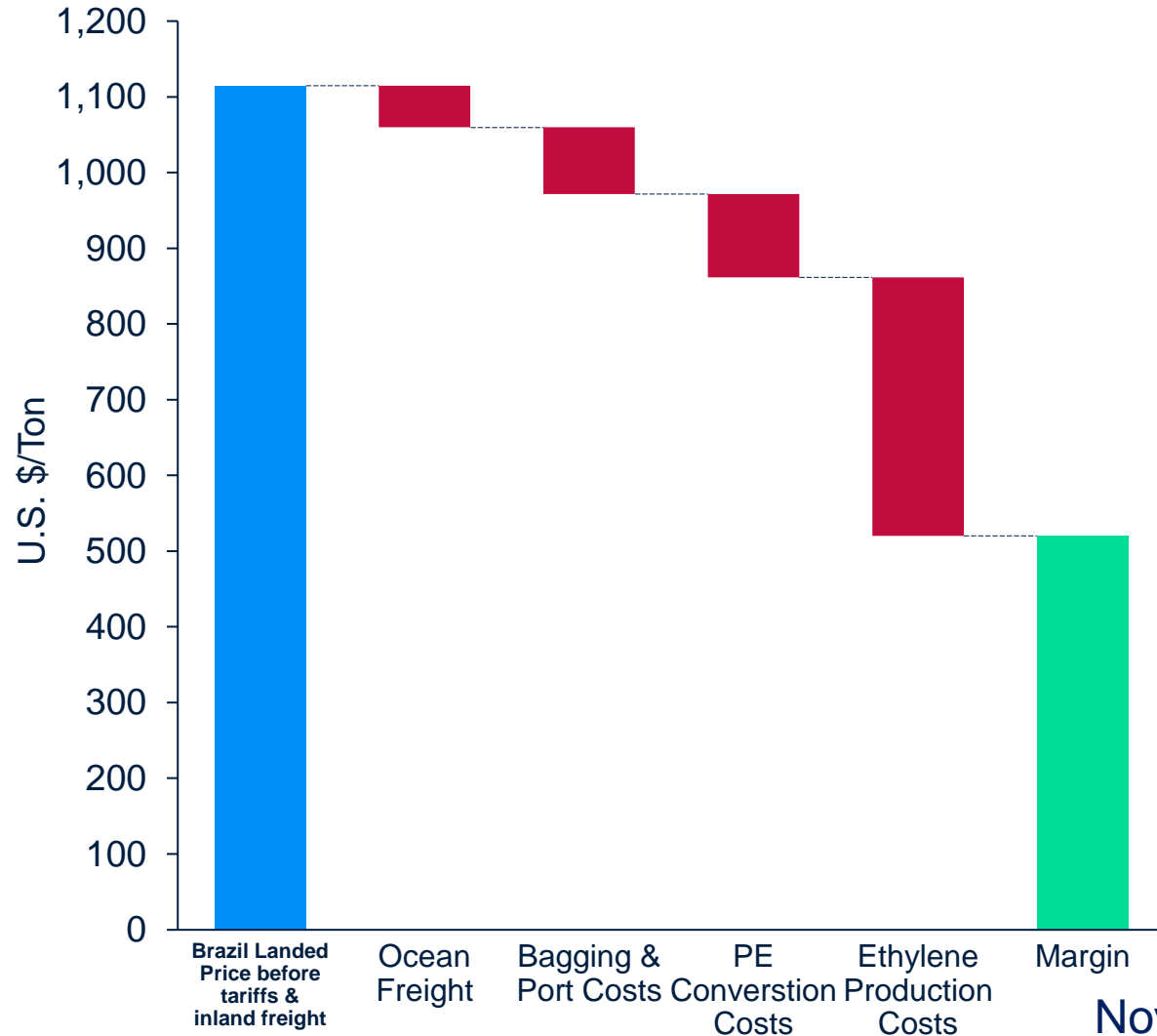


November 2023

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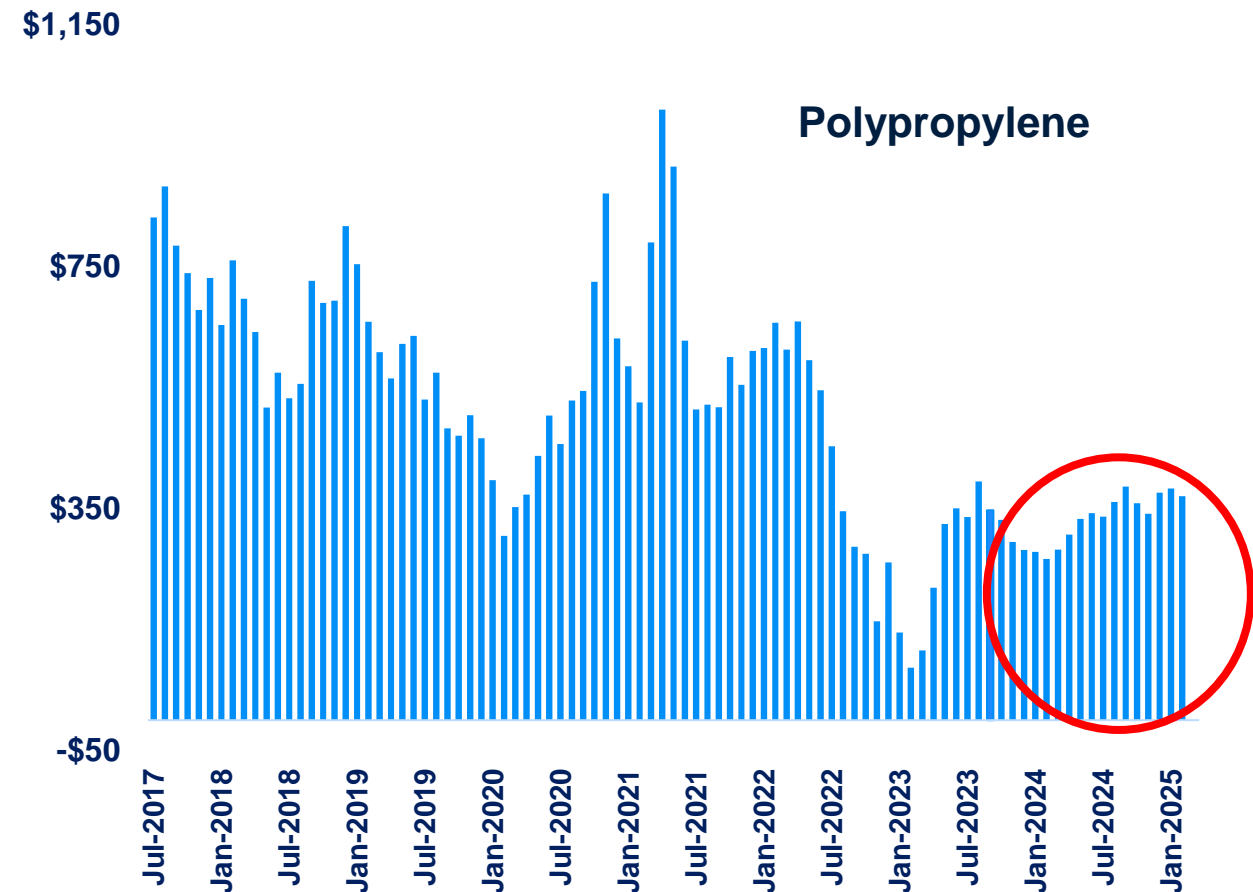
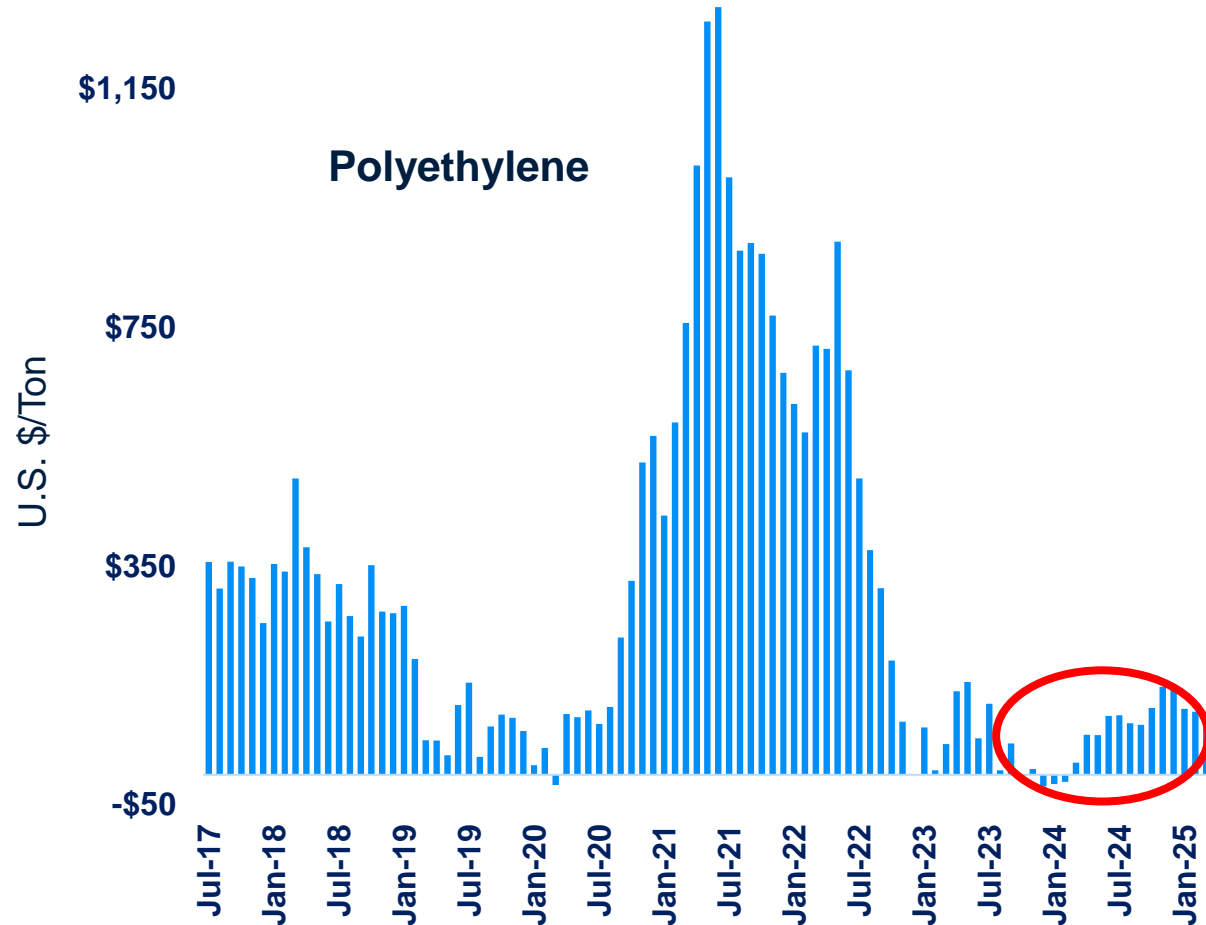


North American PE producers prefer to export to LATAM as the margins are better than to APAC



Margins are not expected to improve for some time!

LATAM PE and PP net margins



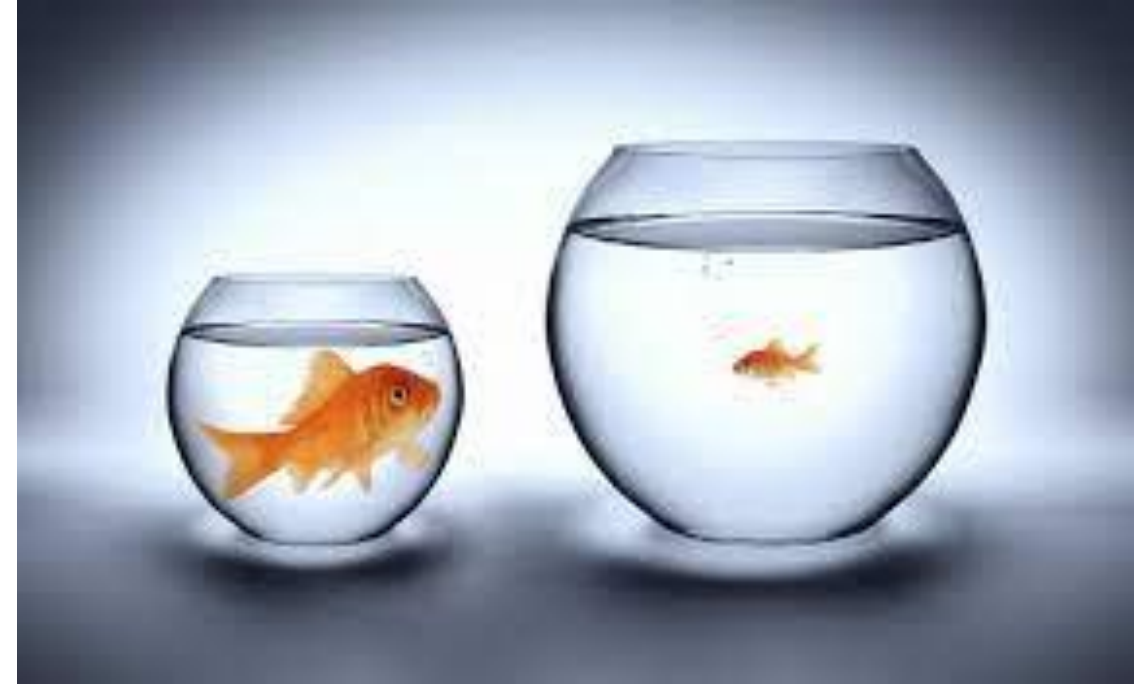
Rightsizing



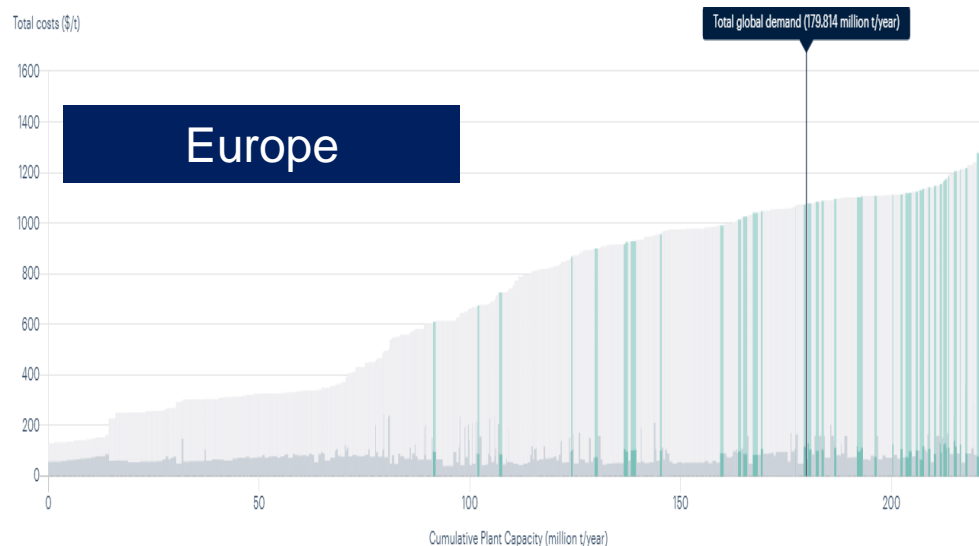
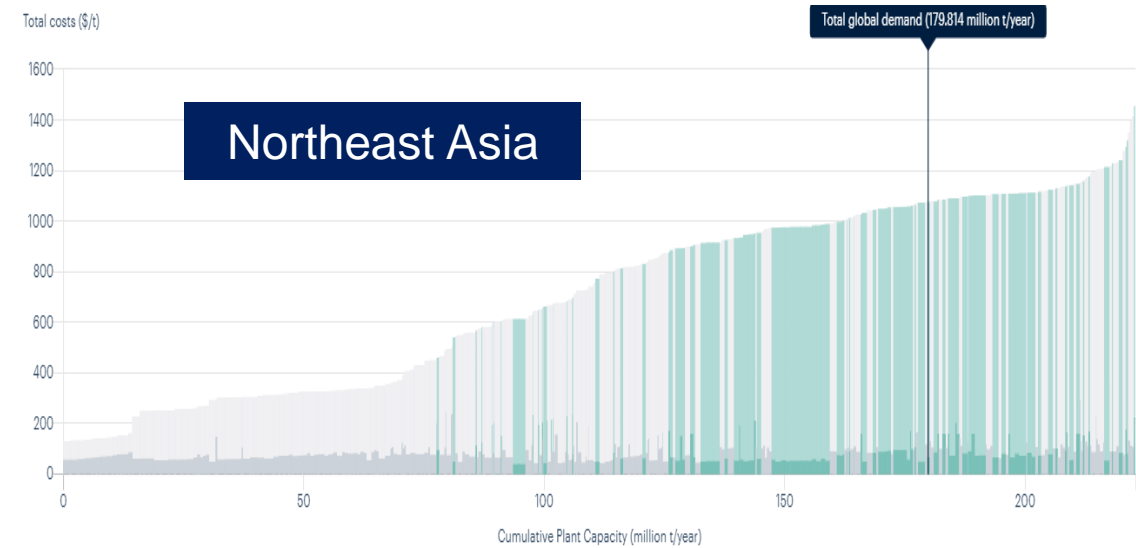
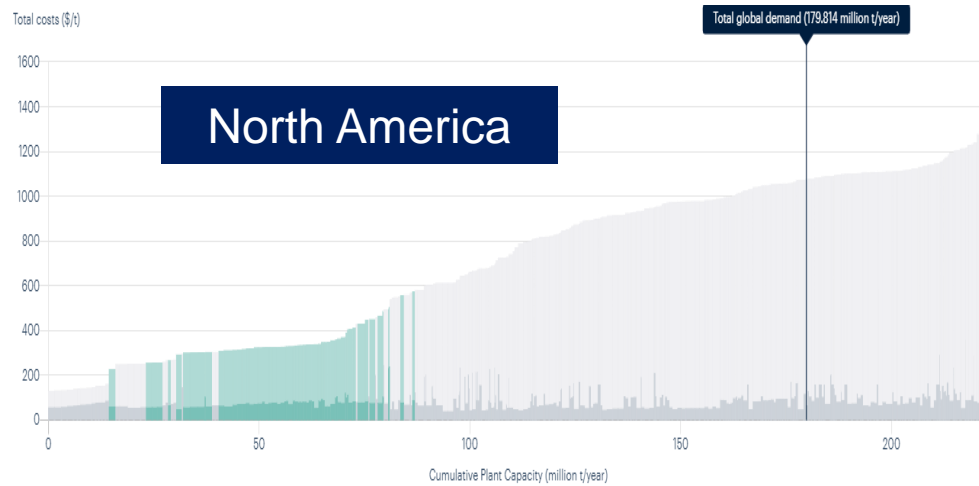
The capacity oversupply for most commodity chemicals will take years to re-balance unless capacity rationalization occurs!

Recovery in demand will take too long!

Which assets shut down?



Northeast Asia's cost position has a wide range, but Europe is mostly in the 4th quartile (ethylene cost curves)

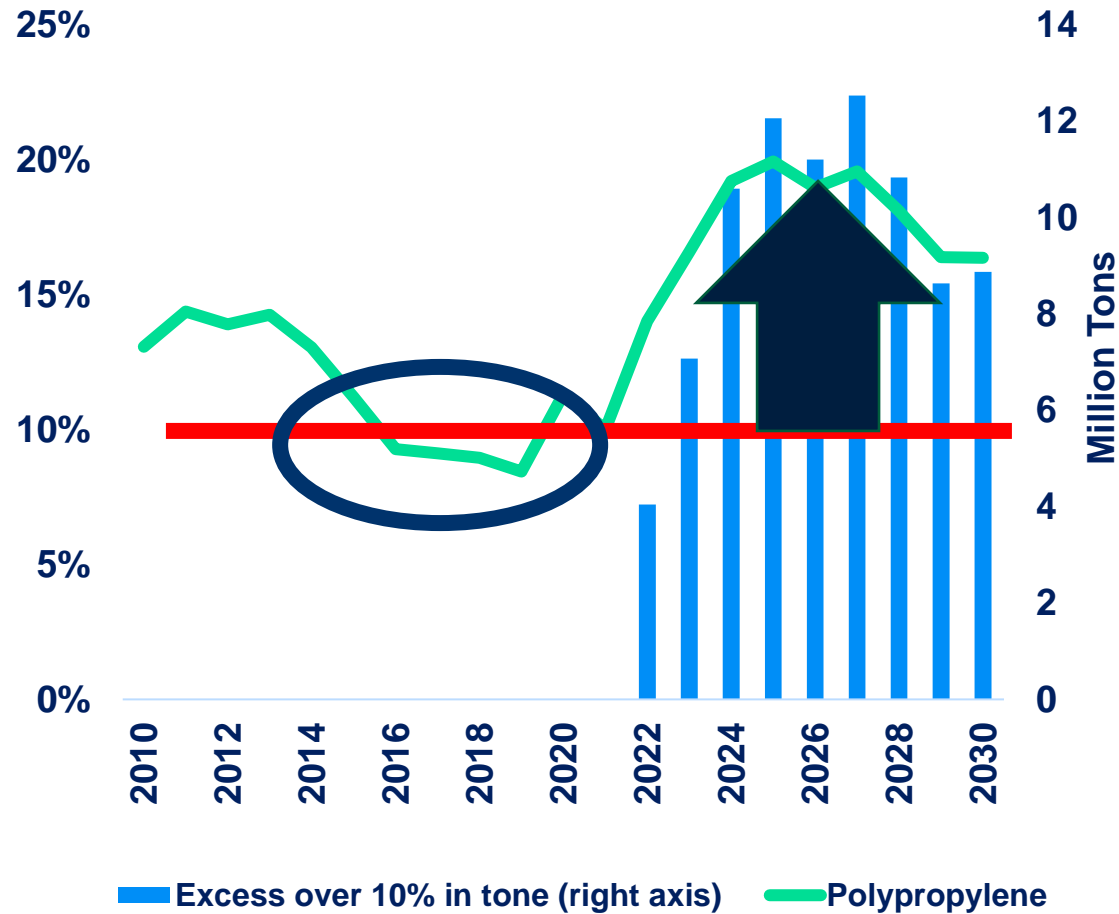


- High-cost assets reside mainly in Europe and Northeast Asia
- The pressure to rationalize old and inefficient assets will intensify as time passes, but it is expensive
- Announcements of permanent closures of chemical plants are expected to gain momentum throughout 2024

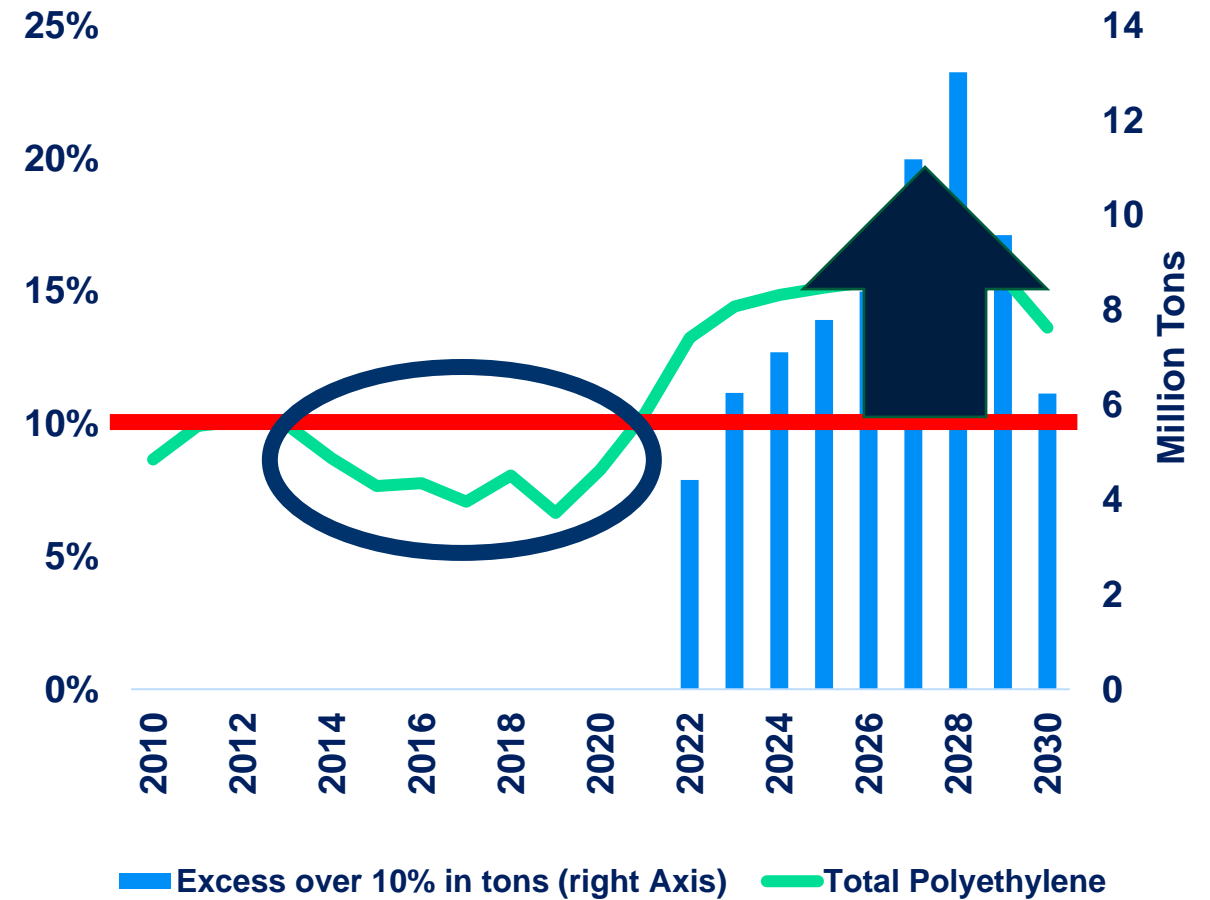
Shutdowns are required to balance the market!



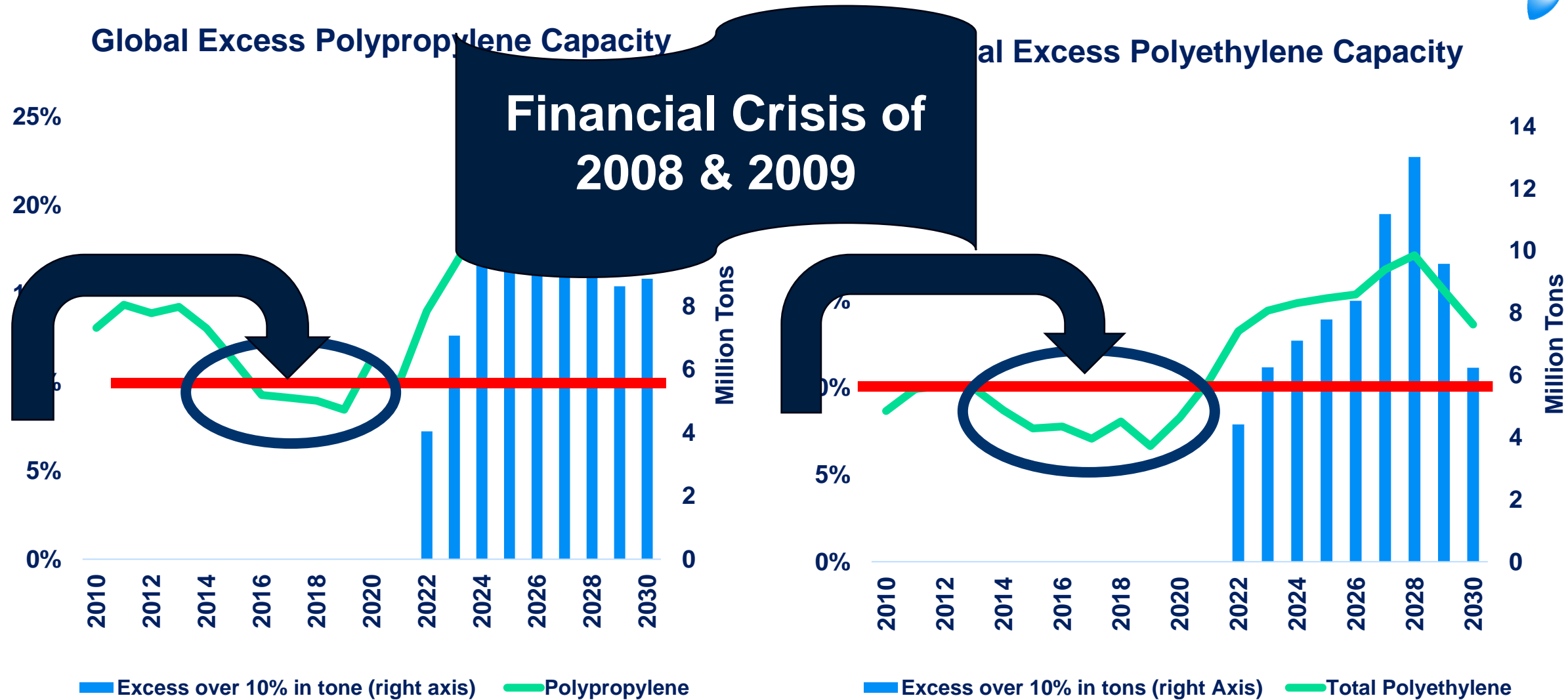
Global Excess Polypropylene Capacity



Global Excess Polyethylene Capacity

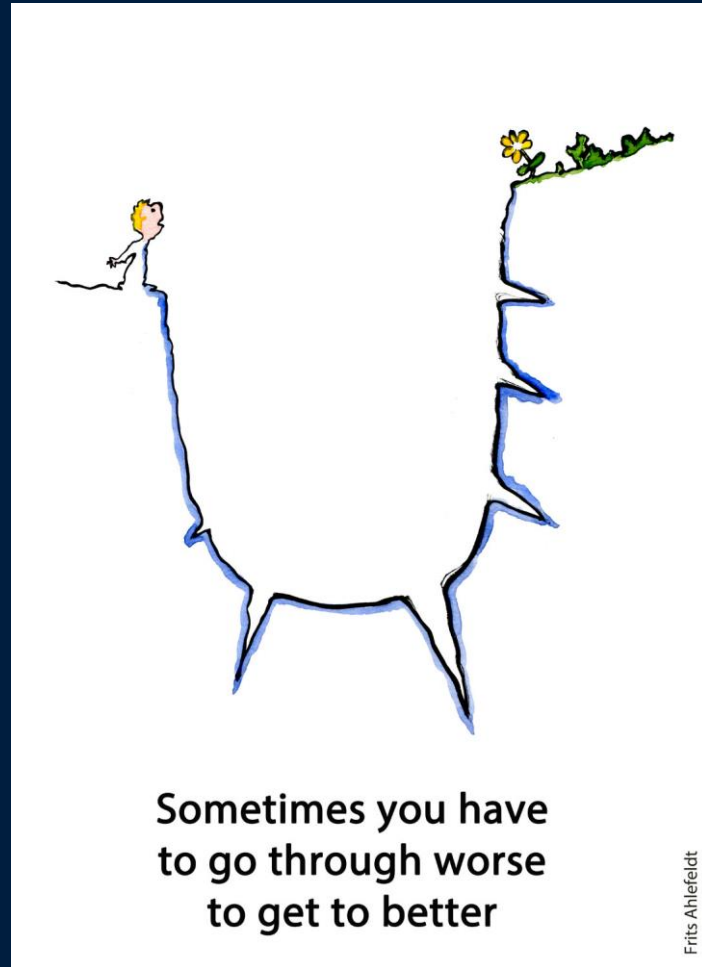


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SOURCE: ICIS Supply & Demand

2024 will be a year of difficult decisions



- Most chemical companies entered the trough with healthy balance sheets, especially companies integrated with energy and refining
- Industry now realizes demand will not improve measurably anytime soon
- Over-capacity is unprecedented – unless there are extensive shutdowns, the market will not rebalance most products anytime soon
- Likely outcome – restructuring & rationalization
- Major capacity shutdowns will take place when companies decide not to maintain existing assets and delay FIDs

Thank you

