

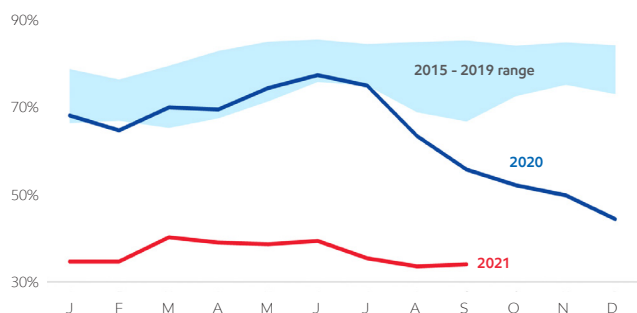
4Q21 REVIEW OF THE WORLDWIDE POLYETHYLENE INDUSTRY

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Rising energy costs adding to the turbulence in global PE markets

Global marine container logistics challenges worsen due to peak shipping season and record levels of port congestion. Container shipping faces escalating costs, minimal idle capacity, and poor schedule reliability.

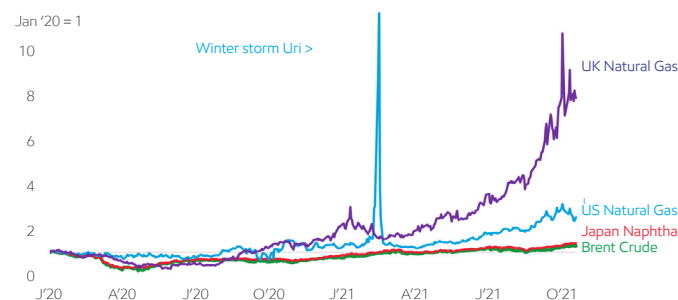
Global container ship schedule reliability continues to deteriorate



Source: Sea-Intelligence
 Schedule reliability measured by % on-time delivery

Meanwhile, energy costs are rising across the globe and key raw materials from catalysts to additives have become scarce. Trade typically restores balance, but the continued logistics crisis prevents the PE market from adapting.

Key markers show rise in global energy prices



Source: Platts
 Markers indexed to Jan 2020. Japan Natural Gas represented by Mean of Platts Japan (MOPJ); US Natural Gas represented by Henry Hub; UK natural gas represented by National Balancing Point (NBP)

In China, coal supply has become short, driven by a mix of long- and short-term issues, including reduced drilling investment and flooding in coal producing regions. The shortage caused high costs that challenged CTO and MTO margins and threaten ~30% of China PE supply.

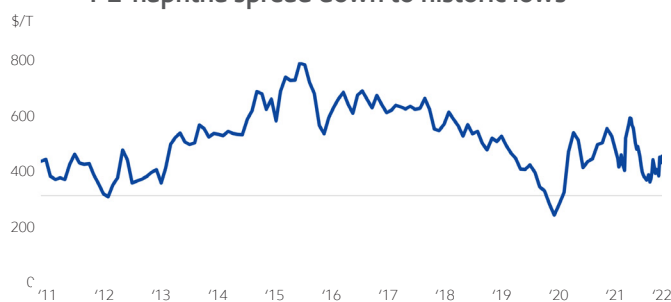
China coal price rises with limited supply



Sources: ZCE
 CTO is coal-to-olefins; MTO is methanol-to-olefins

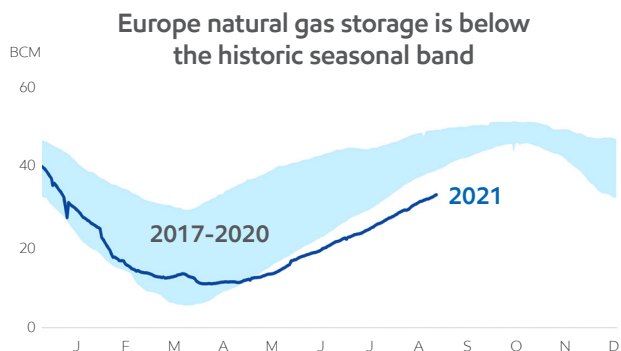
Across Asia Pacific, the price of naphtha has increased as crude oil prices have rebounded on recovery from the pandemic with limited additional supplies. These high prices have driven the PE-naphtha spread to historic lows and challenged the feasibility of PE suppliers.

PE-naphtha spread down to historic lows



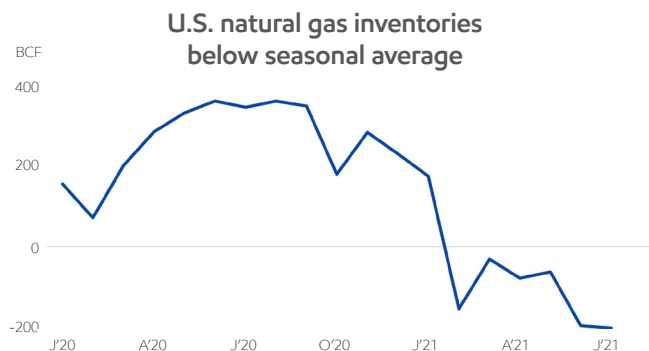
Source: Platts, ICIS, EM Estimates
 The line at \$300/T represents the 2011-2013 minimum during the previous bottom-of-cycle conditions

In Europe, natural gas prices have risen with the surge in global power demand. Falling domestic production and maintenance work challenges restocking gas supplies ahead of the winter. The high gas price has increased raw material costs for PE producers.



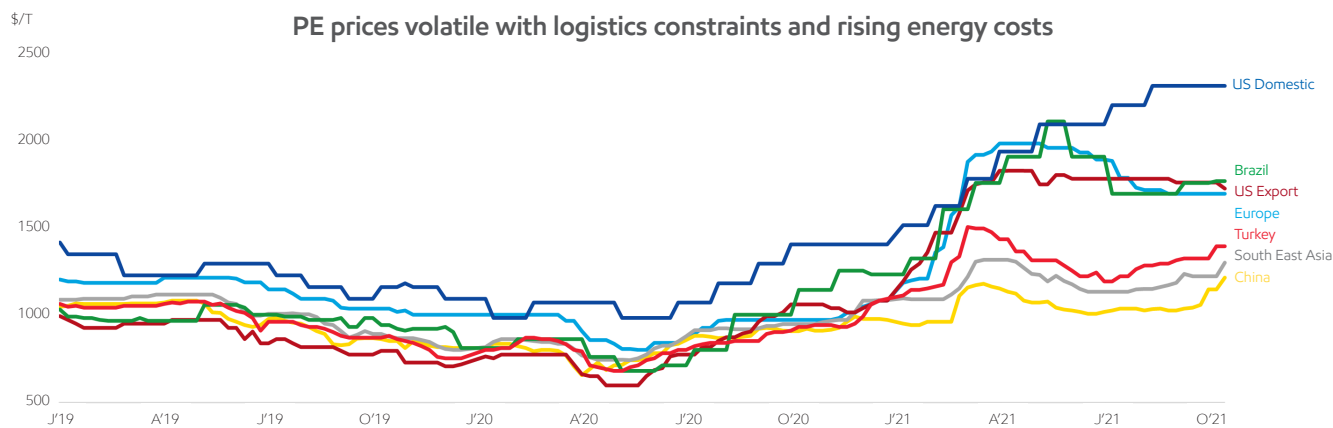
Source: Platts
BCM = billions of cubic meters

In the U.S., natural gas inventories continue to be well below the seasonal average as drillers have been slow to bring new production capacity online. PE suppliers have had to contend with higher feed costs as gas prices have risen to historic levels.



Source: EIA
EIA data for Natural Gas not yet published for September and October. Seasonal average based on monthly 5-yr range from 2016-2020. BCF = billions of cubic feet.

Energy prices and logistic dislocation forces have been counterbalancing the inventory supply that was expected to lengthen. These forces have caused a high level of volatility and variability in global PE prices.



Source: Platts, ICIS

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