Top Five Petrochemical Trends for 2024

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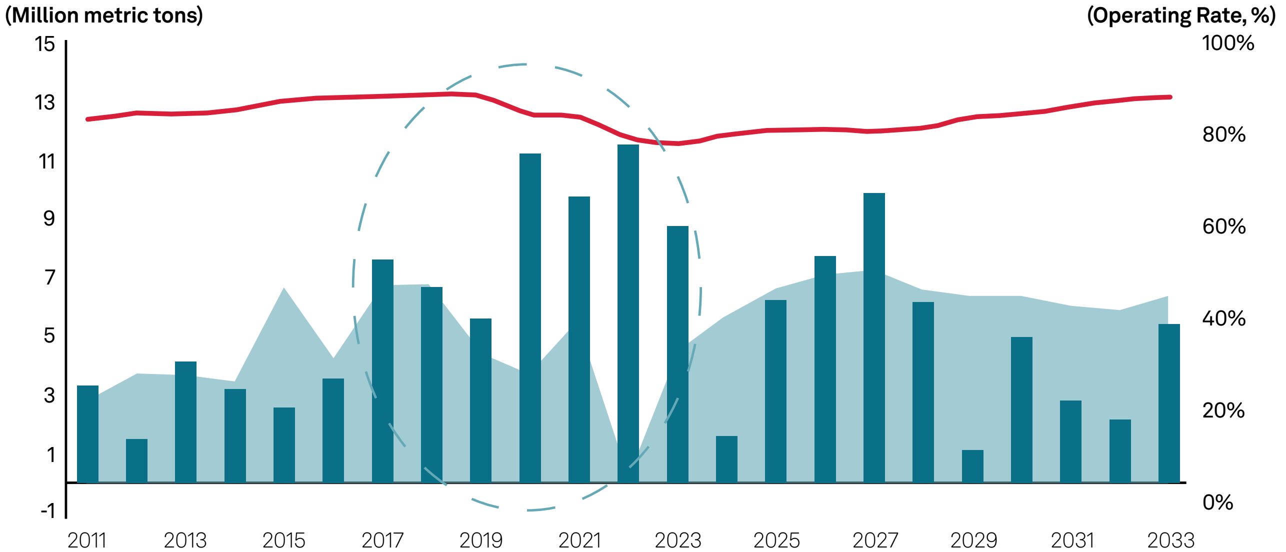
1. The global petrochemical sector will continue to be plagued by oversupply and weak demand in 2024.

China has added significant petrochemical capacity—the country was responsible for 60% of incremental capacity additions in 2023, which pushed global utilization rates below 82%. Many value chains remain overbuilt, particularly olefins and derivatives. Intermediates for gasoline markets are one exception. Global sector utilization rates are expected to remain low in 2024 and into 2025.

a) **Global excess polymer capacity in 2024 means that low-price volumes will be available for converters.** This scenario will continue to put pressure on higher-cost European and Asian producers, while North America and Middle East producers remain advantaged because of their access to low-cost ethane feedstock.

Global ethylene capacity vs demand growth

(Million mt)



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Source: S&P Global Commodity Insights

According to S&P Global Commodity Insights, global ethylene capacity outstripped demand between 2018-2023, resulting in a trough of oversupply and expected low margins for 2023-2027. During the 2018-2023 period, 54 million metric tons (MMT) of global ethylene capacity was brought onstream, while demand growth registered just 25 MMT.

2. The health of the Chinese economy will be critical to the global petrochemical sector health in 2024.

China is the largest producer and consumer of chemicals, so the health of the industry in 2024 will likely hinge on how much Chinese consumers and its construction industry will spend. Both Chinese housing infrastructure and commercial construction is overbuilt, and the massive debt China leveraged to finance those investments is burdening its economy.

3. China has made significant progress in its efforts to increase its chemical self-sufficiency, but the country will remain a net importer of ethylene derivatives.

China will import about 20 MMT of ethylene derivatives (primarily polyethylene and ethylene glycol) from the US and Middle East during the next 10 years.

a) **Oversupply and weak economic conditions have driven margins to near or at zero, and this continued low-profitability environment in 2024 will lead to project cancellations and/or delays. As capacity-utilization rates remain low, the need for rationalization will be high, particularly for high-cost producers in the European region with smaller, older facilities that are not integrated.** Europe is likely to become more import dependent if its higher-cost petrochemical units close. Rationalization tends to proceed more slowly and at a lower rate than required for industry to return to profitability.

b) **Beyond rationalization, in a low-profitability environment, older, smaller facilities may face double jeopardy. They also could be axed as part of corporate decarbonization strategies, since decarbonization costs may outweigh financial and sustainability benefits.**

4. The current inflationary and weak demand environment is slowing the momentum of sustainability and decarbonization initiatives.

Sustainability has two main pillars within chemicals 1) Decarbonization (CO2 emission reduction) and 2) Plastics circularity. Both pillars face investment challenges during 2024. Petrochemical companies focus on maintaining profitability and managing costs as demand weakness persists, so higher-cost investments in sustainability, while critical, will take a backseat in 2024.

a) **Low-price virgin polymer prices are creating a disadvantage for recyclers and threatening sustainability targets in 2024 and beyond.** Low, virgin polymer prices have placed recyclers under economic pressure, with some converters preferring the lower-priced virgin resin while economic conditions remain weak. Short-term recycling targets are likely to be missed.

b) **Larger polymer producers will increase acquisitions of recyclers to enable their supply chains for recycled resin.**

c) **New legislation or emissions targets are changing the cost of carbon, including the progress of the EU on the inclusion of organic chemicals and polymers within the CBAM (Carbon Borders Adjustment Mandate).** New policies and regulations for plastics circularity are expected in 2024, particularly the Intergovernmental Negotiating Committee treaty to end plastic waste.

5. European regulators are losing their appetite for any chemical investments.

European government and policy makers' attitudes toward new chemical investments continue to sour, even if projects offer a lower carbon footprint. If this trend is not reversed, will this stall the already limited petrochemicals investments given that even low-carbon solutions are not acceptable to European regulators?

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