



The 2013 outlook of the European styrene butadiene rubber (SBR) market is very uncertain as tyre sales look set to continue falling in 2013 driven by poor car and replacement tyre demand.

About two-thirds of SBR output is used by the tyre industry.

The monthly contract price of 1500 grade SBR in December 2012 was at €1,980-2,050/tonne (\$add conversion) free delivered (FD) northwest Europe (NWE), while 1723 grade was at €1,880-1,920/tonne (\$2,507-2,560/tonne) FD NWE. The price of 1783 grade was at €1,830-1,870/tonne FD NWE.

The last time SBR prices were so low was in February 2011, and further price drops are likely during the first quarter of 2013, sources said.

SBR 1500 grade spot prices are at €1,750-1,850/tonne FD NWE, while 1723 and 1783 are at €1,700-1,750/tonne FD NWE, the lowest since December 2010.

Because feedstock costs are relentlessly high and there is no sign of relief, SBR producers will have to face some tough choices next year. They will either have to cut operating rates to balance supply with demand if sales do not pick up, or shut down for maintenances, sources said.

Right now, very few sources think that demand would pick up during January as downstream demand is poor. The consensus is that the first half of 2013 will probably bring no real improvement, and even a potential recovery in the third quarter will be short lived as during the fourth quarter demand traditionally slips as plants destock and shut down for the Christmas and New Year holiday period.

A major SBR manufacturer said that there is no reason for SBR demand to increase during the first half, looking at forecasts about car and tyre sales.

In its latest report, the Germany-based Centre of Automotive Management forecast that car sales in Europe will continue a decline which began in the aftermath of the

eurozone debt crisis and the international banking crisis back in 2008-2009.

Major tyre manufacturers in Europe have also painted a gloomy picture about 2013. Because fuel prices are high and people drive less they need fewer tyres, which all mean that European demand will be unlikely to pick up in the near term.

The situation is somewhat better in emerging countries where the burgeoning middle-classes can afford to buy cars, supporting tyre demand.

However, with shrinking incomes and growing debts, the main concern of European consumers is to pay their debts off and increase their savings in case things get worse, and this has a massive impact on sales of cars and replacement tyres.

And with budget cuts, falling central expenditure and the end of many government incentives such as scrap car schemes that helped car and tyre sales, the industry has been left to its own devices to deal with the situation.

During the first nine months of 2012 exports from the EU were booming, up 45% from the same period in 2011, which helped EU producers sell surplus material outside Europe. However, because European feedstock butadiene (BD) and SBR prices are now higher than in major markets in Asia, the arbitrage window between the two continents is closed.

Unless European prices drop to competitive levels, there is little hope exports can rise, and in turn this presents a danger that Asian sellers will enter the European market, creating further competition in an already long market.

(\$1 = €0.75)

By Janos Gal



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