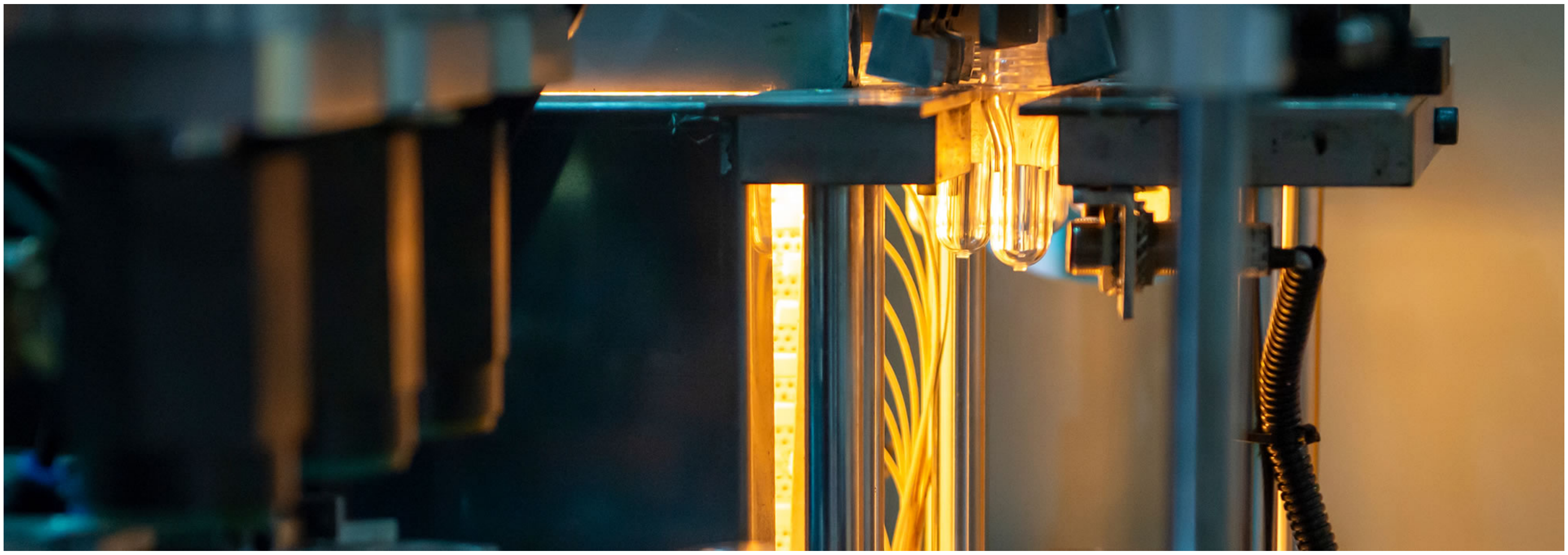


THE MARKET HAS BEEN TIPPED OUT OF BALANCE

Tatiana Serova, CEO of International Plastic Guide, talks to us about the state of the market in 2021 and price imbalances.

– Tatiana, at the beginning of 2021 in Russia, many manufacturers of polymer products and their consumers started talking about a sharp jump in prices for basic materials. The situation has not stabilised since then. What is this sharp change in the market situation linked to?

– The polymer market does not exist in isolation from other markets. 2020–2021 saw the shock of the introduction of COVID-19 restrictions and then deferred demand, as recognised by experts, leading to a sharp increase in prices for almost all raw materials. If you look at the price action on commodity exchanges, almost everything has grown in price over this time. Remember how much oil and gas cost last spring; now we are seeing decent oil prices and peaks in gas prices, while steel, copper and wood are getting more expensive.

TATIANA SEROVA

CEO of International Plastic Guide

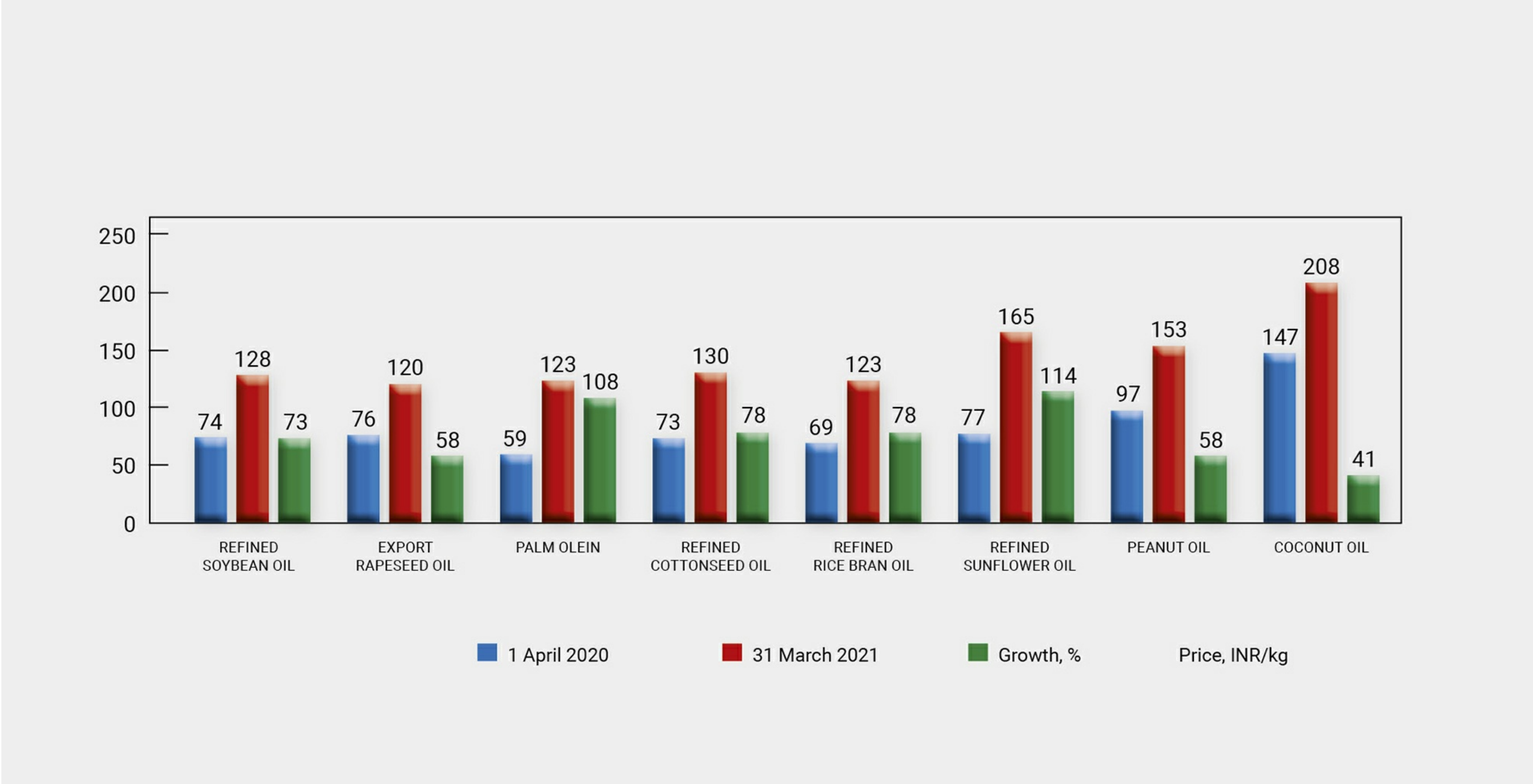
Production shutdowns led to a supply squeeze, and the closures of major sea terminals disrupted supply chains. This was followed up

Production shutdowns led to a supply squeeze, and the closures of major sea terminals disrupted supply chains.

THERE IS A SHORTAGE OF MANY COMMODITIES ON THE MARKET TODAY, MEANING PRICES SHOT UP AND USHERED IN PLENTY OF UNCERTAINTY IN THE PRODUCTION PLANNING PROCESS

Let’s us take, for example, the vegetable oil segment: rapeseed, palm, coconut, peanut and so on. They are used to produce additives that change the properties of polymers; it is these additives that our company supplies to the Russian market. The recent growth in almost all oil types ranges from 45% to 110% (see the graph below: Growth in Price of Oils in 2020–2021). Moreover, prices soar immediately across the entire segment when there is any shortage, even for a single oil type. Manufacturers are trying to replace the more expensive oils, which creates pressure on the entire segment. There are a myriad of reasons for this. Firstly, there has been an increase in oil consumption from the global food industry. Recently, for example, there have been reports suggesting that rapeseed oil can help boost the immune system (and help it fight COVID-19), translating to a sharp increase in consumption. Secondly, oil producers (oil mills) halted production during lockdown. A deficit emerged that is yet to be filled. Thirdly, there has been a growth in the use of biodiesel, which is made using these biological materials. Fourthly, we have seen crop failures. The key producers of, say, palm oil, are located in South-East Asia (Malaysia and India).

Growth in Price of Oils in 2020–2021



People expected a September bumper crop in Malaysia this year, but it never came to pass. As a result, prices jumped sharply. This price rise was compounded by the Indian authorities deciding to hold vegetable oils for several months, limiting exports of them. Canada, traditionally an exporter of canola (a type of rapeseed), has turned into a net importer this year. On top of this, there are constant logistical setbacks due to a shortage of ships and containers, coupled with the fact that Asian ports are still struggling to operate normally amid the ongoing pandemic. Prices for container shipment from this region have increased sevenfold. All of these factors play into higher prices for final products in the industry.

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– How has the production activity of companies shifted amid these market factors?

– Our company has been in the market for more than 16 years, and over this time we have experienced a variety of situations, but the current circumstances are unprecedented. On the one hand, the economy has begun to recover from lockdown. Polymer consumption is growing. The consumption of masks, gowns and protective suits has become a powerful driver of this growth. Some construction segments are also posting growth. Packaging is growing as demand for delivery services skyrocketed amid increased safety requirements for pickup and delivery. On the other hand, in the current pricing environment, no one can guarantee stable prices and supplies. This is not the first month that we have been unable to predict the cost of raw materials and additives; it is difficult to look two or three weeks ahead, let alone two or three months. It is not surprising that the prices of many polymers are growing; after all, additives are only one of their price components.

Even if a manufacturer is holding an order in their hands, they are still sometimes struggling to fulfil it. For example, in order to produce products with certain properties, an additive is needed, which we cannot even get into Russia for two to three months.

Manufacturers of plastic windows have sharply reduced their output volumes, only electing to supply products to firm orders. Warehouses are empty, and the cost of window profile is volatile.

WE HAVE BEEN FORCED TO BUILD UP OUR OWN STOCKS, EVEN DESPITE THE PRICE INCREASES, WHICH IN SOME CASES LOOK SCARY. WE ARE TAKING THIS RISK BECAUSE OTHERWISE WE WOULD NOT BE ABLE TO PROVIDE OUR CUSTOMERS WITH THE ADDITIVES THAT ARE CRITICAL TO THEIR OPERATIONS

Despite this, prices for construction projects are often firmed up in contracts. Alternatively, DIY chains are zealously defending their products from price rises. As a result, some of the manufacturers who we supply to simply halted production, either because of a lack of additives or for fear that they would not be able to sell products at a new price that reflects their new overheads. These are isolated events, but they ring alarm bells. Another method that our customers are currently working to is the just-in-time inventory system. For example, we can see that manufacturers of plastic windows have sharply reduced their output volumes, only electing to supply products to firm orders. Warehouses are empty, and the cost of window profile is volatile.

– This is a worrying outlook. How do you think the situation will change in the short to medium term? How are you reacting to the circumstances?

– We have been forced to build up our own stocks, even despite the price increases, which in some cases look scary. We are taking this risk because otherwise we would not be able to provide our customers with the additives that are critical to their operations. But at the same time, we understand that this price rally may not end well. After a certain time, the purchasing power in the economy will simply preclude purchasing products at constantly-rising prices. Production will begin to wind down, and a number of players will not be able to stay afloat. On the one hand, prices will begin to dump when manufacturers need to urgently pull money out of goods to repay loans. On the other hand, the volume of new products on the market will begin to fall as players go bust. It is impossible to predict who will make it through.

We are currently seeing cases of market players hiking prices, capitalising on the market imbalance and supply squeeze across a number of sectors. Yet, this kind of strategy causes you to lose out in the long run.

PERHAPS BY FEBRUARY 2022 THE MARKET WILL HAVE STABILISED, GIVEN A TRADITIONAL DECLINE IN ACTIVITY AT THE START OF THE YEAR. BUT HARDLY ANYONE CAN SAY FOR SURE HOW THE DELTA VARIANT WILL PLAY OUT, WHAT FUTURE SURPRISES NATURE HAS IN STORE FOR US

To remove some of the uncertainty that has weighted on the market, we offer to share risk with manufacturers, and we also try to close firm contracts and fix prices. This keeps work moving under the current conditions. All the same, it is currently very difficult to predict the situation in six months from now. Many experts claimed that the deferred demand would be met by the summer, and that the price increase would cool the market down. However, we are still faced with a shortage of many polymers, both in Russia and abroad. Prices were expected to have stabilised by the summer, but it is already autumn, and things still seem to remain out of balance. Perhaps by February 2022 the market will have stabilised, given a traditional decline in activity at the start of the year. But hardly anyone can say for sure how the Delta variant will play out, what future surprises nature has in store for us or predict whether the rapeseed harvest (now expected for February) will be a good one. All that is left for us to do is wish our partners and customers patience and success with their business, which I think we all will definitely need in 2022!

I also want to mention that we are currently seeing cases of market players hiking prices, capitalising on the market imbalance and supply squeeze across a number of sectors. I can understand why they are doing this, but this kind of strategy causes you to lose out in the long run. This move affects long-term relationships with customers, but most importantly, it changes your people's mindset. The imbalance will sort itself out eventually, and when the time comes to compete for customers again, your employees will struggle; meanwhile, it will take a long time and cost a lot of money to restore your reputation.

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