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EVERCHEM UPDATE

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Polyurethane Industry News

Patten Jr.

The Fallout Is Here

Nowhere to hide

The fallout of 2021's supply shortage and unprecedented demand seems to have arrived on the industry's doorstep. Companies are on their heads, scrambling to offload high-cost inventory as market prices plummet - some products have already dropped over 50% since May.

The past two years have been prosperous for many businesses in the chemical industry, as tight availability drove up margins and a rush to source material prompted companies to buy "just in case" as opposed to the previous industry adage, "just in time."

Today however, demand is weaker and buyers are scared, only purchasing what they need at current prices, fearful values may drop days later. Companies with bulk inventory are being forced to sell at break-even or a loss just to move stock... and geopolitical issues rocking the marketplace have seemingly no plans to settle.



A general view shows the Three Gorges Dam on the Yangtze River in Yichang, Hubei province. Credit: Reuters



People walk across a dried-up section of Poyang Lake that is facing low water levels due to a regional drought in Lushan, Jiangxi province, August 24, 2022.

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China's zero-COVID, EU's Gas

Both are screwed

China's zero-COVID policies have 65 million people across 33 cities in lockdown¹, including their manufacturing plants, squeezing both supply and demand of one of the biggest countries in the industry. The CCP's determination to reach zero-COVID status goes as far as the refusal to evacuate residents during a magnitude 6.8 earthquake this week, resulting in nearly 100 deaths and counting in Sichuan province.

China's Yangtze River is also facing the worst droughts since the 1960s that will soon beach shipping containers and force the trucking industry to cover, as well as bottleneck China's highly utilized hydroelectric power grid. This is due to not just lack of rain, but deliberate government action: the CCP's ordered storage of 221 Billion cubic meters of water in reservoirs, combined with disastrously low precipitation levels is one of the main reasons for the river's drought this year². Chinese scientists are unlikely to speak out, fearful of political retaliation - 89 officials and engineers were punished last year for the Zhengzhou floods of 2021.

This disruption presents Korea, Taiwan, and other Asian countries with opportunity growth in material import and export.

EUROPE

Exponential increase in energy costs - namely natural gas, which has hit a record high of \$342 per megawatt-hr³, doubled from last month and several times as much as last year - has Europe pinned. Companies with global manufacturing facilities are opting to slow down, while smaller establishments have been forced to cease operations in their EU plants, facing at-loss production⁴. Once-illustrious manufacturing and export from Europe is reaching existential straits.

The question that looms largest, is how events will play out in Europe this Fall.

1. <https://www.msn.com/en-us/news/world/china-earthquake-deaths-rise-to-74-as-anger-over-covid-lockdown-grows/ar-AA11vjHA>

2. <https://www.rfa.org/english/news/china/yangtze-09052022083842.html>

3. <https://cen.acs.org/business/finance/Record-natural-gas-prices-roil/100/i31>

4. <https://www.euractiv.com/section/energy/news/energy-crisis-an-existential-threat-to-eu-metal-production-heavy-industries/>

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