



▶ MARKET REPORT
BY: BILL RADOSTITS



▶ OIL & GAS PRICE DISPARITY
BY: ALAN MAY

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Radchem Products, Inc.

News



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Happy New Year! Thank you for your trust in Radchem and for your business in 2011. 2012 will be a stronger year for business. The chemical and solvent industry expects to see growth this year because of export demand to Asia, and some increased growth in the U.S. This being an election year, both parties will be fighting to prove their party is helping the economy grow, and the other party is not. Therefore, expect continued grid lock and no help from our state and federal governments. Industrial growth and increased manufacturing will happen because of natural demand and an increase in consumer confidence.

It's fantastic to see our soldiers coming home from Iraq with the end of that war, but with the escalated trouble in Iran, Syria, Egypt, Libya, Yemen, Afghanistan, Pakistan, and Israel, and the uncertainty of the new regime in North Korea, and the troubles in Mexico and Venezuela, we are starting the new year with \$100 plus Crude Oil Prices and gasoline back over \$3.50/G at the pump. Due to alternative values with fuels and energy costs on the rise, expect solvent and chemical prices to rise in the 1st quarter. Hopefully, the increases won't be too sizable to hamper the slow economic growth.

According to petroleum refiners and chemical manufacturers we are preparing for the following:

- Acetone and AMS are going to be in tight supply.
- CITGO's Lemont refinery is planning a major turnaround for May/June 2012.
- Sunoco is shutting down two U.S. refineries. Conoco Phillips is shutting down one U.S. refinery. The market will lose about 700,000 barrels per day of refining capacity after these shut downs. These three refineries represented 50% of the Northeast refining capacity.
- Benzene and Xylene values have moved sharply higher since mid-December. Toluene value has moved higher, but not as dramatic as Benzene and Xylene. Expect BT & X increases.
- Propylene Glycol and Ethylene Glycol are in tight supply and could get tighter in the next 4 months.

Everyone at Radchem is working in your best interest. Best of luck in 2012!

Crude, Diesel, Gasoline

	10/2010	11/2010	12/2010	10/2011	11/2011	12/2011
Crude	\$81.58	\$82.95	\$86.75	\$77.61	\$92.19	\$100.20
Diesel	\$2.29	\$2.28	\$2.41	\$2.75	\$3.04	\$2.97
Gasoline	\$2.09	\$2.09	\$2.30	\$2.51	\$2.62	\$2.56



OIL AND GAS PRICE DISPARITY
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Oil prices have increased nearly 9% over the last month pushing a barrel of oil above the \$100.00 mark. At the same time, the retail gasoline average had dropped from \$3.45 to \$3.30 a gallon in December over the same period.

During sales calls, the question asked most often is: "Gas is going down, what about solvents?" Here is my answer:

Historically, oil and gasoline pricing move in tandem. Generally, gas prices follow oil moves within six months, but there are a number of factors that can drive them in opposite directions. For every barrel of oil consumed in the United States, only 46% goes to the production of gasoline. The rest is used to produce diesel, jet fuel, petrochemical feedstock (solvents), and industrial and consumer products (please see Rich Miller's article in our September newsletter). Diesel has become the fuel of choice for the generation of electricity in developing countries. This is one of the reasons we are also seeing an unusually wide delta between gasoline and diesel pricing. Many refineries index petrochemicals to the price of diesel -- therefore, we have not seen a market drop on hydrocarbons.

Another factor affecting present gasoline pricing is that during the colder weather, refineries switch to "winter grade" gasoline which is more economical to produce. Gasoline consumption is generally down during the winter months. Both of these factors put downward pressure on pricing.

FORECAST: Analysts had predicted that petrochemical prices would drop during 2012 due to the sluggish U.S. and world economy. But, with the debottlenecking of West Texas Intermediate (WTI) at the oil hub in Oklahoma, WTI pricing has been surging. WTI is mainly used by Midwestern refineries. One would think with this increase in added volume, it would put downward price pressure on Brent Crude (the European benchmark), which is used by refineries on the East Coast. Instead, Brent which has held its pricing over \$100.00 a barrel for the past several months, has not been affected. Come Spring we will see gasoline price increases due to seasonal formula changes and the start of the driving season. With the increase in gas consumption (worldwide), gasoline, petrochemicals, and derivatives will compete for the same molecule, which will push pricing upward. Even with a sluggish world economy, the price of a barrel of oil is predicted to be at least as high in 2012 as it is today because world demand will increase by 1.3 million bpd as China, India, Brazil and other emerging markets all use more. Insert the unrest in the Mideast to this formula and you have added more upward price pressure to oil. As of this writing, gasoline prices are inching upward. By spring the price ratio between gasoline and a barrel of oil will come back to a more traditional price differential. As long as the U.S. economy does not implode, we will see higher gasoline and solvent prices in 2012. Stay tuned, it is going to be an interesting upcoming year. Happy New Year!

Radchem Products, Inc. has moved its office to its new location in Orland Park, IL. Please feel free to stop in if you are in the area.



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