

28 October 2011

Institutional Use Only

NYMEX Plastics Report

Forward Curve NYMEX Clearport (Business day prior to 28 October 2011)

Month	HDPE Futures (Settlement; \$/lb)	HDPE OI	PP Futures (Settlement; \$/lb)	Mont Belvieu Spot Ethylene (\$/lb)	LLDPE PCW (\$/lb)	HDPE PCW (\$/lb) Swaps	Polymer Grade Propylene Swaps (\$/lb)
Oct 11		-	.7275	.49250	.54726	.52643	.57250
Nov 11	.5350	12		.49125	.54000	.53500	.58000
Dec 11				.49000	.54750	.54750	.59000
Jan 12				.50000	.55250	.56000	.60000
Feb 12				.50000	.55625	.56000	.61000
Mar 12				.50000	.55625	.56000	.62000
Apr 12				.49500		.56000	.63000
May 12				.49000		.56000	.64000
Jun 12				.48500		.56000	.65000
Total							

Note: the details/specs on the HDPE and the PP futures contracts (columns 2 & 4) are explained in full in the tables at the end of our report (page 3). The last two columns are the daily settlements for LLDPE linear low density polyethylene and high density polyethylene calendar swap futures (final prices) as per the *Petrochem Wire (PCW)*. We invite interested parties to contact Tony Diaz at tdiaz@mfglobal.com or at 1-212-589-6579 for further information on how to utilize these contracts.

From our own order flow, PGP for calendar 2012 traded at \$.6550-\$6650. We have no other quotes.

We have been expecting a rally going into some sort of European plan for weeks now, and although there were a few sharp selling bouts along the way, most markets came through with flying colors this week. Copper, for example, surged to its highest level in more than a month on Thursday and is now on track for its best weekly gain in some three years. Other base metals also gained ground, with zinc, nickel, and lead all jumping by more than 5%. Crude futures rallied more than 4%, while agriculturals and gold also soared, as did US equity markets. In fact, US stocks are now on track for their best month since 1974, a remarkable turn of events from the earlier downward drift.

The question now is whether markets will retrace slightly as the bullish euphoria dies down, exposing some of the problems that still need to be worked out. As an example, the *New York Times* points out today that of the 340 billion Euros in Greek government debt, only about 200 billion Euros falls under the scope of the new accord, meaning the country's total sovereign debt would be reduced by about 30% at best. The rest of the paper is apparently held by the ECB, the IMF, and other institutions that have said they would not participate in any debt restructuring. However, even the 30% reduction in Greece's debt load is not assured. That is because the 50% write-off on Greek debt (derisively dubbed as "My Big Fat Greek Shredding" by a *Financial Times* headline) is voluntary--meaning that the authorities are hoping that investors will turn their bonds in for new ones. Since Greek government bonds are now trading at about 40% of face value, the number of participants is expected to be high, although that is not certain either. Requiring all bond investors to turn in their bonds for new ones would have

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constituted a “credit event,” triggering the payout of billions of Euros in credit default swaps, which is why the authorities left things on a voluntary basis.

Questions also remain about expanding the Euro-zone bailout fund to around \$1.4 trillion. The fund will see its lending boosted in two ways, either through guarantees on the issuance of new sovereign debt, and/or establishing a special purpose vehicle to purchase debt outright. The Chinese are expected to make a substantial contribution, but the fact that they have been brought on board formally is worrying somewhat. More importantly, it is not certain how the rest of the money will exactly be raised and whether it will be enough given that Italy's debt alone stands at \$2.5 trillion.

Finally, another main element of the plan is to shore up 70 of Europe's biggest banks by requiring them to raise 106 billion Euros in fresh capital, but in contrast to rescue plans conducted in the US and Britain, European governments are not injecting funds directly into their banks. Instead, they are asking banks to turn to private investors to significantly raise capital. That may prove difficult, as many have suffered deep losses already from investing in bank-related investments and may not want to come back for more. However, whatever the plan's shortcomings are, the sense of anticipation is at least over and at worst, we seemed to have kicked the can down the road for now.

We expect to see a modest retracement set in over most markets heading into next week as investor start to pick apart the European plan and take some profits from the run-up that it induced. Right now, we are lower in base metals as well as in energy, while the dollar has picked up ground against the Euro and is now trading at \$1.4100. US stocks are flat after Thursday's tremendous surge.

In other important news out yesterday, we had reports out that Japan's industrial output fell some 4% in September, its first decline (and a rather substantial one) since the March twin disasters.