



February 2008

Polypropylene versus Oil Market

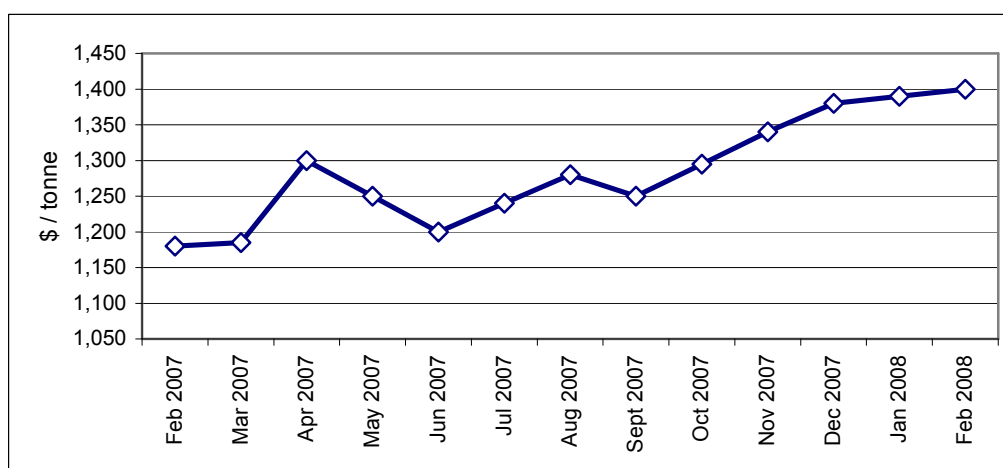
This note *is part of a valuation report and* examines the relationship between the polypropylene (PP) industry and the oil market on a global scale. Over the past years there has been a systematic correlation in the price movements of both oil and polypropylene as the latter has been an oil-derived product. In our opinion this strong relationship might not be the case in the future as a series of developments in the polypropylene industry imply a less dependent course for PP prices.

Below we illustrate that PP prices are expected to follow a downward course in the following 2 years with their price movements being less dependent on the oil market. At the same period, oil prices would be expected to range between \$ 70 and \$ 120 per barrel.

The Polypropylene Market

The polypropylene industry is a quite old one despite the fact that only recently there has been an official trading market for PP contracts. The initial growth of polypropylene market was due to substitution of classic non-polymeric materials due to PP's inherent properties and low cost structure. Over the years, polypropylene became a more competitive material, cost wise, as producers have been steadily upgrading their manufacturing process, improving at the same time the performance of the final product.

Chart 1: Polypropylene Prices in the Spot Market, Feb. 2007 – Feb. 2008



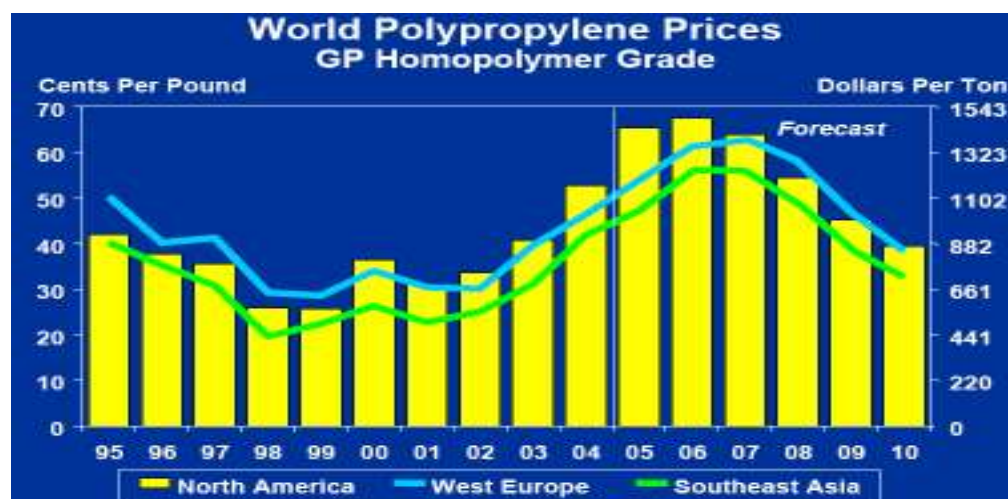
Source: London Metal Exchange.

Polypropylene is currently traded at the London Metal Exchange both in the spot market and as a future contract. As the market currently lacks the necessary trading depth, prices quoted for future contracts are not quite indicative of participants' expectations in the polypropylene industry.

Our view for the polypropylene market indicates declining PP prices in the following years due to:

- Higher supply following capacity additions across the globe;
- Lower spread between European and Asian prices as international competition will be forcing European manufacturers to align their pricing policy with the one adopted by more competitive markets.

Chart 2: Historic and Projected Polypropylene Prices in 3 Geographic Regions for the Period 1995 – 2010



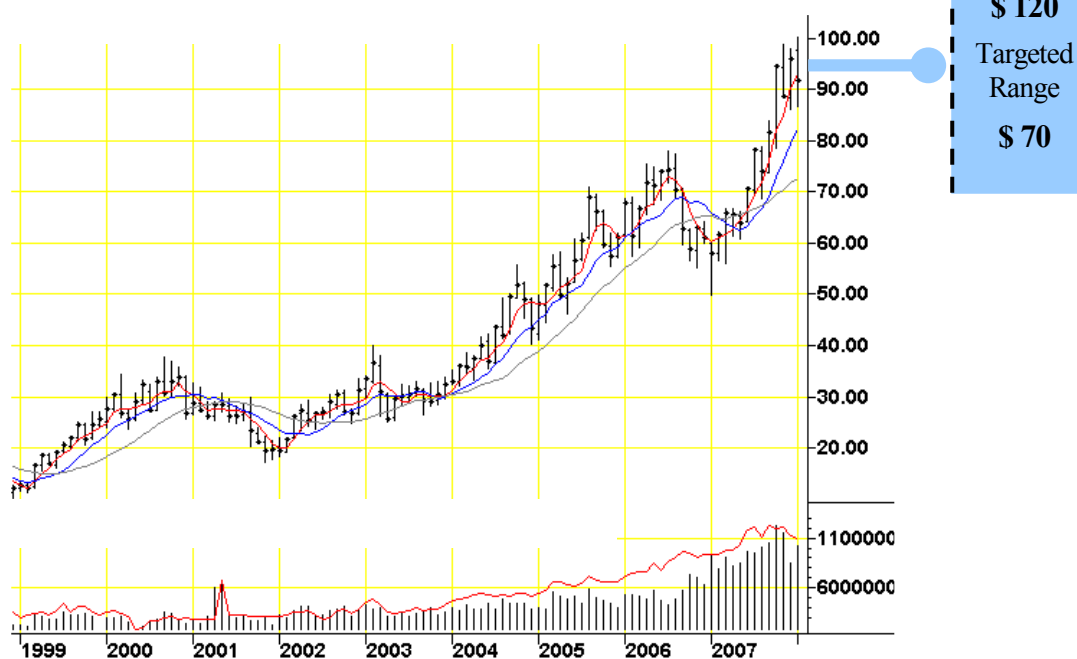
Source: CMA.

The Oil Market

Following a strong rally in 2007, oil prices are expected to range between \$ 70 and \$ 120 per barrel in the coming quarters given mixed signals in the global economy and the geopolitical front. At this stage however, the bear case scenario, which points to a movement towards the bottom of the range, seems more likely as it is supported by a series of international developments:

- The forthcoming economic recession in the US;
- The fact that 2003 - 2007 higher prices have already resulted in demand reductions and supply increases;
- The possible end of dollar weakness;
- The end of Chinese preparations for the 2008 Olympics;
- The reduced geopolitical tensions, especially regarding Iran.

A likely movement of oil prices towards the neighborhood of \$ 70 per barrel would strengthen the projection that polypropylene prices are likely to retreat their current levels and follow a less dependent-on-oil course in the coming quarters.

Chart 3: Oil Prices during the Period 1999 – 2008 (\$/barrel)

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