

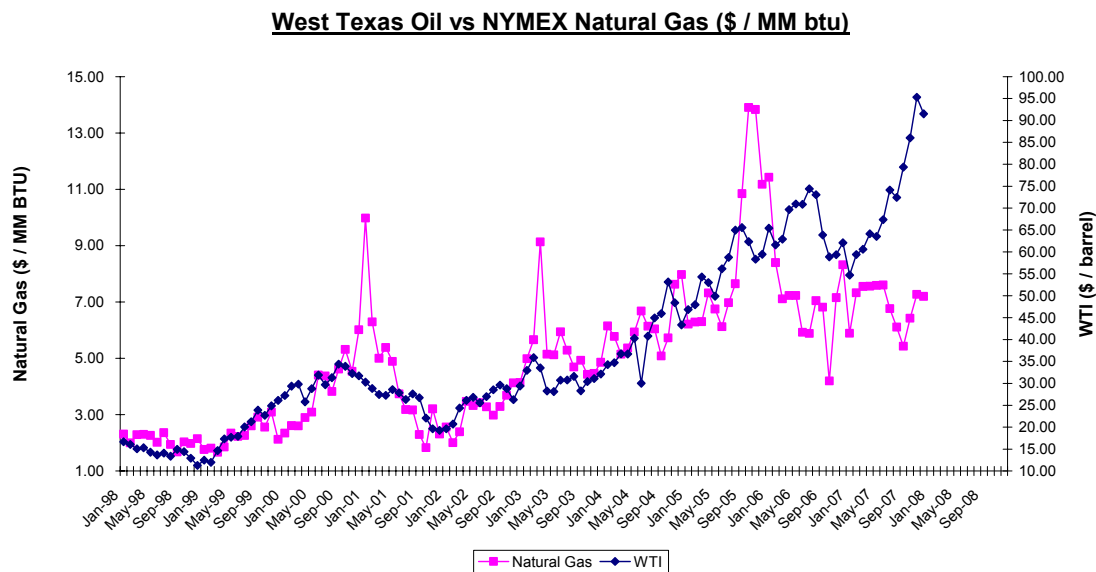
Welcome to the...

NAPM – New York Commodity Corner

March 2008 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: For full year 2007, WTI crude oil price averaged \$ 72.39 / barrel, driven largely by concerns around global demand exceeding supply on an ongoing basis, driven principally by increasing demand in China and India. In addition, the increasing impact on the crude oil market by non-industrial speculation has grown significantly.

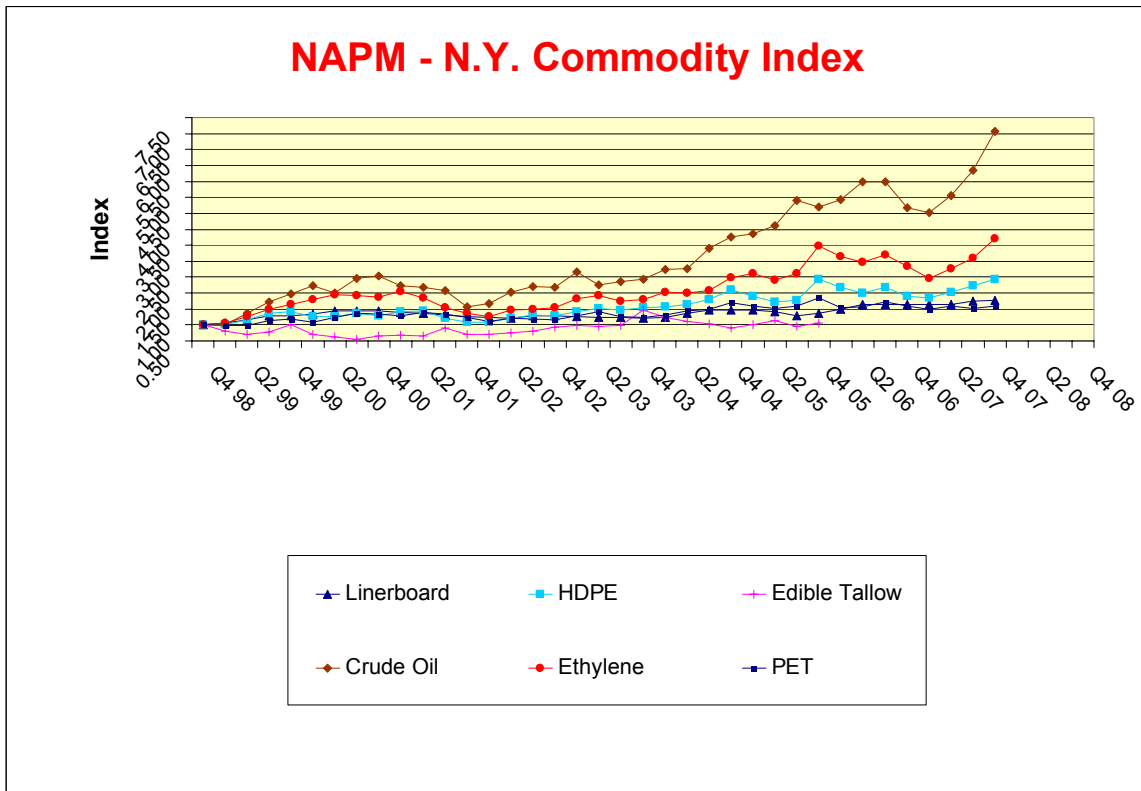
Current forecasts for 2008 are widely varied – from the mid \$80s up to \$200 / bbl, given the recent price run up above \$100. January/February averaged in the \$94-95 range, as developing country demand for oil is expected to continue to increase. In 2008, the

expectation is for continued pressure on prices based on the factors already mentioned as well as the continued weakness in the dollar, which makes dollar-priced oil relatively cheap in global markets. The likelihood of a protracted recession may offset these pressures to some degree, as well as increasing spare capacity from OPEC sources during the year.

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: Full year 2007 average pricing was \$ 6.91 /MMBtu (Million British Thermal units), as historically high inventory levels continue to be discounted by the market, which has focused on longer term supply concerns and ‘sympathy’ with higher crude oil prices.

The current 2008 full year price forecast has natural gas at \$ 8.40/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. In the recent past, the pressure from crude oil crossing and staying above the \$100 threshold has put additional upward pressure on natural gas, currently in the \$9-10/MMBtu range. In addition, strong withdrawals from storage in January and February have caused upward pressure on gas pricing.



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: Full year 2007, ethylene averaged \$0.4875 per pound, steadily increasing from a January bottom of \$0.39/lb, but on balance in line with the 2006 average of \$0.4908/lb. Current 2008 full year forecast is in the area of \$ 0.5563/lb., declining through the year from a January level of \$0.615. Current pressures are driven by the natural gas and NGL prices (see above); moving forward, the expectation is for decreased demand as the economy cools and demand for products downstream from ethylene, including polyethylene, decreases.

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: Full year 2007 average price was \$0.713/lb. for bottle grade material. The full year 2008 average price forecast is \$0.745 /lb., again declining during the year from a January level of \$0.83/lb. The HDPE market faces the same factors as ethylene and natural gas markets – the upside pressure driven by high crude prices versus the downward pressure from demand slowing as the economy slows. All in, on a year versus year basis, again, there is little relief in sight here for buyers.

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: Full year 2007 average price was \$0.79 /lb. for the mid-size buyer of bottle grade PET. For 2008, forecasts are running in the \$0.80 /lb. range, down from a December high of \$0.85/lb. The pressure from feedstock costs for PET, including ethylene glycol and para xylene, is expected to abate slightly, but on the demand side PET is a bit more recession-resistant than other polymers. These factors are expected to roughly balance, and keep prices in this range.

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 \$0.70-80 /lb. in December. Availability of material in the US and overseas has tightened significantly, as some of the biodiesel-driven glycerine production has been reduced based on increasing cost of the bio-feedstocks, such as soybean oil.

Forecasts for 2008 show prices in the range of \$0.80-\$1.00/lb, with a downward trend later in the year based upon increased biodiesel fuel production in Europe. This increased production will result from increases in the levels of subsidies and incentives for biodiesel taking place this year in France, the U.K. and Italy. In addition, the recent high level of prices for glycerine will reduce the use of glycerine in ‘switching’ applications which had occurred in the past few years when prices were historically low, and this in turn will reduce demand and pricing levels.

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 remained stable 2007, with a full year average of \$ 517/ton, reflecting only one price increase of 8% in August 2007. For 2008, the forecast is for a

full year average of \$540/ton, reflecting no change from the levels of the past several months. This balance is expected to result from slower US economic activity being offset by increasing export demand driven by the weaker dollar, keeping linerboard prices in this stable range.