

Indian polymers under strain as coronavirus impact widens

Impact of the coronavirus in India

India's polymer trading has slowed amid the coronavirus outbreak in China. Market participants expect further declines from a slowdown in polymer consumption in China associated with production cuts and logistical constraints. Sentiment in India weakened further as polymers futures slumped significantly after China returned from the extended lunar new year holiday. New capacity at major producer Zhejiang Petrochemical (ZPC) added further pressure on the local market. ZPC can produce up to 750,000 t/yr of polyethylene (PE) and 900,000 t/yr of polypropylene (PP).

Prices of linear low-density polyethylene (LLDPE) and high-density polyethylene (HDPE) were stable at \$830-860/t with offers kept above \$860/t by Middle East producers. Prices of PP fell by \$20/t and settled at \$940-960/t in India.

There was weak buying interest for polymers in the almost self-sufficient Indian market. Buyers preferred to await more clarity in the major China polymers market amid generally weak February demand. Most import demand had also been fulfilled from mid-December to January when consumers began to replenish inventories and as they believed that prices were set to gain from a low. Demand for polymers is expected to rise in March as converters increase production to fulfil significant demand from the agricultural sector after the harvest season.

2020 union budget implications

Local PE purchases were high in January because of an anticipated import duty revision in February after the country's budget announcement.

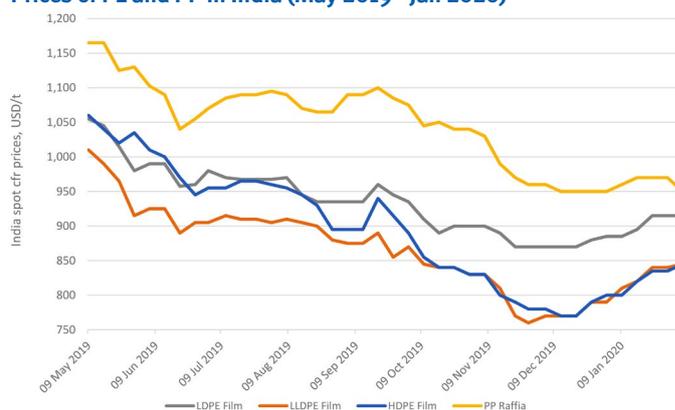
India's finance minister announced the 2020 union budget on 1 February, with no insights on foreseen import duty revision. India previously considered increasing the import duty for polymers to 10-12pc to reduce the country's dependency on imports. The import duty is maintained at 5-7.5pc, which varies according to exporting countries and free trade agreements.

Price trends of polymers

Prices of PE in India have fallen gradually since May 2019 amid rising global supplies and an economic slowdown. Prices of HDPE film, PE grade with highest demand across India, fell by \$225/t from May-December, according to Argus data. Prices of PP fell by \$215/t from May-December.

PE and PP spot prices picked up in mid-December across Asia alongside gains in crude futures and upward supply pressures. PE prices recovered to \$840/t in January, following US-Iran tensions and tighter supplies ahead of scheduled turnarounds by Middle East producers. PP prices recovered by \$20/t to \$970/t cfr India in January amid bullish sentiment and higher prices from local PP producers.

Prices of PE and PP in India (May 2019 - Jan 2020)



Source: Argus

Demand growth of polymers and imports in India

Growth in demand for polymers in India fell to around 5.3pc in the 2018-19 fiscal year against 10.6pc a year earlier, according to the Chemicals and Petrochemicals Manufacturers' Association (CPMA). The decline is closely associated with India's economic and infrastructural slowdown.

Total PE and PP imports in India fell by around 17pc in 2018-19 against 2017-18 amid rising local supplies, despite growth of 5.3pc in total demand. In 2018-19, total PE and PP imports in India stood at 19pc of Indian consumption, according to CPMA's data.

The PE growth rate in India is estimated to be 5.9pc in 2019-20, with LLDPE projected to have the sharpest growth at 7pc. This is followed by HDPE at 5.5pc and linear density polyethylene LDPE at 3.5pc, according to a country paper by the CPMA at the 2019 Asia petrochemical industry conference.

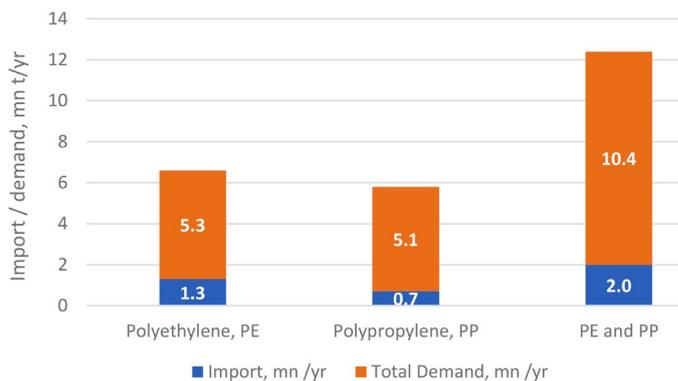
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But growth of PE demand is likely to be affected by the enforcement of bans on single-use plastics in India, an effort led by prime minister Narendra Modi in October 2019. China, the world's biggest consumer and producer of polymers, announced in January 2020 plans to eliminate single-use plastics with strict bans on non-degradable bags. China aims to implement the bans across the country by 2022.

The International Monetary Fund has also revised global growth in 2020 to 3.3pc, down by 0.1pc from its previous forecast because of lower-than-expected economic growth in India and other emerging markets.

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Indian polymer imports and total demand (FY2018-19)



Source: CPMA India

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