UNIVAR
CHEMISTRY DELIVERED

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Oleochemicals MARKET UPDATE

MARKET SNAPSHOT: Fatty Alcohol Imports

Mid-cuts - A push to move contract pricing up $0.02-$0.03/lb. has been successful with the support of the strengthening Malaysian ringgit and increase in commodities. More recent attempts to further increase pricing have been thwarted with weak demand from China expected to continue. In addition, the downturn in oil field surfactants continues to affect mid-cut demand and thus pricing.

Long chain fatty alcohol pricing remains steady as end use applications have continued to fuel demand.

Short chain supplies remain limited, but supply has improved slightly. Producers continue to focus supply to contracted or regular customers.

We've Updated Our Site!

We're pleased to announce that we recently updated our Chemical Associates oleochemicals website with new product and market information. Also available on the site are newly formatted Safety Data Sheets (SDS) that provide complete information on recommended and restricted use; hazardous materials classifications; label warnings; chemical composition; exposure symptoms and treatment; accidental release procedures; and more.

Chemical Associates – A Division of Univar USA Inc., offers more than 150 natural oleochemical products in 15 product categories, including coconut fatty acids, dimer acids, methyl esters, fatty alcohols, and tall oil fatty acids (TOFA). Our oleochemicals are used in a variety of industries, which include adhesives and sealants, coatings and inks, industrial and household cleaners, lubricants and greases, personal care products, and food processing, as well as oilfield, plastics, rubber, paper, textile, and metalworking chemicals.

Visit the products section of our website at **www.chemicalassociates.com** to view our natural oleochemical products and download product data and SDS sheets.

Commodities

Commodity market update

Bearish. Slow growth. Subdued demand. Political uncertainties. Security threats. All descriptors commonly used in anyone's outlook of the 2016 global economy. With significant weather patterns (El Niño) added in the mix, it will be an interesting year for our feedstock commodities. With volatility in oil prices today, very little can be taken for granted in today's markets and nothing is out of the line of sight. However, keep in mind from a relevance standpoint, many of these fats and oils are trending near their six-year lows, so theoretically, no additional significant downside would be expected.

Tallow – BFT (renderer) moved upward in the early days of February and should remain relatively stable over the next few weeks assuming no major outside influences come to play as it is now in line with historical corn and soya price models. While there is some talk of snug-ness in the marketplace, slaughter rates have resumed somewhat normal rates (albeit still down from historical rates) and stockyards are beginning to build inventories. Assuming nothing unexpected, the high 20s / low 30s will be the new region of stability for tallow until either of the four various demand sectors witness any substantial growth.

Soya – Globally stocks are still at or near historical highs but the recent weeks in the market have shown a little perkiness based on the biodiesel mandates and some talk of El Niño in South America. The upcoming South American harvest data will be our next big opportunity to gain insight into the Q3 and Q4 price outlooks. In addition, the new political leadership in Argentina as well as the soybean meal / oil balance issues will play roles as well in this outlook.

Palm – The New Year has brought a steady increase to this market – plenty of reasons and support – but mostly built around El Niño and the decreased oil palm output. This weather system causes dryness in the region and thus lower fruit production. The result is lower stock levels and the market runs upward. Certainly, the Chinese New Year always affects the demand equation in January as well. Now with the Malaysian Palm Oil Conference looming in early March there is plenty of support to keep prices on the high end until the technical side can weigh in more heavily. But unless this El Niño pattern is a lot worse than expected, and given the present positioning of soybean, CPO isn't likely to remain at its current price level of 2,400+ RM very long. With the overall global economic situation remaining bearish, this is a simple supply / demand equation longer term and we're clearly in an over-supply situation. On the demand side, the ability of the Indonesian goverment to effectively increase their internal consumption through higher biodiesel percentages (B10 / B20) will be closely monitored.

Palm kernel / coconut – PKO is up almost 12 percent in recent weeks and CNO has had no problem following it upward. Most industry experts would argue there is not a true identifiable reason behind these moves so it will be quite interesting to see if they can hold steady beyond the aforementioned POC. Certainly the gap in PKO and CPO isn't likely to remain long term at current levels.

Domestic fatty acids

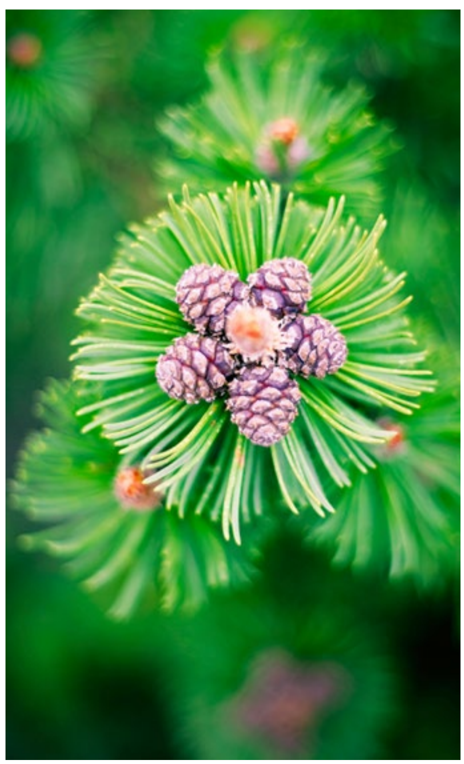
Fractionated acids

The major feed stocks (PKO and CNO) for the SE Asian producers is currently tracking up with PKO continuing to discount CNO. The producers in SE Asia continue to take a demand driven approach for production. Demand for the lauric (C12) and myristic (C14) cuts will be the driver(s) for production levels with the other carbon chain availability limited to the mid-cut demand. As a result, we have seen stable mid-cut fatty acid pricing. Although we may see some moderation on the mid-cut pricing, we expect the other fractions to remain at an elevated price level through at least the first quarter of 2016. The impact of this higher pricing will continue as newer inventories arrive in the states.

A concern in SE Asia is the free-fall of the Chinese economy. China has been the major outlet for the majority of the oleochemicals produced in SE Asia. As the demand from China has fallen so have the production rates at the SE Asian producers adversely affecting the availability of certain carbon chains.

TOFA

The tall oil fractionators continue to “run for rosin” and tall oil fatty acids, at present, are in a softer position than they were at this time last year. The downturn in the oil field segment has negatively impacted tall oil fatty acid demand and, as of this writing, there are no signal(s) that this will change in the foreseeable future. Chinese gum rosin will continue to be the “wild card” and, when viewed against the same timeframe for 2014 versus 2015, reported imports of Chinese gum rosin are up. This import volume will need to be monitored as we progress into 2016. Another variable is the biodiesel demand and specifically the European facility that will use CTO as a feed and is operating as of 2014. The impact on the market of this additional / new demand for CTO has been minimized due to the less than robust biodiesel industry. Currently, tall oil fatty acids are priced at parity to other liquid carboxylic acids (specifically oleic acid). The pricing forecast for tall oil fatty acids is stable moving into Q2.


Imported fatty acids

Caprylic acid

On the whole, short chain fatty acids remain in very short supply with limited quantities available for shipment from SE Asia in the first quarter. C8s availability has stayed the same for the past several months. This is not to say that C8s are anywhere near "readily available" but we have seen the lead times shorten slightly. Pricing for caprylic acid remains very high and the expectations are that pricing will remain elevated through at least the first quarter of 2016.

$C_{8\text{-}10}$ Caprylic-Capric acid

The 8-10 fatty acids are, at present, not in much better shape than the C10s. Availability is tight, lead times are extended and pricing, although stable at present, remains elevated. The outlook on the 8-10 fatty acids is similar to the other short chains: availability looks to remain tight and pricing is not expected to decrease in the foreseeable future. Q1 pricing will be up slightly for this short chain fatty acid.

C_{10} Capric acid

C10s continue to be the short chain fatty acid in the tightest supply. Currently, pricing on this carbon chain is tracking upward. SE Asian inventories of the capric acid remain very low and at current production rates, producers continue to struggle to meet demand. Most SE Asian producers are covering orders from their "regular" customers only at this time. Lead times remain extended (currently at 16+ weeks from date of order). Q1 pricing is expected to be up slightly on the C10 molecule.

C_{12} Lauric acid

The demand for lauric acid continues to be soft and pricing on the C12 molecule is tracking up at present. The soft demand has been attributed to the downturn in the Chinese economy and heading into 2016 this continues to be a major concern. Production rates in the SE Asian plants is and will be driven by the mid-cut fatty acid demand which is less than robust at present. Lead times on lauric acid are currently at 10-12 weeks from date of order on import direct sales. The outlook for Q1 is that pricing on the C12s will be stable to softer until the demand picks up.

Myristic acid

Demand for the C14 molecule has fallen off somewhat over the past few months and lead times have lessened. As demand has fallen so has the pricing on the myristic acid. At present, myristic acid availability will be controlled by the demand for its sister product – lauric acid. Stable pricing is expected for Q1 on the myristic acid. Lead times for myristic acid at present are currently at 10-12 weeks from date of order on import direct sales.

Oleic acid

The current market for the C18:1 material is best described as "soft" and is expected to remain this way for the foreseeable future. The downturn in the domestic requirement for oil field chemicals has adversely affected demand for oleic acid in this industry. The primary feedstock for domestically produced oleic acid is Bleachable Fancy Tallow (BFT). BFT fell to its lowest point in six years in the later stages of 2015 and oleic acid pricing mirrored this decrease. It is projected that BFT will increase in the early part of 2016 and oleic acid pricing is expected to track this movement.

Stearic acids

Tallow-based. BFT pricing has sharply risen since the beginning of the quarter after an extended period of "floor" pricing. The market remains well supplied with standard lead times applying. Demand is seen as steady to soft. Weather, El Niño, and possible reduced production rates could influence pricing later in the quarter.

Veg-based. Pricing has risen sharply as expected since early January with the upward trend in commodity prices; however over supply and weak demand will likely temper market success. The strengthening of the Malaysian ringgit versus the U.S. dollar is also a factor.

