

Q1 CONTRACTS

## 'Bad timing' chips MMA

MMA contract prices slipped in quarter one (Q1) as a result of 'bad timing', according to a seller, despite an increase in raw material values. Negotiations resulted in a range from a rollover of quarter four values to a decrease of €40/tonne, although most accounts concluded €20-30/tonne down. Current contract prices hover around €1385/tonne FD NWE.

One seller said, 'an erosion was largely expected, plants were running high and demand was seasonally down. Q1 was always going to be the hardest quarter'. Producers admit that the decrease could have been greater had acetone not risen by €45/tonne.

Excess material in the market created the main pressure on prices. There is overcapacity in Europe and the market relies heavily on exporting product. The effects of the weak dollar combined with tight vessel availability, and the consequent high freight rates, have proved to be obstacles to exporting product in recent months. In addition, volumes to Asia also diminished ahead of the Lunar New Year.

'It is pretty clear to buyers and sellers that the market will move into tighter supply,' said one manufacturer. Asian demand is expected to improve in the second half of the year, due to tighter global availability, with no new capacity planned for the market until mid-2005.

Asian growth has entered double digit figures, while European growth rates lag somewhat behind this. LCD flat screens and monitors are boosting MMA requirements and the PMMA market is also performing well.

In the short-term, the market will be helped by a European outage. The 45 000 tonne/year Repsol plant in Tarragona, Spain, has been running at reduced rates for the last two weeks as a result of production difficulties. The unit will enter a two-week maintenance shutdown on 3 February.

FERTILISERS TRENDS

## Enlargement offers scope

The enlargement of the European Union this year will have a major impact on the regional fertiliser business.

According to a study compiled by Integer Research on EU enlargement, supply competition will increase as producers from the ten accession states gain unrestricted access to the EU market.

'The major supply impact will be felt in the nitrogen business, with some expansion in phosphate capacity, while the potash balance will not change,' said Oliver Hatfield, director of Integer Research.

He expects nitrogen capacity to increase by around 4m tonne/year N (nitrogen) units of ammonia. This will add to the existing EU-15 capacity of over 10.43m tonne/year N. On the demand front, Hatfield points to the Luxembourg agreement, which will define harvested areas and cereal prices – the main drivers of fertiliser demand – in the EU through to 2010.

EUROPE SUPPLY AND DEMAND

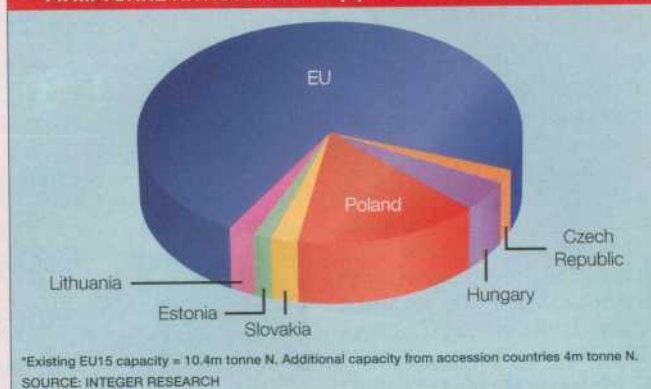
## Tough times for caprolactam

With capacity growth at 2%/year and demand at 2.4%, global caprolactam operating rates are set to improve from 92% in 2000 to 97% in 2010, according to Peter Driscoll of PCI Fibres and Raw Materials.

In the medium term however, they are hovering around 92-93% of effective capacity, allowing short-term supply and demand issues to have a marked effect on prices, Driscoll says, adding that, 'European rates may not necessarily follow the global trend and are now assessed in the low to mid-90%'.

The consultant notes that in Belgium, the local carpet industry is subdued and caprolactam exports to Asia may lose some ground to the new Korean capacity due onstream this year. In Germany, fibre production will continue to decline and polymer for engineering plastics to grow,

### EUROPEAN AMMONIA SUPPLY SCENARIO - POST-ACCESSION, 14.4M TONNE NITROGEN UNITS (N)



'For existing EU countries, the agreement should result in a continuation of the current trend for a slow decline in fertiliser use; however, tight grain markets may allow an increase in application rates in the near term, following the reduction of the set-aside rate from 10% to 5% for 2004-05,' Hatfield explained. 'Consumption is likely to slowly rise in accession countries, where

there is room for agricultural productivity to increase'.

As competition from the accession countries is set to rise and trade barriers are reduced, Integer Research predicts some more rationalisation is possible in the new EU-25 region. He points to Poland as the most likely candidate for rationalisation, as capacity there is roughly double the value of domestic demand.

but operating rates may ease due to lower exports. 'Western Europe as a whole gains in nylon 6 through engineering plastics, pushing annual polymer production up by some 80 000 tonne, but loses out in net trade for caprolactam by a similar figure, leading to little if any growth in output,' Driscoll comments.

With the euro hitting historical highs in January, European producers may face problems on export markets. 'For the moment, although the Europeans are pushing their prices up in Asia, any business they do is in dollars and must still be hurting,' Driscoll explained. He stressed that European producers, 'have to bear in mind that back home, their customers are paying significantly more for caprolactam. This is a cost burden that is being carried all the way down the nylon chain in

Europe, which, at the retail level, leaves European manufacturers more and more open to attack from imports of finished goods'.

China imposed anti-dumping duties on European products around one year ago, which Driscoll believes have hit European volumes moving to that market to some extent. However, he points to the fact that 'some Europeans have alternative supply lines out of the US and from within China itself and they have alternative markets in Korea, Taiwan and southeast Asia'.

On pricing, things were tough for everyone in 2003 and very little upwards movement was noted, Driscoll says. 'The year has started with a determined effort in every market to improve margins. Whether or not this can be extended into the rest of the year is a very open question.'