

Dow's \$400/tonne Asia VAM hike shocks market

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SINGAPORE (ICIS news)--A move by vinyl acetate monomer (VAM) producer Dow Chemical to raise its contract price by \$400/tonne with immediate effect has taken market players by surprise, buyers and other sellers said on Wednesday.

Dow said in a statement issued late on Tuesday that the hike was on account of tight global supply as well as firming raw material and freight costs.

Regional buyers and producers described the move as "crazy" and "shocking" and said the producer was likely pricing itself out of the market.

The price upswing was mainly supply-driven as feedstock acetic acid spot values had softened, while ethylene prices had staged a rebound in Asia, buyers in China and southeast Asia said.

Dow also targeted a €300/tonne (\$413.8/tonne) increase for contract prices in Europe.

"This kind of thing has never happened before," a southeast Asia-based key buyer said, adding that the highest increase seen in Asia was typically a \$150/tonne hike during a force majeure situation.

Some players in the downstream emulsion and coatings sector estimated that Dow's VAM prices would be about \$1,550/tonne CFR (cost and freight) Asia, which was clearly unacceptable in the current market climate, they said.

Other players rationalised that the hefty price increase could differ for various end-use segments, with the downstream ethylene vinyl acetate (EVA) more tolerant of higher VAM prices than the emulsions/coatings sector as margins in the former were still healthy due to current record high prices of EVA in Asia, distributors and buyers said.

"Perhaps the \$400/tonne hike is just a theoretical figure," a southeast Asia-based distributor said. "Otherwise the producer will most likely get rebuked by their customers."

Meanwhile in Thailand, an August regional deal for VAM emerged at a record high of about \$1,300/tonne CFR Map Ta Phut, representing a \$70/tonne increase over a settlement made in the second half of July.

"There's still margin in the downstream EVA sector at such prices," the buyer said.

Selling notions of northeast Asian late August VAM cargoes were also pegged higher at \$1,250/tonne FOB (free on board) or the CFR equivalent of \$1,300 /tonne CFR Asia due to limited inventory, against late June levels of \$1,200/tonne CFR Asia.

The seller said deals to Europe would be around \$1,400/tonne CFR after including freight rates of \$150/tonne, adding that it had no firm spot offers as they were restricting sales to regular customers due to limited inventories.

Nevertheless, such prices continued to sideline buyers in the downstream emulsion/coatings sector.

"Some emulsion manufacturers in Malaysia and Indonesia have already cut production rates since mid-July as they could not pass on the high raw material costs," a key distributor said. "As it is, VAM prices have already risen a hefty \$200/tonne in the last two months," he added.

Key VAM producers in Asia include global producer Celanese, Taiwan's Dairen Chemical, Japan's Showa Denko, Korea's Asacco and China's Sichuan Vinylon.

(\$1 = €0.72)