# A mood swing in aromatics

The mood at this year's ICIS Asian Aromatics and Derivatives conference in Bangkok was in stark contrast to last year's confident atmosphere

PETER SALISBURY/LONDON

FOR US businessman Joseph Kennedy, it was a shoeshine boy who gave him stock market tips.

Financial market legend has it that Kennedy went straight to his stockbroker and sold everything he had after realizing that the boy who cleaned his shoes was now an investor. This was in 1929, a few months before the major crash that brought the US economy to its knees. He made a fortune in the process.

Some 79 years later, Paul Hodges, chairman of UK consultancy International Echem, tells a similar story.

"This time last year, I was talking to a financial adviser who recounted a story of leaving the office to go to the airport on the way to a conference," he says.

"He stopped by his secretary, who said that Client X needed to talk to him urgently. So he stopped, and the client was saying, 'What are you doing sending me all this paperwork? I haven't got the time to read all of this – it's only a \$500m (€315m) deal, just make sure that somebody signs it on my behalf and get this thing done.'

"They don't often ring [alarm] bells at the top of the market but the idea that someone was prepared to invest \$500m without even reading through the papers, let alone find out exactly what it was all about, was a signal that the world was going to change."

Hodges' financial adviser had been speaking at 2007's Third Asian Aromatics and Derivatives Conference in Singapore.

At this year's conference in Bangkok, held last month, the sentiment was nowhere better characterized than by the words "this time last year."

In 2007, Asian markets were in full bloom, the economic fairytale of the early noughties. Twelve months later, an entirely different story was being told as Chinese GDP growth forecasts were cut into the single figures and Vietnamese inflation reached 27%.

## WHAT HAPPENED?

In July of this year, data released by key players in the US automotive industry showed

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a 19% drop in sales. The UK Chamber of Commerce highlighted the "serious risks of a recession" domestically. Asian financial stocks fell to their lowest point since 2006, and leaders at the G8 summit in Japan warned of a global recession.

Losses from subprime debt continued to spiral, with some analysts predicting a total deficit of $1.3 trillion. These losses in turn triggered what has now come to be seen as a major financial crisis, affecting everything from the availability of bank loans to the price of tortillas in Mexico.

Where growth and expansion were watchwords to the industry in past years, the language of the conference-goers in Bangkok was suddenly restrained, cautious, pessimistic even. "Survival", "consolidation", "integration" and "cycles" peppered delegates' speech. Some were more optimistic than others, but the general sentiment was that there were tough times ahead.

"Subprime really is huge. I really can't underestimate it. This is akin to the great recession," says Daniel de Blocq van Scheltinga, founding partner of the consultancy Polarwide.

Speaking from the sidelines of the Bangkok conference, a number of aromatics market veterans gave their view on the outlook for Asia in this new climate.

"No surprises to anyone," says Yea Yee Fang, general manager for styrene monomer and propylene oxide (SM/PO) and derivatives at Anglo-Dutch major Shell Chemicals. "The huge capacity increases coming from the Middle East will have an impact.

"High energy prices will increase the cost for everyone – it will be a triple whammy effect. You will have major new capacities coming on stream, a slowdown in the major markets and higher and higher costs eroding margins all round and putting everyone under pressure."

## ASIA RESILIENCE

Fang, along with the vast majority of conference attendees, was bullish on the resilience of Asian markets compared with those mature, Western economies, however.

"Many people have been saying that China is going to go into a slowdown for some time, that [growth] cannot be sustained for many years. Economists have actually been surprised by the resilience of the Chinese economy, and in particular by the resilience of domestic demand, which in some ways has been decoupled from the US. I don't think China is completely insulated from what's happening around the world; there will be some slowdown, but it won't be as dramatic because the underlying fundamentals are still quite strong in terms of the drivers for growth," he says.

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> **Yea Yee Fang**, general manager for styrene monomer and propylene oxide and derivatives, Shell Chemicals

"I think China will still be the engine [for Asia] although it will certainly slow down," says de Blocq van Scheltinga, who takes a slightly different angle from Fang on factors that will define future market dynamics in Asia.

"From my point of view, two elements are going to be quite crucial," he says. "Financing has become more complicated, particularly for an industry such as chemicals, which is dependent on long-term projects that need a lot of capital, so that is certainly going to be challenging for the lesser gods. The big names that everyone knows will be able to carry on.

"The other thing is [the environment]. Regulations are changing. I see that in China for the first time this issue is really happening and being taken seriously and that leads to a lot of extra costs – change of plans, change of projects and this will be moving over into other regions as well. It is something companies are having to consider seriously."

A shift of thinking from simplistic microeconomic to complex macroeconomic scales was also seen as hugely important to companies' competence.

Speaker Rajen Udeshi, president of the fiber intermediates division at Indian energy and petrochemical group Reliance Industries, linked biofuel and cotton crops to potential polyester growth.

With land used for biofuel production now far more profitable than traditional cotton, Udeshi said at the conference, and biofuel prices moving in sync with crude oil to new record highs, the market was being hit in ways it never had before.

"If cotton production is stagnant, you will need more and more man-made fibers and hence more purified terepthalic acid [PTA]. For this you need paraxylene [PX], which comes from naphtha, which in turn comes from crude oil," Udeshi said.

Hence, crude oil should doubly affect the cost of PX-based polyesters.

"The impact of cotton, the impact of gasoline, and the impact of naphtha on the price of PX are all factors we must understand; the impact of textiles on PX."

With Asia not fully decoupled from the US economy, and many petrochemical producing countries in thrall to China, the crunch for Asia, says de Blocq van Scheltinga, will be in domestic demand.

"There are strong links between the two economies [China and the US] and those links are growing stronger by the day. A US recession, which is likely, will have an impact on China whether you like it or not.

"What people are saying is that the impact might not be as severe as in other areas in the world, because of this huge middle class that is growing with spending power and that wants to spend. Domestic consumption will shield some of that recessionary pressure from the US. That is why the government is doing a lot to try to steer growth away from export towards domestic consumption more and more."

The Great Depression lasted from 1929 until the US's entry into the Second World War, in 1941.

The US emerged as the preeminent global economy. With analysts discussing a three to four-year recession in the US and global slowdown, the question now is: who will come out on top in 2012 in aromatics?

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