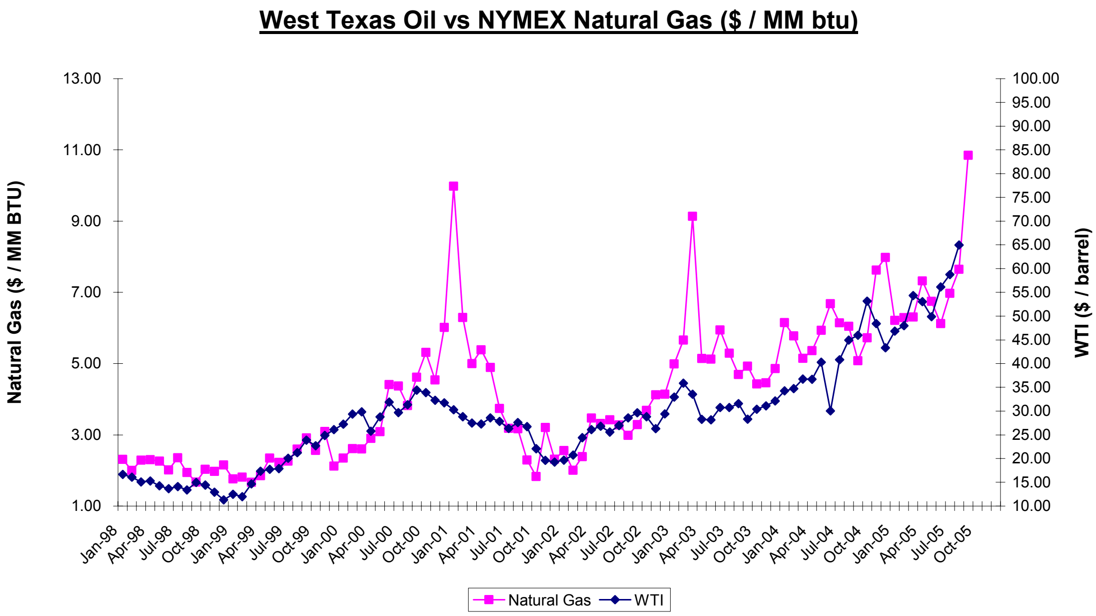
# *Welcome to the…*

## NAPM – New York Commodity Corner

**<u>September 2005 Edition</u>**

It is our intent to provide you some historic commodity pricing information, define trends, discuss forecasts, and most of all, help develop some new insights regarding materials pricing. Crude oil and natural gas updates are available monthly, upon request; all other commodities will be updated per calendar quarter, or as the specific need arises. We hope you find this information useful, and as usual, are open to suggestions and questions. Please send your questions / comments to: info@napm-ny.org




About 70% of North America's ethylene production is linked to natural gas (30% to oil). Ethylene is the building block for a variety of the plastics we use daily, as well as solvents, surfactants, etc…

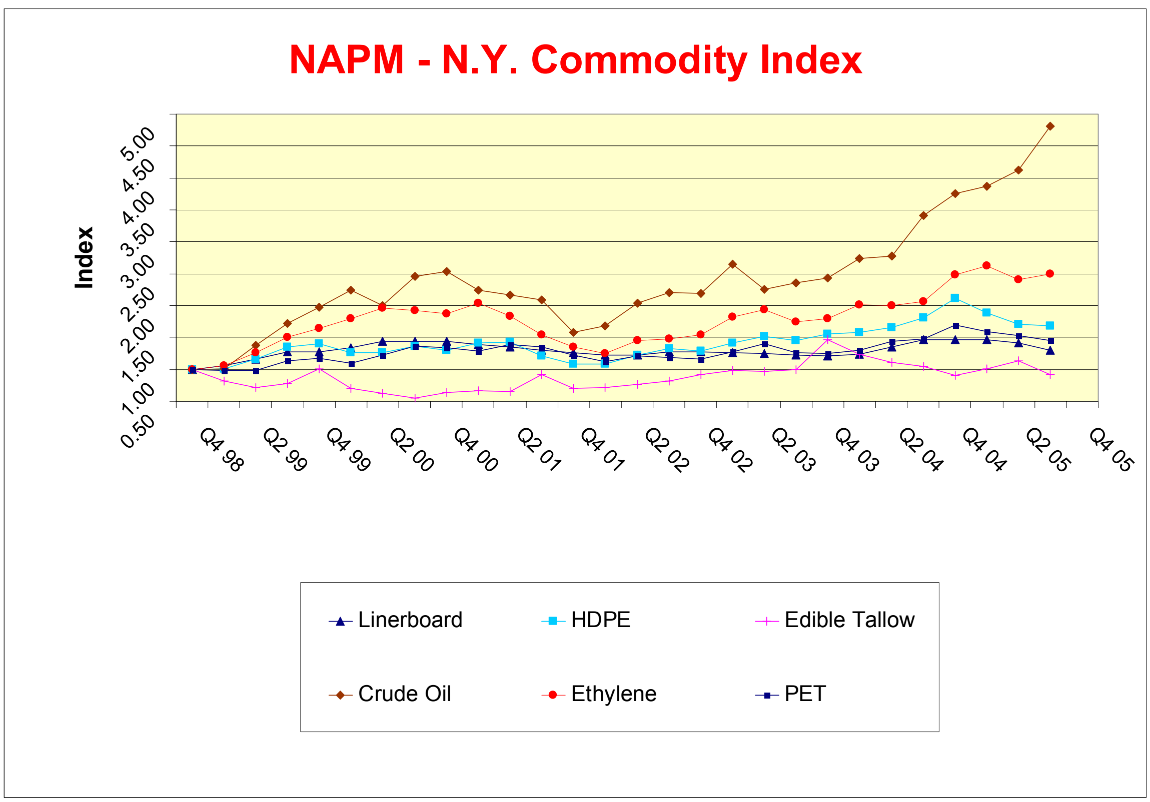
***Crude Oil & Natural Gas***

**Crude Oil – Cost Drivers**: World-wide supply demand balance, the war on terror, regional/geopolitical instability, weather, OPEC.

**Current Price Forecast**: As of right now (without fully understanding the net overall impact of hurricane Katrina) the 2006 full year average price forecast for West Texas Intermediate Crude is about $60.00/barrel. Brent Sea Crude will probably trend $1 to $2/barrel less.

**Natural Gas – Cost Drivers**: Natural Gas (for the most past) is a domestic natural resource. Cost drivers are supply / demand, weather, and to some extent, sympathetic movement to oil.

**Current Price Forecast**: Full year average pricing in 2004 was $5.81/MMBtu (MMBtu = Million British Thermal units), and current full year 2005 forecasted average is running in the mid $7.00/MMBtu range. 2006 full year price forecast has natural gas at approximately $8.50/MMBtu. Inventories remain healthy at levels slightly higher than the past five year average. Again, these estimates are made without fully understanding the net impact to supply chains, originating in the Gulf.




**<u>Note: 3Q2005 price reflects only July and August pricing.</u>**

***Ethylene***

**Cost Drivers:** Although tied to natural gas and oil costs, ethylene is also very subject to supply / demand swings. Downstream end products (plastics, solvents, glycols, etc) can compete for the available pounds of ethylene, thus driving ethylene pricing.

**Where Used:** Ethylene is the key building block chemical used in the manufacture of plastics, surfactants, solvents, etc… As mentioned above, about 70% of North America's ethylene is derived from the natural gas stream.

**Current Forecast:** Full year 2004, ethylene averaged $.35 per pound, current 2005 full year average price forecast at about $.42 per pound, 2006 forecast running between $.42 and $.44 per pound.

***HDPE***

**Cost Drivers:** As one would assume by the name, HDPE (high density polyethylene) is heavily influenced by ethylene costs, and it also has its own supply / demand cost influences.

**Where Used:** High density polyethylene is used in wide variety of applications; most common at home would be plastic milk containers, liquid detergent bottles, etc… and industrial applications such as plastic pipe for natural gas transmission and a myriad of automotive applications.

**Current Forecast:** Full year 2004 average transaction price ran at $.60/pound for bottle grade material, the current full year 2005 forecast is ranging from $.59 to $.62/pound. Pricing looks to be moving up, with full year average price forecasts in the mid $.60's per pound.

***PET***

**Cost Drivers:** PET pricing is tied to ethylene and to xylene markets, supply / demand balances, and it has historically had a "seasonal" influence (increased consumption during the summer due to water and soda bottle demand).

**Where Used:** This is the plastic used to make soda bottles, water bottles, plastic beer bottles… and is also used in the manufacture of carpeting, clothing, etc…

**Current Forecast:** PET has risen in cost steadily over the last two years. Average full year price for 2003 was in the mid $.60/pound range. In 2004, the average moved up to the mid $.70/pound range, and current forecasts show a 2005 average price running between $.75 and $.80/pound. Preliminary 2006 price forecasts are at about $.70 to $.75 per pound (marginal pricing improvement).

***Edible Tallow***

**Cost Drivers:** A “by-product” produced from the slaughter of cattle (beef). Tallow pricing is heavily influenced by supply / demand (cattle slaughter) as well as competing applications (like corn, when looking at animal feed or other vegetable oils).

**Where Used:** Tallow is used in a wide variety of applications, from the manufacture of soaps and cosmetics, to animal feed, cooking grease, and fatty acids (which have their own downstream uses).

**Current Forecast:** No current forecast available.

***Linerboard***

**Cost Drivers:** Linerboard is heavily influenced by supply / demand balances, inventories, conversion cost (energy), exports (foreign exchange driven) and industry consolidations (fewer, bigger players).

**Where Used:** Linerboard is the main component and cost driver in the manufacture of corrugated shipping containers.

**Current Forecast:** Prices have risen steadily over the last two year period, up from an average of $360 – 370/ton in 2003 to the current full year 2005 projection ranging from $400 to $410/ton. The 2006 full year average price forecast is currently between $425 and $435/ton.