First quarter review: Capacity closures and supply uncertainty drive price increases

Caustic soda prices increased substantially in all European regions at the beginning of the year. Northwest European first quarter contract prices increased by more than €100/dmt to €645-710/dmt fd, from €540-600/dmt fd in the fourth quarter of 2017. Central and eastern European quarterly contract prices moved up to €650-710/dmt fd from €530-580/dmt fd in the same period. Monthly prices in southern Europe reached €770-800/dmt fd in January after months of gradual increases and have remained at this level since then.

Buyers in all markets had to be exceptionally quick and non-opportunistic in securing 2018 volumes and were willing to accept major price increases in exchange for supply security.

The price negotiations and conclusions coincided with the mercury chlorine capacity phase-out deadline on 11 December 2017 and producers’ efforts to review and optimise their customer portfolios.

Second quarter outlook: Operational stability helps prepare for spring turnarounds

The supply shortage has eased as the first quarter progressed because Europe has had few unplanned shutdowns and securing 2018 volumes on paper has reduced the pressure on the buying side.

Sentiment around northwest and central and eastern European caustic soda pricing has therefore changed compared with the past two quarters. Producers have taken significantly more time to nominate price movements or have not made formal announcements at all. Covestro announced a €20-40/dmt rise, with the magnitude of the increase depending on starting level and location. Another producer is looking to raise prices by €20/dmt for customers that are paying below the market level. Other sellers are of the opinion that quarterly contract prices reached an uncomfortably high level in the first quarter that will be difficult to sustain and may lead to demand destruction. They will therefore seek rollovers in the second quarter, rather than price increases. Despite variations in approaches to second-quarter pricing, suppliers agree that the spring maintenance season will bring challenges, such as reduced output, inventory depletion and potential technical issues during plant restarts.
Buyers’ objective in the current round of negotiations is to achieve a price reduction. Their primary aim is to gain relief from raw material cost pressure, as they have been unable to fully pass on previous increases to customers. Buyers view a rollover, never mind an increase, as excessive and unjustified by current market fundamentals. They have observed greater plant reliability and a significant relaxation in the supply shortage, and noted that several suppliers have been seeking to move additional tonnage. They are aware this may have been temporary, but it has nevertheless contributed to improved supply security on their part. Customers are confident that their negotiating power has strengthened and they are in no rush to conclude second-quarter business. Their view is that it may be worth delaying conclusions for as long as possible in order to achieve the most favourable outcome.

There have been no formal price nominations for April contracts in southern Europe. This has created the impression that sellers are looking for price stability, but buyers are pressing for further reductions after price declines for March business. March prices have come down to €730-770/dmt fd from €770-800/dmt fd after intense competition in the Spanish and particularly the Italian distribution sectors.

The outcome of the quarterly and monthly price negotiations will primarily be driven by market fundamentals around the time of the discussions. The spring maintenance season will shape the supply side in the coming months, with a number of planned shutdowns taking place between March and June. The duration of each shutdown is typically one to two weeks, with only few exceptions. They will consume a large proportion of inventories producers built over the past three months, when few unplanned production issues ensured high operational stability. Strong chlorine offtake into vinyls and isocyanates, both seasonally and structurally, could enable the remaining plants to run at strong rates and help ease the effect of the spring maintenance season on customers.

Price negotiations for quarterly contracts in northwest and central and eastern Europe and for monthly contracts in southern Europe are well underway. Most business will be finalised in the coming two weeks and Argus will update its caustic soda prices at the end of the month.