FocusEurope chems get jitters due to weak dollar

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"The dollar continues to weaken against the euro" By **Peter Salisbury**

LONDON (ICIS news)--European petrochemical businesses may struggle to cope with an influx of competitive imports as a weak dollar, which fell to a record low against the euro on Thursday, makes the region an attractive marketplace for US-centric economies and cuts off export opportunities, according to players from across the industry.

The increasing currency gap made Europe an island into which material could enter but not exit, players said. This morning, $1 dollar was valued at €0.6439, its lowest point against the single European currency since its introduction in 1999, and €0.10 lower than a year ago.

"There are two or three trends developing here," explained Paul Hodges, chairman of industry analysts International eChem.

"The dollar began to fall last year as the US housing bubble burst. This has allowed US exports to increase, and so helped producers compensate for slowing US domestic markets," he said. "These exports are currently focused on Asia. And a year ago, it was widely believed that Asian demand would continue independently of any slowdown in the US," he added.

"But it is now becoming clear that the two markets are inter-dependent, as a major proportion of Asian production is for end-use products in the US. So if Asia now slows down, these US exports will instead try to come to Europe," Hodges said. Housing markets in Ireland, Spain, and the UK were in a similar situation to the US, Hodges said, but at a 12-month delay, and only France and Germany were showing any real strength, with the latter economy being export-driven.

All these factors left a "realistic scenario" where the US was in recession, Asia in slowdown and Europe also slowing, Hodges added.

"From a petchem viewpoint, this is just the moment when massive new capacity starts to come online in the Middle East and Asia. Even if global demand stayed at 2007 levels, we would still be facing 25% over-capacity in major products down the **ethylene** and **propylene** chains by 2012," he said.

"In previous periods of over-capacity, everyone was in the same boat, and reduced operating rates by similar amounts to the 80% - 85% range. But this time, strategies will vary by region," Hodges said.

"If major parts of the world such as the Middle East and China run at 95% rates, then other producers elsewhere will have no choice but to reduce rates to 50%. And that simply isn't going to work. Some people are going to have to shut down," he concluded.

The weakness of the US dollar had already contributed to the unprecedented gap between European and Asian **butanediol** (BDO) prices over the past quarter. The premium that European contract prices now have over Chinese spot prices is around €500/tonne. This has led European consumers to look for closer links with Asian producers, despite the logistic difficulties entailed in moving material between regions.

While imports might only constitute a small part of the total European market, the weakness of the dollar is one reason why they will be a major talking point in upcoming contract discussions, according to market participants. The issue was particularly affecting near-end-use polymer products.

"**Polystyrene** (PS) imports to Europe began in earnest in January," said one styrene trader. "It's a really big threat to expandable PS (EPS) producers. Last year at around this time, Asian EPS imports destroyed the European market. Demand was incredible, but players in China, Taiwan in particular, made use of the arbitrage window as prices went up," he added.

PS producers were reporting strong competition from dollar-based sellers into Turkey, where they could no longer work due to keenly-priced imports. "Imports of optical grade and general purpose material are a concern," said a large **polycarbonate** (PC) producer, meanwhile. "General purpose touches every customer, because clear material is more flexible and buyers can chop between suppliers," he added. "The strong euro is attracting Asian traders and sellers who deal just on exchange rates," an Asian PC producer distributing in Europe confirmed.

Export markets from Europe were also in disarray. The **polyvinyl chloride** (PVC) export market, traditionally a useful escape valve for an increasingly well supplied PVC market, was described as a "disaster" by one source. Turkey, again one of the main targets for export, is the second largest importer of PVC after China. While European producers had been able to dump excess product into Turkey in the past, exports to the region are proving unworkable, which has been further exacerbated by ongoing sluggish demand in Turkey.

Export possibilities for **polyethylene** (PE) and **polypropylene** (PP) were also reduced and there were reports of increased quantities of imported product in southern Europe in particular and spot prices were under downward pressure, market participants said. "The polypropylene market is looking better in Turkey at the moment, as there is no competition from European sellers due to the strong euro," said one Turkey-based PP seller on Thursday. Players described an uncertain future for euro markets, with upstream products traded in dollars also affected regardless, as downstream demand dampened in Europe.

"If all the downstream material comes from outside Europe, who is going to need the feedstock?" asked one aromatics trader.