Weekly Chemical Markets Update

Prolonged geopolitical tensions continue to disrupt petrochemical exports and feedstock availability, particularly in Asia.

Asia faces feedstock shortages and elevated production costs, Europe struggles with weak demand and high inventories, while US producers benefit from lower feedstock costs.

Continued capacity expansion and weak domestic demand are driving higher Chinese chemical exports, intensifying competition across Asian petrochemical markets.

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Asia: Supply Tightness Meets Demand Weakness

The Middle East supplies nearly 80% of Asia's seaborne naphtha imports, making regional crackers highly vulnerable to Strait of Hormuz disruptions, resulting in reduced operating rates and force majeure declarations.

Upstream Support

Tight supply supporting monomer prices, particularly butadiene.

Downstream Resistance

Derivatives face pushback from customers unable to absorb higher costs.

Near-Term Outlook

Mixed conditions expected through November.

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China's Capacity Expansion & Government Policy Responses

China's Export Surge

Despite sluggish domestic growth, China is expanding capacity and redirecting output abroad. Combined exports to Northeast Asia and Asia-Pacific rose 72% during March–May 2026. Coal-based polyethylene is gaining traction in Vietnam as buyers seek alternatives to constrained Middle Eastern supply. Continued capacity additions risk intensifying oversupply and margin pressure once supply chains normalize.

Government Policy Actions

- South Korea: Targeting Middle East crude share ≤50% by 2035; adding 20M barrels storage by 2030; naphtha export restrictions extended through January 2027.
- Japan & ASEAN: Strengthening oil stockpiling and emergency supply cooperation, backed by Japan's $10B POWERR Asia initiative.

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Europe vs. US: Diverging Market Conditions

1

Europe: Ample but Exposed

Europe's high inventories and weak demand limit near-term panic buying, but reliance on imported energy and chemicals keeps production costs vulnerable to prolonged Middle East disruptions.

2

US: Competitive Advantage

US producers benefit from lower feedstock costs and export opportunities, but longer shipping routes, freight uncertainty and weak global demand limit potential gains.

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Global Outlook & Key Takeaways

186M

Tonnes Overcapacity

Global structural oversupply projected, weighing on long-term margins.

72%

China Export Growth

Northeast Asia + Asia-Pacific export surge, March-May 2026.

50%

South Korea Target

Middle East crude import share ceiling by 2035.

$10B

POWERR Asia

Japan's regional energy security initiative.

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