

CHEMICAL BUSINESS FOCUS

A MONTHLY ROUNDUP AND ANALYSIS OF THE
KEY FACTORS SHAPING WORLD CHEMICAL MARKETS

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- West European phenol market remains tight despite capacity increase
- Asian markets very tight on start of major turnarounds
- USA acetone market weaker following problems at MMA plant
- Hexion acquires Arkema formaldehyde resin business
- Borealis new phenol capacity delayed
- There has been no let-up in price increases for BPA worldwide

Phenol

The supply situation in the USA has improved following the lifting of the Shell force majeure but export demand is keeping the market relatively tight and producers are looking for price rollovers. West European markets have remained tight despite the increased capacity from Ertisa and the situation has been aggravated by the late start up of the Borealis plant. Prices have rolled over. Asian markets are very tight at the start of major turnarounds and prices have increased by around \$50-100/ton.

Acetone

Continuing problems at the Rohm & Haas MMA plant have affected acetone demand and the market is weaker this month. Truck and Rail prices have eroded slightly but Q2 contract negotiations are not yet concluded. West European markets are balanced and prices have remained stable ahead of the Q3 propylene negotiations. Asian markets are very tight because of local turnarounds and limited deep-sea imports. Prices have increased by around \$80/ton.

Phenolic Resins

Demand in the USA is running at budget levels but this means 0-2% down compared to last year. Automotive industry sectors are looking healthy but overall demand has been dragged down by the problems in the housing sector. West European demand is in line with GDP but producers are continuing to have problems in securing all their phenol requirements. Some resin producers are now allocating product to their own customers. Price increases generally in Q2 appear to have been largely successful and producers are looking for a further increase in Q3.

Bisphenol A

In the USA, formula based contract prices for June are around 88-89c/lb with freely negotiated prices in the somewhat wider band of 86-90c/lb. Demand is good. In West Europe formula BPA prices increased by just Euro10-20/kg for June, but maintaining the long-run upward trend in prices. In China, spot prices remain around the \$2000/ton cfr mark, with Q2 contract prices in NE Asia at \$1800-1850/ton cfr.

PRICE MONITOR

US PRICES

		21 March 2007 ¢/pound	23 April 2007 ¢/pound	22 May 2007 ¢/pound	18 June 2007 ¢/pound		18 June 2007 \$/ton
Phenol	Bulk Contract	74.0-82.5	74.5-83.0	82.0-90.5	N.A. §	Fr.Eq.	N.A. §
	Export	62.0-65.0	64.0-67.0	64.0-69.0	67.00-68.00	FOB	1477-1499
Acetone	MMA Use	42.50	N.A.	N.A.	N.A. §	FOB	N.A. §
	Chemical, solvent	45-50	49-50	53-57	52-57	DEL	1146-1257
	Export	N.A.	36-39	N.A.	39-40	FOB	1146-882
Bisphenol A	Contract (Hopper cars)	81-82	82-83	85-86	86-90	DEL	1896-1984
Phenolic Resin	General Purpose	138-143	138-143	147-152	147-152	DEL	3241-3351

WEST EUROPEAN PRICES

		€/ton	€/ton	€/ton	€/ton		\$/ton
Phenol	Bulk Contract	1278-1472	1308-1502	1362-1556	1362-1556	DEL	1833-2094
	Spot Domestic	1500-1600	1400-1450	1400-1450	1400-1450	DEL	1884-1952
Acetone	MMA use	840-870	870-890	870-890	870-890 §	DEL	1171-1198 §
	Chemical, solvent	680-760	710-800	720-800	720-800	DEL	969-1077
	Export	534	530-552	548	599	FOB	806
Bisphenol A	Contract*	1380-1450	1410-1500	1430-1520	1450-1530	DEL	1952-2059
Phenolic Resin	Felt Bonding	1520-1670	1520-1670	1620-1770	1620-1770	DEL	2180-2382

ASIAN PRICES

		\$/ton	\$/ton	\$/ton	\$/ton	
Phenol	Import Spot	1410-1500	1434-1550	1481-1550	1528-1660 §	CFR
Acetone	Import Spot	820-830	840-870	870-890	950-980	CFR
Cyclohexanone	Import Spot	1700-1750	1725-1775	1750-1775	1750-1775	CFR
Bisphenol A	Spot	1820-1880	1900 †	1950-2000	1970-2030	CFR
Phenolic Resin	General Purpose	1925-2025	1925-2025	1975-2075	1975-2075	DEL

§ = See text † = Provisional * = Excludes formula based contracts > = Freely negotiated prices only

Note: Tecnon OrbiChem has decided to discontinue reporting the "Contract" Phenol price in the West European and US sections of the price monitor in favour of the "Bulk Contract" price.

Refer to Issue Number 85 dated 25th January 2002 for an explanation of the background to this change.

Current one US dollar equivalent (7 June 2007)

€: 0.743 £: 0.505 (1/1.980) Yen: 121.4 NT\$: 33.04 Won: 926.75 RMB Yuan: 7.65

Current one € equivalent (7 June 2007)

US\$ 1.346 £: 0.680 (1/1.471) Yen: 163.4

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UNITED STATES CUMENE EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
Brazil	3,049	1,063	7,049	-
Germany	34,350	1,067	72,350	15,750
Netherlands	15,250	1,073	23,750	5,000
India	-	-	-	1,500
Taiwan	-	-	4,197	9,000
Others	4	3,863	21	-
Total	52,653		107,367	31,250

\$/ton figures are calculated from customs data and may not reflect market prices

JAPANESE CUMENE EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
India	1,488	1,049	4,479	976
Indonesia	999	1,072	999	-
China	3,120	1,060	3,120	-
South Korea	9,630	939	34,767	33,199
Taiwan	7,998	1,047	23,894	13,684
Total	23,235		67,259	47,859

\$/ton figures are calculated from customs data and may not reflect market prices

CUMENE

North America

The Flint Hills plant in Corpus Christi, Texas is back in production in June following the turnaround in May. The plant was down for slightly longer than expected but there have been no serious disruptions in the market. The Ineos plant in Corpus Christi, Texas is also planned for turnaround at the end of June but the plant is only expected to remain closed for seven to ten days.

PHENOL

North America

Demand for phenol in North America has remained strong, primarily driven by a very active BPA sector. The fibres sector is also running well but demand from resins is down compared to last year, mainly influenced by poor activity in the construction industry. Export demand is still very strong, particularly from West Europe, where markets remain tight even after the start up of new capacity in Spain.

Phenol supply has improved in June. Shell has lifted the force majeure introduced last month and all the major plants are running without significant problems. Availability varies from supplier to supplier but the strong export demand is keeping the market tighter than expected. There are no turnarounds planned for the immediate future except for the Georgia Gulf plant in Plaquemine, Louisiana. The Plaquemine plant closed for maintenance at the end of May for about one week. The plant was restarted successfully but Georgia Gulf has discovered the need for further work and plan to close the plant again at the end of July, when the maintenance will be completed. The plant is expected to be closed for five to seven days.

Benzene prices have been falling compared to the record high last month and the June contract settled 20c/gal lower at 400c/gal (\$1198/ton) fob. Spot prices continued to fall in June and by the middle of the month were trading in the range 355-363c/gal. Phenol prices in May increased by 7.5-8.0c/lb, slightly higher than the provisional price recorded in the price monitor last month. May contract prices were therefore in the range 82.0-90.5c/lb (\$1808-1996/ton) fr eq and the price monitor has been amended accordingly.

A fall of 20c/gal in the benzene price equates roughly to 2.5c/lb off the phenol price but producers think the current tightness in the market justifies an increase in phenol margins. Negotiations are still ongoing

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UNITED STATES PHENOL EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
Canada	10,370	1,291	28,035	45,050
Mexico	1,862	1,372	3,691	4,572
Argentina	1,300	1,455	1,309	4,500
Brazil	170	940	201	100
Chile	550	1,430	2,341	570
Colombia	502	1,207	1,321	1,786
Belgium	1,050	1,374	1,050	8,224
Germany	2,991	1,070	8,031	4
Netherlands	7,871	1,078	18,438	21,430
India	-	-	10,650	4,700
Malaysia	3,970	1,224	12,903	3,667
Thailand	8,420	1,280	29,854	18,619
China	4,000	1,387	8,944	4,003
South Korea	-	-	-	6,095
Japan	1,037	1,243	9,017	6,193
Others	12	2,205	1,820	647
Total	44,105		137,605	130,160

\$/ton figures are calculated from customs data and may not reflect market prices

with producers arguing for a price rollover and buyers looking for the full 2.5c/lb reduction. Much of the export phenol volume is being moved on an intra-company basis but some spot volumes have been reported at prices in the range 67-68c/lb (\$1480-1500/ton) fob Gulf.

West Europe

West European demand for phenol in June remains very strong, particularly from the BPA sector. Demand from fibres this year has also been strong but problems at the DSM caprolactam plant in Geleen, Netherlands in early June may have a dampening effect. DSM declared force majeure on 4 June and this had still not been lifted by the middle of the month. Phenol demand from the resins sector has also been good.

With the start up of the new Ertisa plant at the end of April the supply side has improved but Ineos is building inventory ahead of its planned turnaround later in the year and the Borealis plant in Porvoo, Finland had not resumed manufacture by the middle of June, following its recent turnaround. The Borealis plant was originally planned to start up at the beginning of June but by the middle of the month it was unclear when the plant would be back to normal production. The Polimeri plant in Mantova, Italy is also down for turnaround over the last two weeks of June. Overall, the market remains very tight and buyers are still shopping around to supplement their contractual volumes.

The outlook for July is difficult to predict. There is normally a seasonal downturn in demand from the resin sector over the summer months and the progress of the problems at DSM is still uncertain. Assuming Borealis has the Porvoo plant back in production before the end of June, more capacity will be available to the market over July. There are also no turnarounds planned for July but Novapex and Domo will both be building inventory ahead of turnarounds planned for August and Ineos will continue to build inventory ahead of the Antwerp turnaround, which is now planned for mid-September. One of the Antwerp plants is expected to close for six weeks and the second plant is expected to be down for eight to ten weeks. These are long outages for phenol plants and with general levels of inventory in the industry low it now seems more likely that the market in July will be tighter than many buyers were hoping for. Some phenol buyers were already reporting difficulty in securing all their July phenol requirements.

Benzene prices in June remained stable with the contract price reduced by a nominal Euro2/ton bringing the new contract price to Euro868/ton (\$1160/ton) fob. Phenol prices based on benzene formulas have reduced by a similar amount but monthly contracts determined on a freely negotiated basis have rolled over leaving prices in the range Euro1362-1556/ton (\$1820-2079/ton) delivered. There is still very little spare volume to support spot domestic trades but where deals are being done prices are being heard in the range Euro1400-1450/ton (\$1871-1938/ton) delivered. No spot export volumes were reported for June but one deal was reported for early July shipment to China at \$1600/ton cfr.

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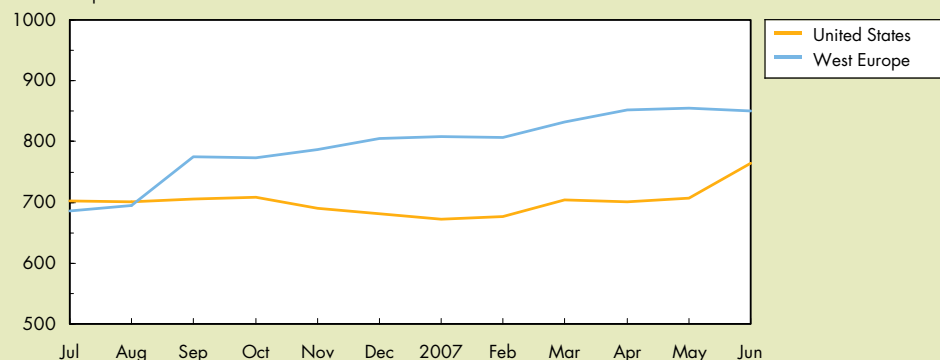
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UNITED STATES AND WEST EUROPEAN PHENOL BULK MARGIN over 0.95 BENZENE

US Dollars per Ton



TAIWANESE PHENOL EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
Australia	-	-	-	1,000
India	4,408	1,437	6,664	5,032
Philippines	-	-	1,000	-
Thailand	-	-	104	2,085
China	7,625	1,387	30,676	21,363
Japan	-	-	-	1,030
Others	96	1,536	358	2,023
Total	12,129		38,802	32,533

\$/ton figures are calculated from customs data and may not reflect market prices

CHINESE PHENOL IMPORTS

	April 2007		Jan-Apr 07	Jan-Apr 06
	Tons	\$/Ton	Tons	Tons
United States	994	1,400	5,022	3,091
Belgium	5,980	1,460	27,059	8,271
Finland	-	-	-	3,044
Germany	-	-	1	4,910
Italy	-	-	3,020	2
Netherlands	-	-	1,501	-
Spain	-	-	10,004	21,730
Russia	1,784	1,391	3,227	2,538
Singapore	-	-	1,950	3,697
South Korea	5,838	1,476	17,826	6,050
Taiwan	8,999	1,447	35,018	28,680
Japan	10,053	1,412	38,927	9,885
Others	-	-	18	1
Total	33,648		143,573	91,899

JAPANESE PHENOL EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
Malaysia	-	-	-	1,998
Thailand	16	1,718	14,516	12,419
China	11,906	1,302	29,842	7,945
Others	38	2,210	152	89
Total	11,960		44,510	22,451

\$/ton figures are calculated from customs data and may not reflect market prices

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Demand for phenol in China has been very strong over the first four months of the year with imports up by more than 56% compared to the same period last year. At this rate 2007 imports would break the 300kton/annum level last seen in 2003 before local capacities were expanded. Strong demand continues in June from China and from local Asian BPA plants, which have been contributing significantly to phenol demand in the region.

The market is extremely tight in June, partly because of strong demand but primarily because of the very tight supply position that has developed over the last few months. Planned turnarounds at two of the Mitsui plants in the region have reduced availability and tight markets elsewhere in the world have limited any significant support from the USA or West Europe. The Mitsui plant in Osaka, Japan is scheduled to close over the month of July and the Singapore plant closed mid-June for an eight-week turnaround, which will also allow Mitsui to expand the plant by 50ktpa, bringing total capacity up to 300ktpa.

Mitsui set its Asian contract price (ACP) for phenol at \$1620/ton for June, which represents an increase of \$70/ton compared to the previous month. The Mitsui ACP includes anti-dumping duty (ADD) at 6% so the price nets back to \$1528/ton cfr China. Other prices have also been reported at \$1600/ton and at \$1660/ton, leaving the net price range for June at \$1528-1660/ton cfr China. Prices paid by Chinese buyers, after the addition of ADD, are between \$1620-1660/ton cfr.

ACETONE

North America

Start up problems following the turnaround of the Rohm & Haas plant last month have continued into June and the effect on demand for acetone is making the market look longer than expected. Cyro is also reported to be turning around its MMA plant this month, which will also make life difficult for those acetone producers carrying high inventories. Availability differs significantly from producer to producer but strong phenol demand is causing significant volumes of acetone to be produced.

Most of the refinery outages that affected the supply of refinery grade propylene (RGP) earlier in the year are now over. High gasoline inventories are also reducing the demand for propylene from refinery alkylation units and the supply of RGP and propylene generally has improved. RGP spot prices started falling at the end of May and the June contract price eventually settled at 45.75c/lb (\$1009/ton) delivered. This represents a 2.5c /lb reduction compared to May.

UNITED STATES ACETONE EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
Canada	1,146	957	3,026	3,117
Mexico	5,886	821	27,257	23,084
Argentina	-	-	1,048	-
Brazil	2,850	804	7,654	2,578
Dominican Republic	300	888	606	28
Guatemala	129	964	390	164
Peru	977	921	1,701	1,576
Venezuela	1,226	898	1,686	1,238
Germany	-	-	1,000	-
Netherlands	3,958	705	6,941	3,000
United Kingdom	1,888	700	1,888	-
India	-	-	1,000	-
Singapore	13	2,433	1,018	49
Thailand	2,025	512	7,123	2,118
China	4	-	3,009	3,021
South Korea	18	3,310	5,074	5,086
Taiwan	42	2,243	58	1,043
Others	445	1,333	2,192	1,781
Total	20,907		72,671	47,883

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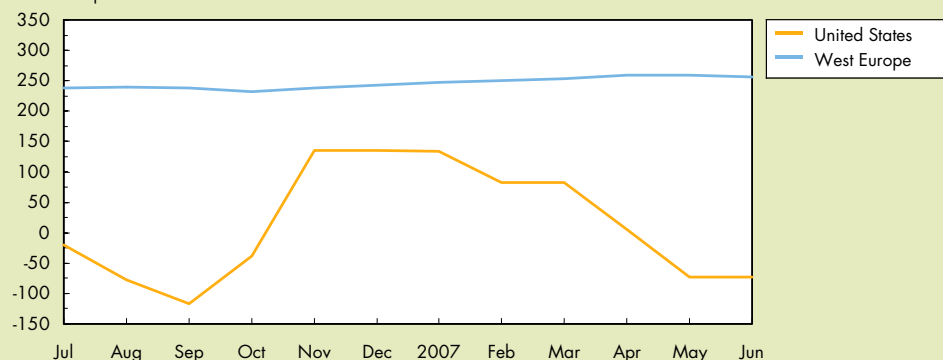
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**UNITED STATES AND WEST EUROPEAN
ACETONE MMA USE MARGIN over 0.81 PROPYLENE**

US Dollars per Ton



Acetone prices in the truck and rail market have responded to the falling propylene prices and weaker acetone market in June. Not all producers have followed the prices down and there have been mixed reports from different suppliers. Most of the volume is in the range 52-57c/lb (\$1147-1257/ton) delivered before discounts but some prices have been mentioned on either side of this range. Spot export business was reported at 39-40c/lb (\$860-882/ton) fob Gulf.

Prices for Q2 contracts are still being discussed but a settlement should be imminent following the publication of the June RGP contract price. The negotiation for the Q2 acetone price appears to be focusing on a range between 0-2c/lb increase.

West Europe

The market for acetone in West Europe has been balanced in June, with the additional capacity from Ertisa not yet making a big impact on the market. Demand has remained strong. The turnaround of the Repsol plant in Tarragona, Spain is going ahead as planned in June but otherwise demand from the MMA and solvent sectors of the market is good. The delay in the start up of the Borealis plant and the build up of inventory ahead of planned turnarounds over August to November have clearly kept significant volumes away from the market but the overall effect has been to keep the market balanced. The start up of the Borealis plant should improve availability over July and demand from the solvent sector is seasonally lower over the summer months, which may also cause the market to weaken.

Solvent sector prices have remained very stable over Q2 and in June most prices were found in the range Euro720-800/ton (\$962-1069/ton) delivered. Buyers have been pressuring for price reductions but producers are expecting an increase in propylene contract prices for Q3 and have been reluctant to give anything away in advance of the Q3 price negotiations. Spot export business has been limited but one parcel of business to the USA was identified at \$800/ton (Euro599/ton) fob Rotterdam. Contract prices in the MMA sector were agreed for the quarter and remain in the range Euro870-890/ton (\$1163-1189/ton) delivered, with most of the volume being sold at the higher price.

Asia

The Asian market for acetone is extremely tight. Demand has been strong throughout the year. MMA plants have been running well in the region as a whole and import demand from China has increased by nearly 30% compared to last year. Solvent sector growth in China has been locally estimated at 10% this year and although solvent demand over the summer months is seasonally low in China, as yet there has been no sign of any slowdown.

Supply side factors are primarily responsible for the tight market and in particular the planned turnarounds at the Mitsui plants in Singapore and in Osaka, Japan. The plant in Singapore will close for around eight weeks and the build up of inventory in advance of the plant closure has left Mitsui with very little for the spot market. Imports from the USA and West Europe have also been very limited, leaving the spot market short of product.

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CHINESE ACETONE IMPORTS

	April 2007		Jan-Apr 07	Jan-Apr 06
	Tons	\$/Ton	Tons	Tons
United States	4,915	831	5,919	9,033
Belgium	3,135	784	8,148	9,548
Italy	-	-	-	2,020
Spain	-	-	-	1,900
Russia	465	809	6,273	10,157
South Africa	730	850	1,730	2,569
Singapore	176	756	870	12,582
South Korea	13,088	838	42,653	13,993
Taiwan	18,530	837	62,102	45,000
Japan	10,870	818	36,944	21,409
Others	1	2,228	3	-
Total	51,910		164,642	128,211

\$/ton figures are calculated from customs data and may not reflect market prices

TAIWANESE ACETONE EXPORTS

	March 2007		Jan-Mar 07	Jan-Mar 06
	Tons	\$/Ton	Tons	Tons
UAE	256	936	256	-
India	1,064	794	1,333	1,064
Indonesia	294	777	294	54
Philippines	97	788	1,077	316
Sri Lanka	186	882	262	51
Thailand	1,500	773	1,500	-
China	11,198	768	37,973	26,703
Hong Kong	13	962	2,514	3,001
Japan	1,737	834	3,782	2,855
Others	152	1,037	391	647
Total	16,497		49,382	34,691

\$/ton figures are calculated from customs data and may not reflect market prices

Asian propylene prices were starting to weaken at the end of May but the tight acetone market has allowed acetone prices to increase substantially in June. Acetone producers were already starting to offer at prices over \$900/ton in the second half of May and by mid-June spot prices were in the range \$950-980/ton cfr China. The situation is still dynamic in the second half of June with offers heard over \$1000/ton. South East Asian prices are at similar levels. Domestic prices in China have also increased with prices in the central region in the range Rmb9100-9200/ton ex tank. Producers have also been successful in increasing prices in Japan. Over the last two months acetone prices have increased by 11-15yen/kg and producers are now looking for a further increase of 20yen/kg.

BISPHENOL A

North America

Most formula based contract BPA prices will be largely influenced by the 56c/gln surge in the May benzene contract price leaving prices up to 6c/lb higher and in the range 88-89c/lb. So far as freely negotiated contract prices are concerned, June prices increased by up to 8c/lb (4c/lb plus a TVA of 4c/lb) for large customers but up to 12c/lb (8c/lb plus 4c/lb TVA) for small buyers. This gives overall June prices in the range 86-90c/lb.

Market demand is good with indications that the economy as a whole in the USA is doing better than expected. Retail spending in May was 1.4% ahead for the month. One view is that BPA will remain tight through 2007-2008 and only getting long in 2009 which could be coupled with an economic downturn. There has been a report that one producer is currently experiencing some quality problems.

The big news this last month has been the acquisition by Sabic of GE Polymers plastics business, including polycarbonate resins. The agreed price was \$11.6bn. Sabic were keen to obtain the company against competition from Apollo Management and Basell. Sabic are looking to develop their businesses further

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downstream and to add value. They are also anxious to provide more employment in Saudi Arabia with a rapidly growing young population.

PRICE MONITOR

In the polycarbonate market, GP grades are in the range \$1.85-2.10/lb, delivered whilst extrusion grades are \$1.75-2.05/lb, delivered.

CUMENE

North America

West Europe

The twin pressures on BPA prices from increased raw material costs and a fairly tight market continue. Freely negotiated prices increased by Euro10-20/ton for June to give a range of Euro1450-1530/ton, delivered. Further price increases for freely negotiated prices of Euro30-60/ton are being sought for July.

PHENOL

North America

West Europe

Asia

So far as formula based BPA contract prices are concerned, the key cost element, benzene remained more or less constant for June at Euro868/ton compared with the May contract price of Euro870/ton. Indicative prices for some formula contract prices remain in the range Euro1410-1430/ton, delivered.

ACETONE

North America

West Europe

Asia

Epoxy resin demand in West Europe remains surprisingly strong. The average growth rate in West Europe over the last 20 years has been pretty close to the overall growth in Gross Domestic Product (GDP). For the last 18 months the market has been registering growth of GDP plus or around 5-6% on average. The motors for this enhanced growth are not only epoxy laminates for windmills but also growth in coatings (powder coatings are taking over from much of the metal plating sector) and the surge in construction.

BISPHENOL A

North America

West Europe

NorthEast Asia

There is some spot BPA business in West Europe at around Euro1500/ton but no Russian product. This is reported to be going to China at present.

PHENOLIC RESIN

North America

West Europe

In the polycarbonate resins market, GP moulding grades have been in the range Euro2.85-3.15/kg. However, a price increase of Euro0.20/kg has been announced by one major for June. From a PC perspective, the market looks to be quite balanced.

Northeast Asia

Spot BPA prices in the China market are relatively stable at around \$2000/ton cfr. The effect of the provisional anti-dumping duties (ADDs) announced in March has broadened the price range a bit, however. Supply sources paying the typical ADD duties of 6-8% are receiving prices in the range \$1970-1980/ton cfr (before ADD). However, companies from countries such as the USA, where no ADD is applicable, are obtaining cfr prices in the range \$2000-2030/ton. The zero rate of ADD for the USA has resulted in increased exports to China from at least one company to the extent of 3-4kt per month. Domestic Chinese BPA prices have risen to around Rmb20500/ton.

The BPA demand in China is somewhat volatile. The epoxy resin market which has seen strong growth over the past year has shown a slight decline recently. Second quarter BPA contract prices for the polycarbonate

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CHINESE BISPHENOL A IMPORTS

	April 2007		Jan-Apr 07	Jan-Apr 06
	Tons	\$/Ton	Tons	Tons
United States	4,344	1,792	11,429	1,610
Belgium	-	-	-	2,570
Germany	339	1,854	579	390
Spain	638	1,831	2,918	1,300
Russia	4,252	1,732	16,494	13,474
Singapore	73	719	7,166	7,353
Thailand	-	-	-	1,500
South Korea	6,870	1,820	30,766	27,733
Taiwan	11,398	1,805	43,521	50,952
Japan	4,424	1,774	20,996	17,750
Others	10	1,830	855	508
Total	32,348		134,724	125,140

\$/ton figures are calculated from customs data and may not reflect market prices

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sector (which are largely formula-based, of one sort or another) were in the range \$1800-1850/ton cfr. Contract prices for Q3 have yet to be negotiated.

PRICE MONITOR

April imports of polycarbonate resins to China were 90.2kt, an increase of 25% on April 2006.

CUMENE

North America

Of plant news, Thailand's PTT Phenol plans an integrated BPA plant of 150ktpa to be located at Mab ta Phut and ready for commercial production early in 2010.

PHENOL

North America

West Europe

Asia

PHENOLIC RESINS

North America

Most resin producers were not expecting great things of 2007 and had adjusted their 2007 budgets down accordingly, especially those heavily exposed to the wood panel market. The first half of the year has borne out those expectations with reports of volume sales running close to budget and the full year sales compared to last year are expected to be down by around 2% or at best flat. The "star" performers have been those sectors associated with the automobile industry, particularly friction related products, which are reported to be doing well. Replacement markets are doing better than original equipment markets (oem's) however, which have been hindered by the poor performance in new car sales. May has been a good month according to figures just released by Autodata, with growth of 5% recorded for Light Vehicle sales compared to May last year. Year to date sales on the same basis are down by 1.2% however and sales over the last twelve months have been flat at best.

ACETONE

North America

West Europe

Asia

BISPHENOL A

North America

West Europe

NorthEast Asia

Sales of resins to the foundry sector are also poor this year but the main downturn has been in those sectors driven by the construction industry. Structural wood panel production in Q1 was up by 2.5% compared to the previous quarter according to the Engineered Wood Association but down 11% compared to the same period last year. Latest forecasts for this year are 40.2 billion square feet, which would be down 5.2% on last year and down 6.7% on the record production year of 2005.

PHENOLIC RESIN

North America

West Europe

New privately owned housing starts were down in April by 13.2% compared to April 2006 according to US Census Bureau figures. This monthly decline is the lowest since June last year and although the numbers are still large the rate of decline has started to slow and this is just beginning to show in the twelve-month moving average illustrated below. It is still too early to bet the house on this one but industry watchers are forecasting better times next year and these may be the first seeds of a recovery.

ACCESS

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West Europe

Phenolic resin producers are having just as much trouble sourcing their phenol requirements in June as they did in May. Up until last month most resin producers had been able to keep their own customers supplied by reorganising production schedules, running down inventory levels and a variety of other coping strategies. In June producers are reporting that they are now scraping the bottom of the barrel on inventory and have had to impose allocations on their own customers. Producers are also having difficulty in finding July phenol and most are expecting July to be a problem month similar to June. Demand for phenolic resins in West Europe usually tapers off over the summer months as downstream plants close over the holiday period. This may help the situation over August but with inventory levels so low, orders could be sustained as buyers try to rebuild their inventories.

Demand for phenolic resins in June has been good but this may to some extent reflect the tight supply situation as downstream buyers try to cushion themselves against anticipated shortages. Demand over the first half of the year does look healthy however but growth is not expected to exceed GDP growth.

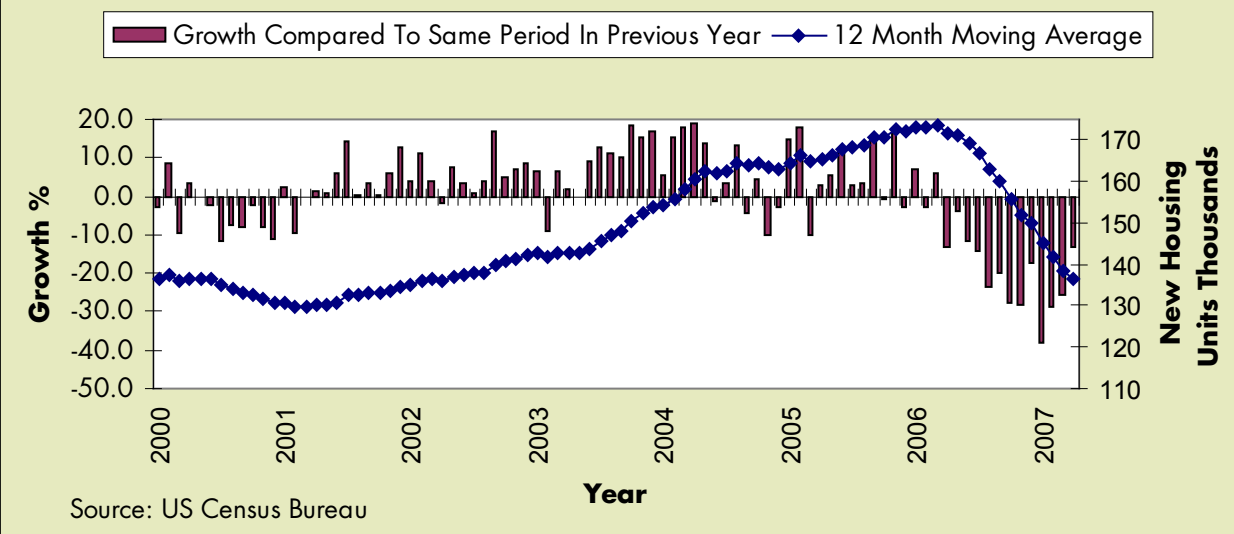
Producers have been largely successful in implementing their price increases over Q2 and further increases were being sought following the Euro54/ton increase in May phenol prices. Discussions were still ongoing this month but with the rollover of June phenol, some resin producers were now seeing this as a Q3 increase.

Hexion has been very active in developing its phenolic resins business since the merger of Borden and Bakelite and has recently announced the acquisition of another resin company in Germany. The deal is

not yet complete but, subject to the usual government reviews, Hexion will take over the German resin and formaldehyde business of Arkema in the third quarter. In addition to formaldehyde Arkema makes urea, phenol and melamine based resin systems, which are mainly used in the wood panel industry for oriented strand board (OSB), particle board and medium density fibreboard (MDF). The business employs one hundred people and in 2006 had revenues of approximately Euro101 million.

Dynea has also been on the acquisition trail, announcing the acquisition of Formaldehydwerk Schwarze Pumpe GmbH (RSP), a formaldehyde producer located close to Dresden in Germany. FSP is already the formaldehyde supplier to the Dynea sites at Erkner in Germany and Trzemeszno in Poland and the acquisition will secure the supply of formaldehyde to these sites.

USA New Privately Owned Housing Starts



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