

What does the future hold for Aromatics?

Many companies are seeing disappointing volumes since mid-September, at a time when demand should be strong

China's slowdown is having a major impact on aromatics demand. It has been the growth engine for the aromatics industry since 2008, and so its lost demand cannot be compensated elsewhere. American Chemistry Council data shows that its production began to go negative in February on a year-on-year basis, and the slowdown has since deepened with August down 3.1%. The scale of the decline is illustrated by the comparison with a year ago, where production was up 6%. This has two main impacts on the market, with domestic demand growth being hit by the major decline in shadow bank lending and the downturn in critical sectors such as autos and construction. It also means that traditional exporters of aromatics and derivatives to China such as SEA and NEA are starting to look for new markets.

High oil prices are having their usual impact in causing inventory build and demand destruction down the value chain

As always, the recent rise in oil prices has had its counter-intuitive impact on demand. Consumers down the value chain have been buying forward to avoid likely oil-price related increases for their own raw materials and products, leading many to assume that demand is more robust than in reality. This "perceived demand" is however simply going into inventory. And at the same time, the higher prices are reducing actual end-user demand as wages are not rising, and so consumers have to compensate for higher heating and transport costs by cutting back elsewhere. Geopolitical risk is also rising as the US withdrawal from the Iran nuclear deal nears, with nobody knowing whether the war of words might escalate – with consequential risk to oil supplies.

The issue of plastic waste is raising serious questions over future plastics demand with legislators and brand owners

The EU is moving ahead with legislation that will have a major impact on single-use plastics, and an increasing number of brand owners are committed to using only packaging that is either "recyclable, reusable or compostable". Styrene and polystyrene are clearly one of the major areas that are at risk from these developments, along with other key aromatics derivatives. The issue is simply that whilst single layer polymers such as PET can be recycled relatively easily by mechanical means, the technology does not yet exist to recycle many other polymers at scale. And yet time is not on the industry's side, with 2025 looming as a deadline. If the industry can't show that it is on track to meet the new requirements within the next 18 months, major questions may start to be asked over the future for plastics in these applications.

Rising interest rates and volatile currencies are hitting demand in critical end-user industries including autos and construction

Auto demand is now declining in several major markets as a result of the impact of higher interest rates, due to the industry's dependence on lease finance to drive sales growth. US auto sales are also being hit by the rising cost of steel and aluminium due to the new tariffs. Housing demand is similarly being impacted by the rise in interest rates as mortgage costs increase – in turn, causing consumers to cut back in more discretionary areas in order to balance their budgets. The issue is particularly acute on many emerging markets, which have done well in recent years, as the rise in the value of the US\$ adds to the repayment cost for people who have previously borrowed in dollars to take advantage of lower interest rates.

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