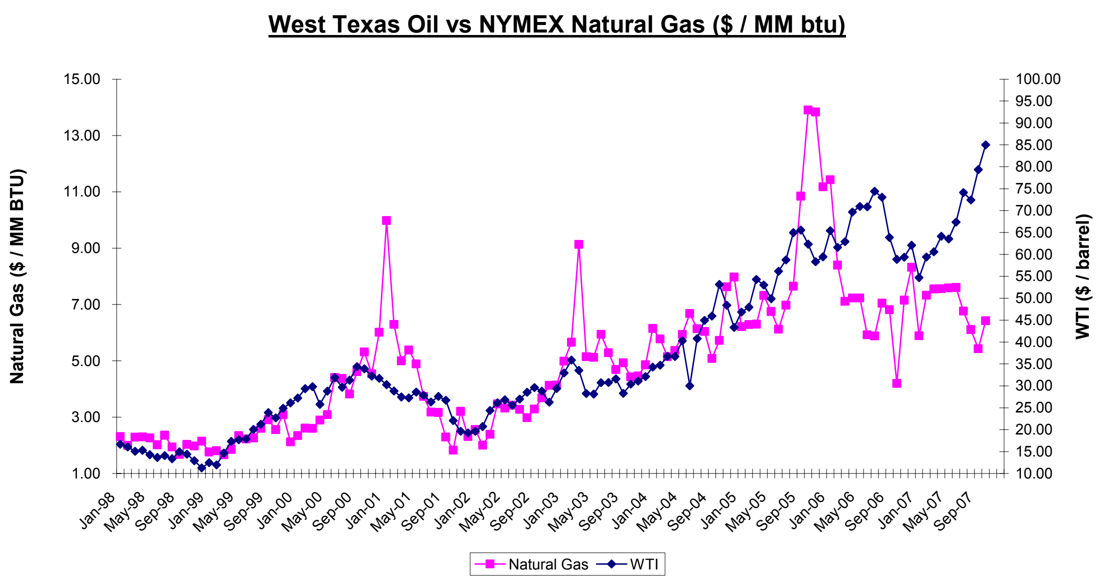
Welcome to the…

NAPM – New York Commodity Corner

October 2007 Edition

It is our intent to provide you with historic commodity pricing information, define trends, discuss forecasts, and most of all, to help develop insights regarding materials pricing. Commodities will be updated each calendar quarter, or as the specific need arises.
We hope you find this information useful and we are open to suggestions and questions to make this more relevant to your needs. Please send your questions and comments to: info@napm-ny.org

Crude Oil & Natural Gas

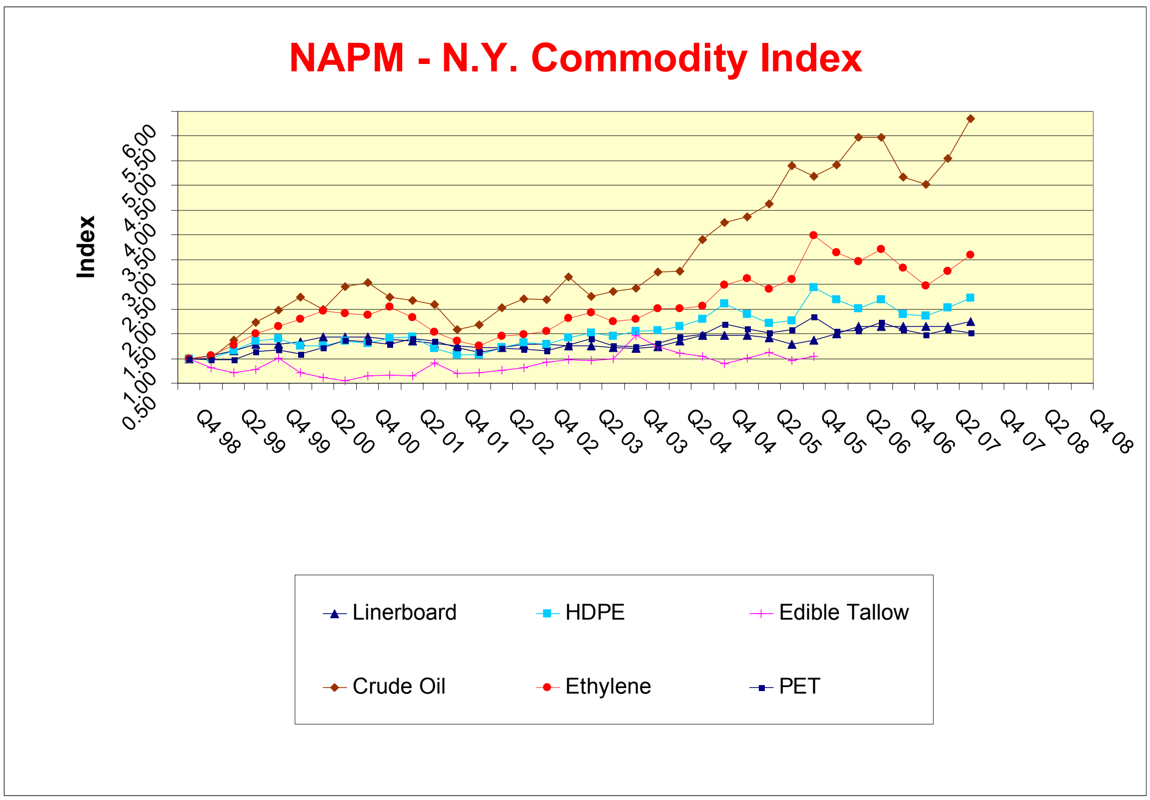


Crude Oil – Cost Drivers: World-wide supply and demand balance, gasoline refining conditions in the US, regional/geopolitical instability and issues, commodity investment/speculation, global and local weather, OPEC statements and actions.

Current Price Forecast: Year to date 2007, WTI crude oil price has averaged $ 66 / barrel, and has increased by 30 % since August, driven largely by current concerns around global demand exceeding supply on an ongoing basis, driven principally by increasing demand in China and India. In addition, the increasing influence on the crude oil market by non-industrial player speculation is growing in importance. Current forecasts for 2008 are widely varied – from lows of $ 60 / barrel up to above $ 100 / barrel for the full year average. Moving into 2008, the expectation is for continued pressure on prices based on the factors already mentioned, absent a significant recessionary economic trend.

Natural Gas – Cost Drivers: Natural Gas is largely a domestic natural resource. Cost drivers are supply / demand, weather, and to some extent, sympathetic movement to oil, in particular given its recent upward volatility.

Current Price Forecast: Year to date 2007 average pricing is $ 6.88 /MMBtu (Million British Thermal units), as historically high inventory levels have been discounted by the market, which has focused on longer term supply concerns and 'sympathy' with higher crude oil prices. For the rest of 2007, the current estimates are in the $ 7.00 range. The current 2008 full year price forecast has natural gas at $ 8.10 /MMBtu for the full year average. Longer term, the pricing pressure on natural gas will continue, as an increasing amount of its usage in the US is for electric generation and residential heating and cooling, where there is less flexibility for alternative sources of energy.



Ethylene

Where Used: About 70% of North America's ethylene production is derived from natural gas (30% from crude oil). Ethylene is the building block for a variety of the plastics we use daily, as well as solvents, surfactants, and other significant chemical feedstocks.

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

Current Forecast: Year to date 2007, ethylene has averaged $0.45 per pound, steadily increasing since the January bottom of $0.39/lb. Current 2007 fourth quarter average price forecast is about $0.59 per pound, 2008 full year forecast is in the area of $ 0.50 per pound. The steady increases earlier this year were driven by pressure from natural gas and crude oil pricing, and the pressure continues due to the increased cost of ethylene feedstocks based on the crude price increases and due to industry operating problems.

HDPE

Where Used: High density polyethylene is used in wide variety of applications, including plastic milk containers, liquid detergent bottles, etc., and industrial applications such as plastic pipe for natural gas transmission and a myriad of automotive applications.

Cost Drivers: High density polyethylene is heavily influenced by the factors driving ethylene costs, and it also has its own supply / demand cost influences.

Current Forecast: Year to date 2007 average price is $0.68/pound for bottle grade material, with the 4Q forecast at approximately $0.77/pound. The full year 2008 average price forecast is in the $0.71/pound range. The HDPE market has seen the same cost-based pressures as the ethylene market (above) in particular the high cost of the ethane feedstock. Current supply/demand balances in North America are stable, so this is currently only a feedstock cost-driven market.

PET

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

Cost Drivers: PET pricing is tied to ethylene glycol 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).

Current Forecast: Average year to date 2007 price is $0.78/pound, with a 4Q forecast of $0.80/lb. The first half saw steady increases based on both seasonality and feedstock cost increases. For 2008, forecasts are running in the $0.80/pound range based on a higher feedstock cost ‘floor’ driven again by crude oil prices, combined with current material shortages of ethylene glycol, which together more than offset recently reduced cost of para xylene.

Glycerine

Where Used: Glycerine is used in cosmetics, foods, pharmaceuticals, and a variety of personal care and oral care products, as well as in other applications including animal feed, antifreeze and certain energy uses.

Cost Drivers: As glycerine is a byproduct of the production of various other products, its cost is principally driven by the demand for glycerine for its various uses – the supply remains driven largely by the production of other products such as soaps, fatty alcohols and fatty acids.

However, over the past few years the increasing use of biodiesel as a fuel in Europe, which has resulted in significant increases in the supply of byproduct glycerine globally, has driven glycerine market pricing lower. This in turn has led to glycerine uses expanding, bringing the market pricing back into balance.

Current Forecast: Refined glycerine prices in the US have jumped from roughly $0.35-45/lb. in the first half of 2007 to $0.60/lb. in September, and recent quotes in the $0.80-0.90/lb.range have occurred. In addition, availability of material in the US has tightened, as some of the biodiesel-driven glycerine production has been reduced based on increasing cost of the bio-feedstocks, such as soybean oil. In addition, industry inventory levels in the US are extremely low. Forecasts for 2008 show prices in the range of $0.70/lb. The key driver here relates to the biodiesel fuel mentioned above – while biodiesel production in the US has increased (generating more glycerine), as global prices for vegetable oils have skyrocketed this year (in some cases up 100%), biodiesel fuel production from these oils has become less economical, and hence the supply of biodiesel-driven glycerine is declining.

Linerboard

Where Used: Linerboard is the main component and cost driver in the manufacture of corrugated shipping containers, which are used in a broad variety of consumer industries as well as the automotive industry.

Cost Drivers: Linerboard is heavily influenced by supply / demand balances, inventories, conversion cost (energy), exports and industry consolidation.

Current Forecast: Prices have remained stable in 1H 2007, at an average of $ 500 / ton in late 2006 and 1H 2007; in the third quarter, prices increased to $ 540 /ton, and are expected to continue through 2008 in the same range, reflecting firm but stable demand and continuing improved management of supply capacity. Going forward, it is expected that energy-related cost pressures will balance with slower economic activity to keep linerboard prices in this stable range.