

Petrochemical trends H2 2020

Challenges and opportunities in the wake of the coronavirus pandemic

Petrochemicals special report July 2020

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Executive summary

Global economies are facing greater uncertainty than at any time in living memory. The repercussions of the coronavirus pandemic and the lockdowns introduced to curb it continue to be felt across the petrochemical industry globally, since demand is so closely linked to economic performance.

In its unstoppable trajectory from Asia to Europe and onto the Americas, the pandemic has disrupted traditional demand trends and shifted the usual trade flows.

As oil prices crashed and demand for medical and personal care products soared, parts of the petrochemical industry found new opportunities, while others, tied to sectors harder hit by the pandemic, such as construction and automotive, floundered.

As the industry moves into the second half of 2020, a combination of renewed lockdowns, prolonged recessions and a continuing pandemic presents a bleak image at a time of limited visibility. However, the overall picture is far from clear cut in the multifaceted petrochemical markets.

Aromatics supply and demand dynamics as well as prices hinge upon how the coronavirus pandemic evolves in the second half of the year. Worldwide demand has been dented by global lockdowns, sending aromatics prices tumbling and margins of various aromatics to naphtha south to levels never seen before.

In the absence of global demand, traders worldwide have looked to China as a champion consumer of aromatics, while tackling overflowing tankage and plummeting prices in their own territories.

The European and US aromatics markets faced immense pressure during the first half of 2020 as the pandemic decimated demand from the gasoline segment while chemical demand was hurt by poor margins.

Going into the latter half of the year, these markets will continue to face challenges. As global lockdowns ease, demand for aromatics should improve, with octane demand lending support to toluene while the xylenes chain will remain heavily influenced by new capacities in Asia as well as an expected PTA supply glut. Products such as methanol will continue to wrestle with global length, despite production cuts and plant start-up delays.

Olefin margins, meanwhile, will be a key area of focus as producers grapple with wild price swings in upstream energy and oil markets. Downstream plastic demand is poised to see an upsurge as lockdown measures across Asia start to ease in the second half of the year and this will boost buying appetite for olefins as well.

In Europe too, the easing of lockdowns and a slow return towards normality has led to signs of renewed demand from industries such as the construction sector.

Prices for construction staple polyvinyl chloride plunged to lows not seen since the global financial crisis of 2008-09 as construction hit a standstill caused by stay-at-home orders. Net PVC importer India's lengthy shutdown roiled trade flows chasing other shrunken pockets of demand. India's reopening at the end of May and eased shutdowns elsewhere have fueled a gradual demand rebound, though concern lingers about a second wave of the coronavirus.

Demand for polyethylene has been more resilient given its ties to nondurable consumer goods. Some movements against single-use plastics, such as grocery bag bans, have slowed or been paused as single-use bags were seen as less likely to transmit the coronavirus than reusable ones.

Polypropylene demand rose due to the need for nonwoven fabrics used for medical mask and gowns, as well as takeout food containers as restaurants globally struggle to stay afloat during shutdowns by offering more pickup and delivery. However, that push could not overcome demand destruction from automotive manufacturing shutdowns.

While packaging demand and low feedstock prices for upstream olefins and naphtha helped to sustain virgin polymer markets in Europe in the first half of the year, any resulting margin strength for polymer producers may be short lived. With European ethylene prices rising in June and polymer demand remaining tentative, gains appear brittle moving into the second half of the year.

Recycled plastics came under pressure in the low price environment enabled by declines in upstream olefins and naphtha pricing as buyers able to switch away from recycled plastics to cheaper virgin alternatives did so. Meanwhile, shifting consumer patterns amid lockdown measures, which hurt waste collection services, have generated concern over the availability of post-consumer plastics used as the feedstock in recycled markets.

A sustained full recovery to pre-coronavirus demand and economic activity levels remains a distant target given the expected changes to consumer behavior and the slowdown in economic growth, even after countries start to resume usual business activities.

Expectations of ample supply from high petrochemical inventories and additional production facilities will also pose headwinds to recovery going forward.

— [Luke Milner, Samar Niazi, Eric Su, Kristen Hays, Kevin Allen](#)

Aromatics, Methanol and MTBE

China domestic benzene values to be buffeted by global trader moves in H2

- Established trade flows shift
- China oversupply to continue without US demand recovery

Prices in the Chinese domestic benzene market are likely to be driven by short-term and opportunistic global plays during the second half of 2020, as the COVID-19 pandemic evolves and countries around the world gradually re-open their economies, according to market sources.

The revival of the global economy is very important for the widely used petrochemical, which relies heavily on inter-regional trading, with North Asian and European supply relying heavily on demand from China and the US Gulf Coast.

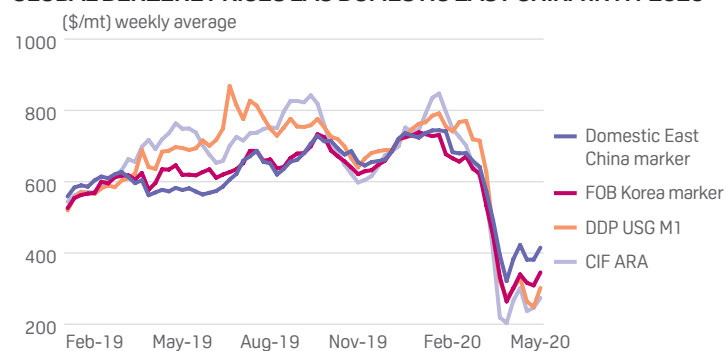
As different regions recover at different rates, traders are likely to buy and sell in a more opportunistic fashion, with previously established trade flows no longer viable.

China's intercity borders re-opened in the first week of April, after which prices of domestically traded benzene soared in anticipation of a demand recovery, as traders sought to deliver benzene into the country's limited commercial tanks.

European cargoes and displaced Asian supply, which would otherwise have been US-bound, began to flood the CFR China market, resulting in an open arbitrage between CFR China and domestic East China prices.

The difficult storage situation was further exacerbated since available East China storage space is concentrated in the hands of just a few players, as trading houses tighten counterparty credit requirements in a volatile landscape.

GLOBAL BENZENE PRICES LAG DOMESTIC EAST CHINA IN H1 2020



Source: S&P Global Platts

Market sentiment is split over whether the domestic-import arbitrage is sustainable going into H2 2020. While an increase in operating rates and an improvement in downstream margins looks promising, an inability to export end-products could eventually result in a price plateau once domestic demand is satisfied.

If US demand does not recover, supply will continue to flood the CFR China market, keeping CFR China prices depressed compared to domestic cargoes.

Excess European supply

With the prompt end of the benzene market in Europe straining under heavy supply during April and May, exports will play a key role in rebalancing benzene stocks against demand.

Uncertainty around easing lockdowns across Europe has left demand recovery in question. Benzene demand has been hit by sluggish automotive and construction sectors in the wake of the pandemic which has in turn led to heavily reduced demand for downstream styrenics.

Estimates of styrene production run rates had been heard as low as 60% during May, sources said.

At the beginning of May, European benzene prices were lower than US and Asian values, creating the potential for the arbitrage of European product to other areas and prompting Middle Eastern exporters to turn away from Europe due to the low prices.

"If I wanted to sell spot, I wouldn't do it into Europe for sure," said one producer. Flow toward Europe had been limited to contractual volumes only, he added. Demand would need to recover first to attract more material, and for the moment spot cargoes would be focused on the improving Chinese market.

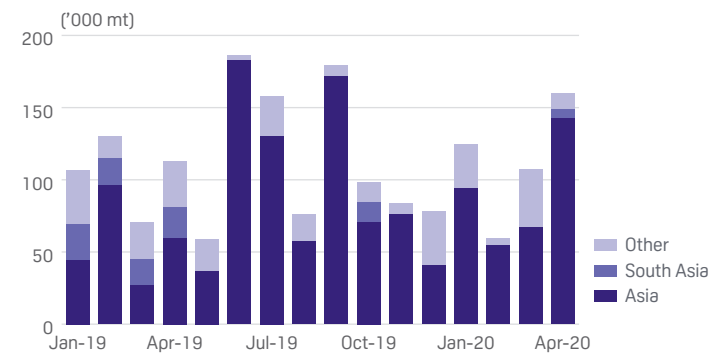
US demand

Benzene imports were expected to pick up this year, with one producer pegging US import demand at 150,000 mt/month. Imports surpassed that number in April, when nearly 200,000 mt of benzene landed in the US—the delayed impact from China's initial coronavirus shutdown in early February, which led South Korean and Japanese producers to divert cargoes westward.

Whether imports continue at such a rate in H2 is unlikely if the FOB Korea benchmark remains priced above DDP USG benzene, as was the case in spring. Imports are expected to decline in July and August because major exporting regions diverted cargoes elsewhere with US benzene the cheapest globally.

In July alone, demand for benzene in the US is expected to rise about 40,000 mt to 750,000 mt, according to S&P Global Platts Analytics. The operating rates of styrene producers should determine whether that trend holds.

ASIAN BENZENE ACCOUNTS FOR BULK OF US IMPORTS



Source: Panjiva

Participants expect demand for styrene to be healthier in H2 as automakers and construction work resumes.

Upstream volatility

Supply length in Asia will be a key factor determining the fate of the FOB Korea benchmark, with producers potentially adjusting rates in reaction to key aromatics spreads, including benzene-naphtha and paraxylene-naphtha.

While key exporting countries in North Asia have successfully completed annual maintenance in H1, several turnarounds in Southeast Asia earlier scheduled in H1 2020 have been postponed to H2 amid lockdowns.

Furthermore, new capacity slated to start up in H2 in Asia includes Saudi Aramco's Jazan refinery and Sinochem's Quanzhou unit among others, totaling just over 1 million mt/year of capacity.

Over in the US supply of benzene in H2 2020 will depend on a number of factors, including gasoline demand, the economics of STDP and TDP units, cracker operating rates and feedstock pricing. Lower spot prices of one benzene feedstock could create an opposite effect on others, leading to a complicated balance of supply.

— [Tess Tseng, Simon Price, Emily Bursleson](#)

Styrene outlook for US, Europe in H2 hinges on China

- Demand recovers in China as COVID-19 restrictions ease
- But demand in Europe, US expected to remain weak in H2

China's increasing demand for styrene as COVID-19 restrictions ease at a time when fundamentals remain weak in Europe and the US is likely to continue driving cargoes east in the second half of the year, but challenges loom as a slate of new domestic capacity is due to come online in China in H2.

Demand in Europe and the US is expected to remain weak in H2 as downturns in the automobile and construction

sectors have been only partially offset by enhanced demand from single-use plastics, and styrene producers in both markets are now actively looking to China for buyers.

However, while the revival in demand from Chinese importers supplying domestic downstream industries is likely to boost liquidity amid an open arbitrage between CFR China and domestic cargoes, it is clear the Asian styrene market is already grappling with high inventory and ample supply.

In addition, new Chinese integrated producers that started operating in the first quarter should stabilize production by H2 and even run at full capacity, adding further length to the styrene market.

Despite the delay in the startup of CNOOC-Shell's 700,000 mt/year styrene plant in Huizhou to the first half of 2021 from the fourth quarter of 2020, oversupply remains a key concern in Asia, with Tangshan Xuyang Chemical's 500,000 mt/year unit, Baolai Chemical's 350,000 mt/year unit and Anhui Jiaxi's 350,000 mt/year unit all starting up in China in H2.

The heavy Asian plant maintenance season in early 2020 has also largely ended, which will add additional length. Arbitrage windows from Europe and the US to Asia re-opened in the second quarter due to the collapse of FOB USG and FOB ARA prices, even after the concurrent rise in freight rates was factored in.

"As long as CFR China prices are lower than import parity prices, China's styrene intake won't decrease a lot, even as domestic supplies are increasing," a trader said.

The open arbitrage is set to fuel a flurry of deepsea cargo arrivals in east China in June and July and result in a further inventory buildup in shore tanks. East China inventory levels hit a record high of 324,000 mt in the second week of March and remained above 270,000 mt in May as the global COVID-19 pandemic slashed demand. Market participants expect inventory levels to remain high for some time, keeping CFR China prices under sustained pressure.

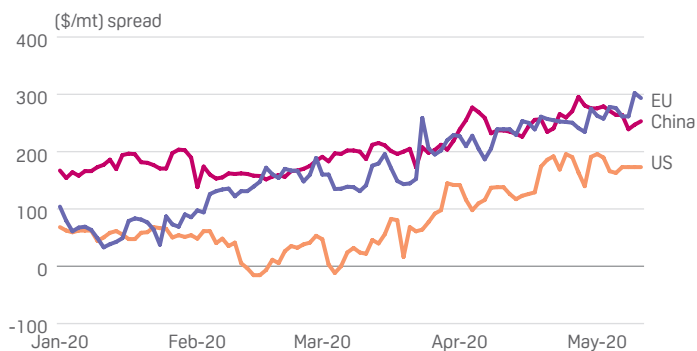
US margins widen

In the US, the gradual easing of COVID-19 lockdown restrictions should support domestic styrene demand and lead to a recovery in pricing in H2, market sources said. US styrene monomer prices plunged below even the weakest expectations of many market participants in Q1 to record multiple new lows before bottoming at \$375/mt FOB USG on March 23.

Styrene production at US plants was estimated at around 75% of nameplate capacity in early May and was expected to increase in line with the recovery in global demand.

Volatile benzene and styrene prices created wide swings in US styrene production margins in Q2. Weak margins that hovered in the low \$60s/mt in December turned negative in

GLOBAL BENZENE-STYRENE SPOT PRICE SPREADS



Source: S&P Global Platts

mid-February for plants utilizing spot benzene, according to S&P Global Platts data. By April however, Asian demand had lifted spot styrene prices and divorced them somewhat from benzene values, widening the margin to \$195/mt. The spread stood at \$201/mt on May 22, Platts data showed.

US demand for styrene derivatives is also expected to pick up in H2, market participants said. While polystyrene demand has risen in H1 on the increased use of styrofoam take-away food containers, demand for expanded polystyrene fell as construction projects slowed, and for acrylonitrile-butadiene-styrene tumbled as automakers halted assembly lines, due to COVID-19 lockdowns.

If the domestic car manufacturing and construction sectors were to recover in H2, styrene demand should follow, market participants said. However, the 1.2 million mt Chinese styrene production capacity that is expected to come online in 2020 may still have the knock-on effect of causing a styrene supply glut in the US, sources said.

Pressure in Europe

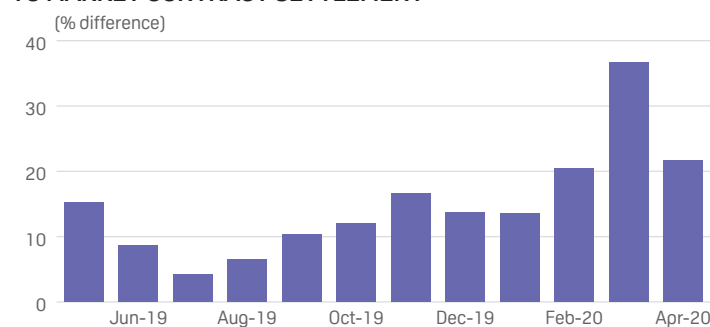
The primary driver of European styrene prices in H2 will be the rate at which COVID-19 lockdown measures are eased, after prices hit historic lows in March at the peak of the demand destruction.

Lower prices propelled a return to positive margins for styrene over feedstock benzene to just below the \$250/mt mark, which the market considers a healthy spread.

However the slowdown of the automotive and construction sectors has had an immense impact on demand, with styrene butadiene rubber used in tire manufacturing and expanded polystyrene for home insulation, especially Germany and France.

Although several European governments are tentatively easing social distancing measures as summer approaches, some measures are expected to continue into Q3 and even Q4, maintaining pressure on demand. The market will continue to operate on a hand-to-mouth basis until the coronavirus pandemic passes, a European trader said.

EU DISCOUNT STYRENE MONTHLY SPOT AVERAGE TO MARKET CONTRACT SETTLEMENT



Source: S&P Global Platts

Styrene consumers shifted to more spot buying and reduced reliance on contractual volumes in 2019, reducing demand and leaving the European market in an overly long position, and struggling to find outlets for its surplus, even before COVID-19 emerged.

Without an arbitrage to Asia, European supply promises to remain long throughout 2020, market sources said.

— [Sophia Yao, Simon Price, Emily Burleson](#)

Toluene road to recovery far from clear in H2 2020

- Operating rates to remain low amid ongoing coronavirus
- Summer driving season could support toluene blending values

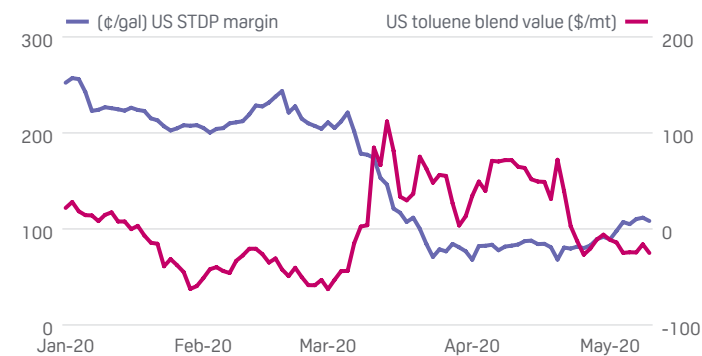
Global toluene supply and demand balances are expected to remain under pressure during the latter half of 2020 due to lower operating rates and reduced demand amid the ongoing coronavirus pandemic.

Weaker pricing in benzene and derivative styrene markets, as well as soft paraxylene prices, dented chemical demand for toluene during much of the first half of the year. However, while weaker aromatics pricing is expected to persist in the second half, demand for higher-octane toluene in summer and lower product availability due to refinery run cuts may give some upside to the market.

Blending economics to drive balances

In the US market, Selective Toluene Disproportionation unit margins, have been in negative territory more often than not over the past 12 months. With little demand from toluene conversion units, octane demand will drive pricing despite weaker blend values to finish the first half of the year.

According to sources, demand from the blending segment will be contingent upon the length of time required to burn through higher gasoline inventories and an overall economic recovery. Sources in the US have forecast steady improvement throughout the second half of the year.

WEAKER US STDP MARGINS PUT PRESSURE ON BLEND VALUES

Source: S&P Global Platts

With COVID-19 having spread to the US, however, market participants in Asia have mostly written off the summer-driving season and are said to be scouring for other demand centers, notably China.

Gasoline blending activities within Asia, ex-China, are still thinly slated as government lockdowns enforced to curb the spread of COVID-19 has placed barricades to road fuel needs. Previously, market participants ballparked the US summer driving season, which typically starts in May, to be the driving factor that would spur interest in gasoline blending.

Operating rate drops present opportunity

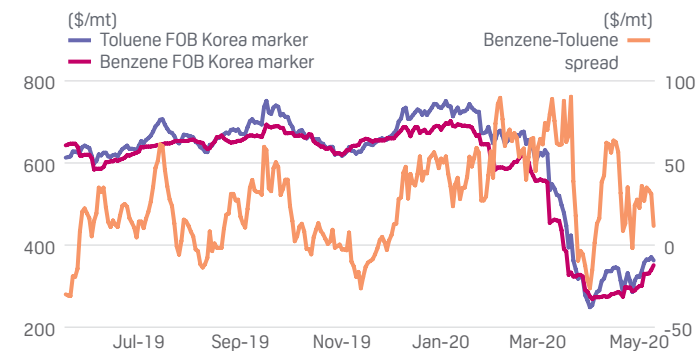
In Europe, expectations surrounding the post-lockdown market response are more optimistic, with some participants hoping to see “an ideal market situation” as renewed demand meets limited production capacity availability.

“Most likely when we all come out of lockdown, the demand will come into the market with the limited production capacity availability,” said a trader on May 1, adding:

“People who were not allowed to consume for two months will come [to the market] and consume...this will create a peak that will be met with very limited capacity.”

Some European refineries that were unable to postpone necessary shutdowns until later this year are in the middle of the turnarounds, and will not be able to react to booming post-lockdown demand, said market sources.

US toluene prices will also see some support from lower refinery run rates, sources have said. Refinery utilization rates have fallen and reformer rates have been impacted accordingly. Extrapolating lower refinery utilization rates down to the reformer and assuming a total toluene capacity of roughly 4.8 million mt from reformate, a 10% reduction in run rates equates to roughly 40,000 mt/month.

PANDEMIC DENTS ASIAN TOLUENE CONVERSION MARGINS

Source: S&P Global Platts

This, coupled with expected strong reformate pricing, is expected to bolster toluene prices during the latter half of the year. Sources noted that this could stifle chemical demand if gains in benzene and paraxylene pricing fail to outpace toluene.

Renewed demand or temporary spike?

Although the European aromatics market witnessed a rally in prices on the back of stronger crude oil prices in May, consensus among market sources remains mixed on how long-lived any additional spike in prices will be.

“We will see a peak; price, profits and conversion margins will go up,” said a market source, adding that there is some expectation of increased demand in H2 2020 from consumers after the prolonged stay-at-home period.

Signs of renewed strength have been visible in China, with the market soaking up surplus barrels within and beyond Asia.

However, despite the recent strength, questions remain on how sustainable the uptick in China's demand could be while the rest of Asia and the world at large continue to grapple with COVID-19.

Meanwhile in India, the other strong foothold for Asian demand, the government has rolled out zoning plans to bring businesses in COVID-19 free areas back to life.

Some importers have already secured toluene cargoes to be brought into the country for early July in expectation that India's demand could progressively recover as the economy reopens.

With the two major Asian import hubs broadly offsetting each other in demand, the global market faces mixed fundamentals for the third and fourth quarters. Add to it the possibility of a global economic recession ahead, and the road to recovery seems far from clear.

— [Kevin Allen, Alexander Borulev, Sue Koh](#)

Mixed xylenes fate tied to gasoline demand recovery in H2

- Paraxylene in abundant supply amid new global capacity additions
- Asia gasoline demand contingent on low crude oil, lifting of lockdowns

Global mixed xylene prices are expected to see continued pressure in the second half of 2020 amid expected weakness in the downstream paraxylene segment.

The xylenes chain has struggled amid protracted supply length in the US and Asia, and this has been further exacerbated by demand loss caused by the coronavirus pandemic.

Support for the mixed xylenes segment in H2 2020 is expected to come from supply constraints associated with lower refinery utilization rates and as countries move away from lockdown measures leading to increased aromatics demand as gasoline blending component.

PX glut threatens MX demand

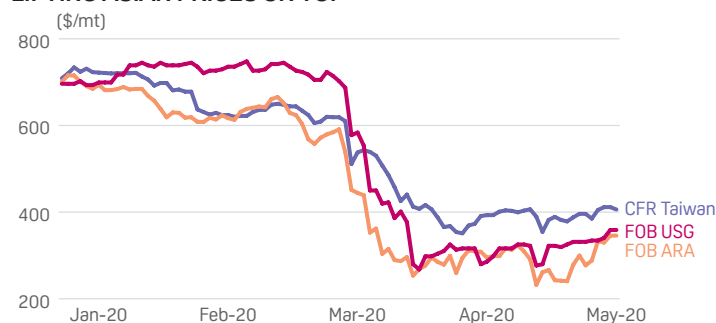
In China, new PX capacity of at least 1.8 million mt/year is expected to start up this year. These new units, Sinochem Quanzhou and Shandong Dongying, are likely to consume their MX captively going forward, instead of selling it in the domestic market. However, additional PX capacity may exacerbate the glut in the PX market and further deteriorate production margins.

It remains to be seen if new purified terephthalic acid plants slated to start up in the second half of the year in China can lend some support to paraxylene prices and margins.

A 1.8 million mt/year reforming unit at Sinopec's Zhongke refinery in Guangdong, is expected to start up in the third quarter, adding around 400,000-500,000 mt/year of new MX capacity in China.

In the US, demand from paraxylene is also expected to remain subdued for much of the year on the back of global length, as well as on imports. However in Europe, lower output rates in

COVID-19 JOLTS GLOBAL MX MARKETS, LIFTING ASIAN PRICES ON TOP



Source: S&P Global Platts

refineries has instead kept the mixed xylene market balanced to tight despite the coronavirus-led reduction in demand.

Overall, the factors that drive the xylenes market will likely be tied heavily to the recovery of the global economy. Demand from the downstream PET segment, but also gasoline octane demand, will be heavily influenced by the economic security and spending habits of individuals.

While reduced production rates have provided some support to European mixed xylenes prices after initial gasoline-led losses, market sources see the demand side as key to any potential uplift in the balance of the year.

Sources expect an upturn in Europe only if strong demand drivers emerge. With blending values being viewed as a price floor, these demand drivers should come from the chemical sector.

Increased aromatics into gasoline blending after lifting of lockdowns

The fate of European mixed xylenes will also be reliant on the transition of countries away from lockdown measures and subsequent pick up in gasoline blending activity. Weak conversion margins since the start of the year, has already shifted the dependence of the MX market to the gasoline blending segment, with market participants now looking to inventories in the region for sign of additional demand.

With the growing levels of gasoline inventories in the Amsterdam-Rotterdam-Antwerp hub in May, it will likely take time to deplete the existing gasoline before the demand for blending components will kick in at the full extent.

Mixed xylenes traders in the US will also be looking to gasoline for pricing support. Refiners began to cut rates in Q1 as gasoline inventories swollen to near record-levels and rates fell to as low as 67.7% in mid-April.

Those rate reductions helped to lend support to mixed xylenes prices and that trend is expected to continue into the second half of the year. While such a move would bolster pricing, it could also keep the PX-MX spread low and result in poor economics for paraxylene producers running crystallization units.

AVERAGE ASIAN PX-MX SPREAD SHRINKS NEARLY 16% Q1 TO Q2 (QTD)



Source: S&P Global Platts

Another drawback to potential higher pricing due to refinery cuts is a negative impact on arbitrage economics. Though mixed xylenes exports out of the US are not as significant as some other petrochemicals, their importance increases once demand becomes confined solely to the gasoline blending segment.

Finally, low crude oil prices may support China's appetite for isomer-MX imports into gasoline blending, similar to the trend seen in the first half of the year when China saw strong demand for MX imports, market sources said in early May.

"If this low crude oil price continues until end of this year, MX demand from China will keep strong as gasoline blending value will be high," a Northeast Asian end-user predicted. "But if crude price returns to over \$40-\$50/b, the supply of MX will be more than demand and MX will be weak."

— [Gustav Inge Holmvik, Alexander Borulev, Kevin Allen](#)

Global paraxylene looks to China for direction in H2

- **New Asian capacities expected in H2**
- **Uncertain demand in the wake of the pandemic**

The second half of 2020 holds many questions for the global paraxylene market as participants juggle with uncertain demand in the wake of the coronavirus pandemic, high levels of inventories and oversupply from new Asian capacities. The world is looking to China, the world's biggest paraxylene buyer, to chart the course for the next half of 2020.

New normal in Asian prices

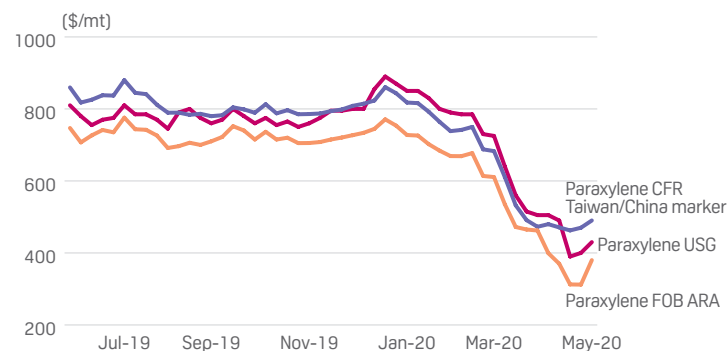
Asian paraxylene players are uncertain of what the second half of 2020 will hold, but hope for a rebound in buying appetites after prices slumped to fresh lows in April. The COVID-19 pandemic had caused the CFR Taiwan/China paraxylene marker to collapse to a record low \$432.50/mt on April 22, plunging 48% since the start of the year.

But the situation is fast evolving with negative changes in the paraxylene-naphtha spread causing Asian producers to question their operating rates. On May 27, the paraxylene-naphtha spread narrowed to a new low of \$173.795/mt, not seen for at least 10 years, market sources said.

"It is too uncertain to tell where the market is heading to in the second half of the year considering the lack of short-term directional clarity. Any news that may or may not be related to the polyester chain could have an impact on PX now. Its recovery is no longer solely [dependent] on the polyester chain following the demand disruption," an Asian PX source said.

With margins at unprecedented lows, the risk of run cuts or even the shutdown of PX plants loom on the horizon. This could mean that the stage is set for a gradual recovery in H2.

PX PRICES PLUNGE AMID CORONAVIRUS PANDEMIC



Source: S&P Global Platts

"The PX market will begin to improve from here especially after the worldwide lockdowns ease, alleviating the present logistical difficulties. Demand will pick up, gradually, and inventory levels will fall," an Asian producer said.

The heightened volatility in energy markets drove paraxylene players to hedge their risk exposures, with the volume of paraxylene derivatives traded on the Singapore Exchange over January-April, surging 62% on the year to over 2 million mt, the SGX data showed. The paraxylene derivatives market is likely to remain robust in H2, should volatility in both the oil and petrochemical markets persist.

Inventories may return to normal after a while, especially with purified terephthalic acid units operating at relatively stable rates amid decent production margins, market sources said. The pace of demand recovery matters as downstream consumers' buying patterns may change following the COVID-19 pandemic, a Southeast Asian source, who has a bearish market outlook till Q3, said.

However, additional paraxylene capacity slated to start in H2 will increase supply and possibly worsen the already fragile supply-demand dynamics.

New capacity slated to come online include Shandong Dongying Petrochemical's 1 million mt/year plant, Sinochem Quanzhou's 800,000 mt/year unit and Aramco Jazan's 850,000 mt/year plant, whose start had been delayed since early 2020.

Asian market pressures impact US

US paraxylene production has been hit by weak demand and high domestic prices. Weaker gasoline demand in the US has led to lower refinery run rates, which could lower reformer run rates and increase feedstock prices. This would support domestic US paraxylene prices, a trend which could persist into the second half of 2020.

Due to higher domestic US PX prices, there has been an increase in imports, which could also hamper the recovery of the paraxylene market, should volumes continue to flow into the US Atlantic Coast.