

# Global Methanol Report

JIM JORDAN & ASSOCIATES, LLP

August 11, 2006

ISSUE 171

## Global Prices

	AUGUST			JULY		
North America	CPG	US \$/mt			CPG	US \$/mt
US Contract Index - range	pending	pending		index range	90-100	299-333
US Contract Index - wtd avg	pending	pending		index wt avg	96.21	320
Methanex - US MNDRP	103.00	343	↑		100.00	333
SCC - US MPP	100.00	333	↑		96.00	319
US Spot - GC barge						
Wk Aug 11	110.00-115.00	366-382	↑	Wk July 28	89.00-97.00	296-323
Wk Aug 04	96.00-107.00	319-356		Wk July 21	87.00-88.00	289-293
				Wk July 14	80.00-86.00	266-286
				Wk July 07	79.50-80.50	264-268
				spot wt avg	(+4.72) 86.1	(+15.6) 286
Truck/Railcar terminal postings	CPG	US \$/mt			CPG	US \$/mt
FOB US GC	104.00-110.00	346-366	↑		96.00-99.00	319-329
FOB US NE	104.00-110.00	346-366	↑		97.00-100.00	323-333
FOB US SE	104.00-110.00	346-366	↑		96.00-99.00	319-329
FOB US MW	108.00-114.00	359-379	↑		104.00-114.00	346-379
Ashland - Chicago net benchmark	114.00	379			114.00	379
Ashland - FOB GC net benchmark	105.50	351			104.00	346
S. Garrett - net GC benchmark	130.00	432			96.00	319
SCC - US GC distributor price	104.00	346			100.00	333
SCC - US SE distributor price	105.00	349			101.00	336
Methanex - Western Canada Distributor price	CAD \$570/mt	US\$505			CAD \$570/mt	US\$507
US Natural Gas		\$/MMBtu				\$/MMBtu
'Inside Ferc'	Houston Ship Channel	6.36				5.69
Nymex, front month	COB Aug 10	7.529				
Asia	CPG	US \$/mt			CPG	US \$/mt
China, CFR (nominal)	74-77	245-255	↔		74-77	245-255
SE Asia, CFR	87-89	290-295	↔/↑		86-89	285-295
Taiwan, CFR (nominal)	81-83	270-275	↔		81-83	270-275
Korea, CFR	87-89	290-295	↑		84-87	280-290
Methanex AP Contract	93	310			92	305
Europe	€/mt	US \$/mt			€/mt	US \$/mt
Contract - Q3 2006	250	319			250	318-322
Methanex (MEPCP) Q3	250	319			250	318-322
Spot FOB Rdam T2, nominal	250	319	↑		225-235	286-301

Currency: \$1 USD = €0.7854; GBP 0.5287; JPY 116.27; CNY 7.9762; CAD \$1.122; BRL 2.16; MX peso 10.787

Jim Jordan  
Marybeth Maloy Gebauer  
Dexter Miller  
Hank Williams  
Etienne Dor  
Shameek Ghosh

USA:  
12941 North Freeway  
Suite 226  
Houston, TX 77060 USA  
Tel: 281-877-7009  
Fax: 281-877-7267  
www.jordan-associates.com  
info@jordan-associates.com

Europe:  
+32 10 45 42 81  
etienne.dor@tiscali.be

### Inside This Issue -

- Global production update & price snapshot 2
- Global Snapshot 3
- Americas update 3-4
- Biodiesel 5
- Europe market update 6
- Asia market update 6-7
- US natural gas update 8

World Methanol Prices

Europe Spot - FOB T2		
	€/mt	\$/mt
Rdam	250	319
Trend: up, but notional		
Europe Contract		
Q3	250	319
MX Europe Posted Contract Price		
Q3	250	319

US AUG Contract Postings		
MX	103.0 cpg	\$343/mt
SCC	100.0 cpg	\$333/mt
US JULY Contract Postings		
MX	100.0 cpg	\$333/mt
SCC	96.0 cpg	\$319/mt

Asia Spot - CFR		
Korea	290-295	\$/mt
Taiwan	270-275	\$/mt
China	245-255	\$/mt
SE Asia	290-295	\$/mt
Trend: balanced-to-tight		
MX A-P Contract		
August	310	\$/mt

US Spot - FOB GC		
	cpg	\$/mt
Hou	110.00-115.00	366-382
Trend: very strong on extremely tight conditions		
JJ&A contract index		
Jul	96.21	320

India - CFR WC	
cpg	\$/mt
86-89	285-295

Global Production Update

**Americas** - There are no reported outages this week although there are some nagging issues at some regional plants.

**Europe/Middle East/Africa** - The **BPRP** plant in Gelsenkirchen (250 kTpa) is still suffering technical problems that limit output. The plant re-started early last week but has not reached 100% operating rates as yet. The situation remains unchanged. In Romania, the **Viromet** unit in Victoria (220 kTpa) will be down for maintenance and upgrading during three or four weeks currently planned to start late August. The **Doljchim** unit in Craiova (250kTpa) is down in August as well for a catalyst change. In Russia, the **Gubakha** (900 kTpa before upgrade) plant's planned maintenance and upgrade outage is underway, and it is expected to last through mid September. The **Tomsk** unit (825 kTpa) will also be down in August for maintenance.

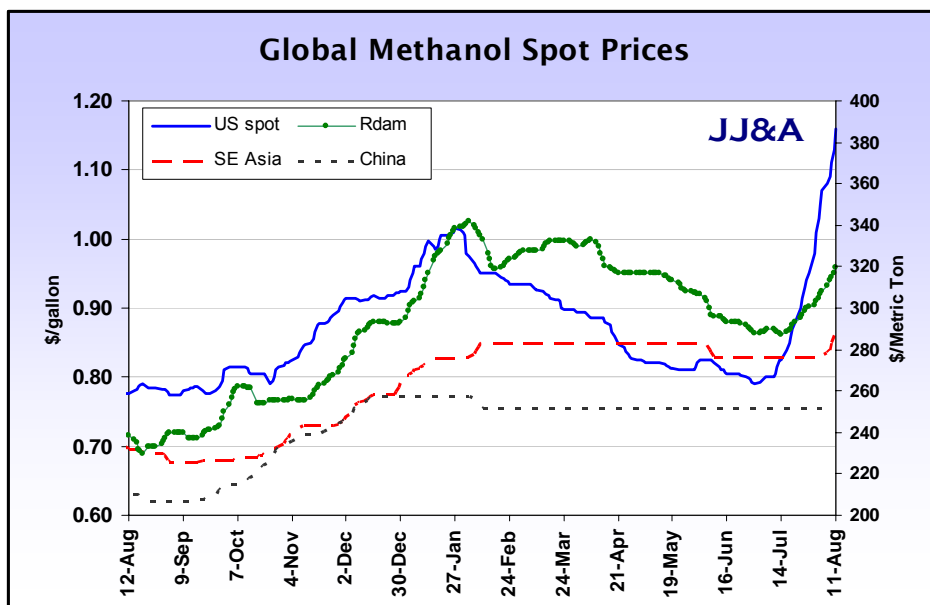
In Iran, while the catalyst performance of the **Fanavaran** (1 MTpa) is rapidly going down, the plant runs at 65% operating rates, there is no set timing for the change. The unit will continue to run as long as possible but possibly might have to be taken down before the new **Zagros** unit (1.65 MTpa) starts-up which is estimated to take place during the fourth quarter. New regulations in customs and excise rules are yielding contradictory interpretations. Vessel loadings and departures at Bandar Imam (the port servicing Fanavaran) have been affected and delays, both in and out, are taking place. No changes known. There were reports this week of a possible new production issue in **Saudi Arabia**, but sources for the plant reported normal operating rates late this week.

The **Atlantic Methanol** plant in Equatorial Guinea (950 kTpa before de-bottleneck, approx. 1.1 MTpa now) was taken down, as planned, for a few days this past week to fix some technical problems that were keeping it at 70% operating rates since its re-start a few weeks ago.

**Asia** - The 330 KTA Medco Unit in Indonesia is scheduled for a four week outage beginning August 23rd.

## Global Methanol Snapshot

Europe and the US continue in a very tight mode. In **Europe**, there is not a lot of spot demand, but there are some bids against few selling offers. Demand in Europe continues relatively strong for the season. The recent unplanned outages and now ongoing planned outages are keeping supply tight. In the **US**, the situation is much more critical. There are a number of buyers looking for product, but incremental supply is extremely limited. Distributors, producers, traders and consumers have been looking for material.



In **Asia**, the market remains balanced-to-tight. Southeast Asia remains tight, but other areas seem to have adequate supply to meet demand. China remains quiet and spot activity across Asia is very limited.

In last week's report, we included an Expansion Forecast table. The forecast contained two misprints which are corrected below (highlighted in yellow). The Ar-Razi V plant is currently scheduled for start-up during the 1st half of 2008 (last week's table indicated 2nd half 2007). The new methanol project in Oman is approximately 1,000,000 tonnes (last week's table showed 1,700,000 mt). We appreciate our readers bringing these items to our attention.

METHANOL EXPANSION FORECAST 2006-2008					
(000 Metric Tons)					
Projects Approved or Under Construction					
Name	Location	Ownership	Capacity	Timing	Comments
Atlantic Methanol	Equatorial Guinea	Atlantic Methanol	125	Q3 2006	De-bottleneck
Gubakha	Russia	Gubakha	100	Q3,2006	De-bottleneck
Togliatti	Russia		500	Q3, 2006	
Kingboard	China	Kingboard	600	Q3 2006	
NPC	Iran	NPC	1650	Q4 06-Q1 07	Original Schedule 1H 2005
Shanghai Coking	China	Shanghai Coking	450	Q2-2007	
Ar-Razi V.	Saudi Arabia	Sabir/MGC	1750	H1 2008	Original Schedule 2H 2007
Oman Methanol	Oman	Oman /MHTL	1000	Q3 2007	
Petronas	Malaysia	Petronas	1700	Early 2008	
			<b>Total</b>	<b>7,875</b>	

JIM JORDAN & ASSOCIATES, LLP

## North America Update

There is very little to report on the **contract** front this week. The primary topic of discussion and concern (for buyers) is how high will contract price announcements go in September. With spot prices reaching at least 115 cpg (\$382/mt) this week— an increase of about 35 cpg (\$116 per mt) since early July— there is reason for concern.

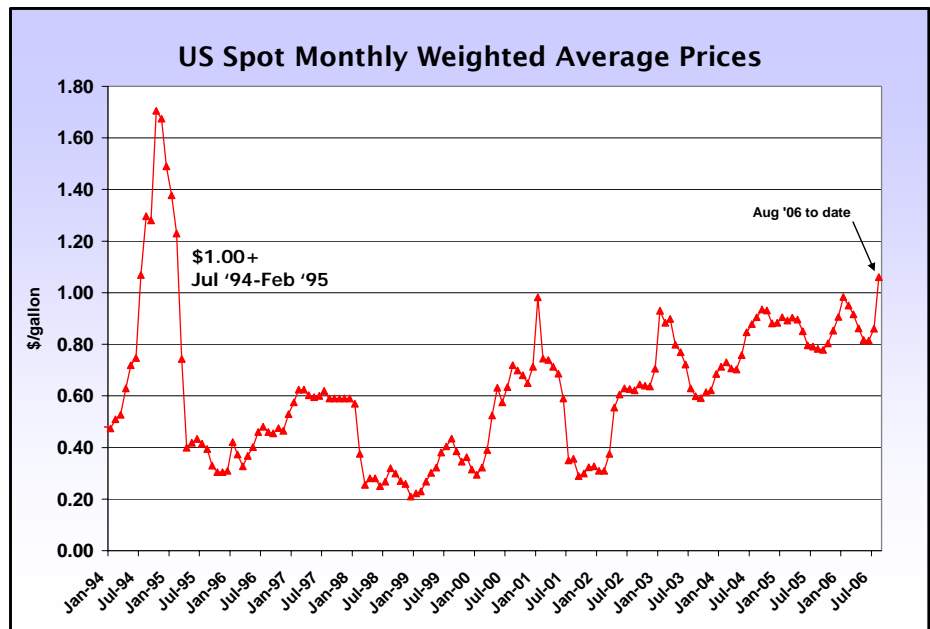
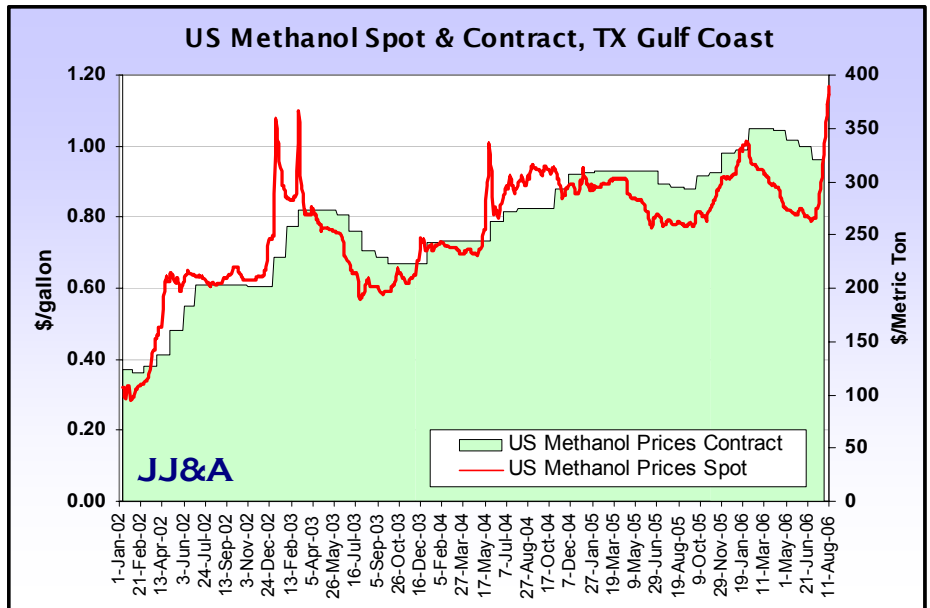
*North America Update, continued*

The chart, top right, clearly shows the recent dramatic spike in spot prices. One contract seller told us they might come out with their posting sooner than normal to give consumers as much notice as possible of what to expect.

What the industry needs very soon, is less demand from some sector or a sustained run without any operating issues at methanol plants. MTBE is nearing the end of its strong season and that should offer some relief. Depending on how high contract prices go, there could be some demand erosion, which at this stage, would probably be a good thing.

In response to the extremely tight market conditions, one distributor has increased its net Gulf Coast benchmark price from 100 cpg (\$333/mt) up to 130 cpg (\$432/mt) effective immediately. Another distributor announced it was increasing its Gulf Coast benchmark price from 99 cpg (\$329) to 110 cpg (\$366), also effective immediately. Others were considering immediate increases as well.

As we noted above, US **spot** prices have jumped sharply higher in recent weeks due to tightening supply stemming from the well-documented recent unplanned production outages. These methanol outages, combined with a recent increase in spot buying for MTBE production have resulted in an extremely tight market. In recent weeks, spot buyers have been forced to pay increasingly high levels for the limited incremental supply—but things turned much more critical this week as incremental spot supply became scarce. The bid/offer level was assessed in a wide range on Monday and Tuesday between 105-115 cpg (\$349-382), with limited activity noted. By mid-week, spot transactions were reported at 110 cpg (\$366/mt) and twice at 111 cpg (\$369/mt). The bid/offer level then moved as high as 111/116 cpg (\$369-\$386), and 115 cpg (\$382) was eventually done later in the week. By late Thursday afternoon there were discussions reported as high as 115/120++ cpg (\$382-\$399), but by this stage many players pulled back for fear of pushing price ideas into the stratosphere. Prevailing market bid/offer levels were difficult to pin down on Friday, with many players seemingly in shock from the current situation, and keeping their discussions very P+C. There was some talk that higher numbers had been done, but we did not confirm higher levels before publication time. So far this month the weighted average spot price is about 107 cpg (\$356), which is the first +100 cpg monthly average we have seen since 1994-1995 (see chart above).



## BIODIESEL

### Brownfield Research

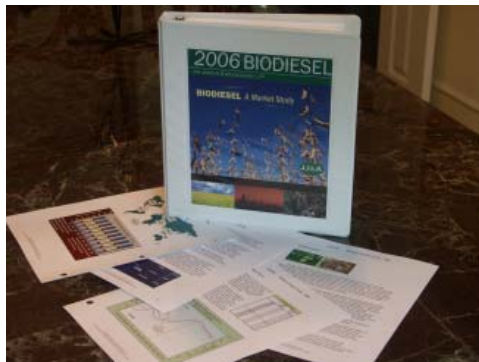
One of the drawbacks with biofuels in general is the competition for feedstocks. There are only so many viable corn and soybean fields, and other demands such as food and animal feed markets must also be supplied. In hopes of finding a solution to this problem, researchers at Michigan State University are working with Daimler Chrysler and NextEnergy, a non-profit organization, to study the use of contaminated lands. These so-called brownfield sites can obviously not be used for normal food-based agricultural crops, but might serve well as inexpensive locations for growing feedstocks for biofuels like ethanol and biodiesel. The group hopes to even discover that, over time, growing and harvesting crops will help to decontaminate the land by accelerated biodegradation. The plants being studied include soybean, sunflower, corn and switchgrass. Crop yields, quality and oil content will be investigated.

### Daimler Chrysler Showcases Biodiesel

Daimler Chrysler has announced that, starting in the first quarter of 2007, all new Jeep Grand Cherokee CRD diesel sport utility vehicles will be delivered with a tank full of B5 biodiesel. Already, about 15 thousand Jeep Liberty SUV's have been sold containing B5. This 5% blend with traditional diesel fuel is widely accepted by major automobile and engine manufacturers, and work is underway to gain similar favor for a 20% blend, B20. This fall, the company plans to begin filling the diesel-powered Dodge Ram pickup trucks that it sells to fleet customers—including government, military and commercial—with B20. Iowa Soybean Association spokesman Grant Kimberly says that he is very excited with the news that such an internationally respected company is taking a leadership role in promoting the domestically produced biofuel.

### Indonesia & Malaysia

Both of these Southeast Asian countries are stepping up efforts to promote biodiesel as a way of reducing needs for petroleum fuels. Indonesia has recently announced that it is assigning 6 million hectares (14.8 million acres) for biofuel development in palm oil and sugar cane. The country produces more crude oil than any other in the region, yet is still a net importer. Energy and Mineral Resources Minister Purnomo Yusgiantoro estimates the land value at \$20 billion—which in US farmer's terms is about \$1,315 per acre. If all of this land were devoted to palm plantations, the 6 million hectares of land could produce about 20 million mt/yr of palm oil, supplying approximately the same production of biodiesel. It is somewhat unclear how this compares to the joint agreement between these two countries a few weeks ago to limit palm oil used for biodiesel to no more than 6 million mt/yr each. However, this is presumably new land not already cultivated. If so, then one might begin to wonder whether the end result will be further destruction of the rain forests. Malaysian President Susilo Bambang Yudhoyono has also taken recent steps to encourage the development of bioenergy in his country. He has offered incentives to local energy companies such as guaranteed purchases of biofuels produced from future projects. The target is to have full definition of the regulations by 2008 and sufficient production running by 2009 to provide 10% of the nation's energy consumption.



—NOW AVAILABLE—

## JJ&A 2006 BIODIESEL MARKET STUDY

for details please see:

[http://www.jordan-associates.com/Biodiesel-Prospectus\\_2006Julya.pdf](http://www.jordan-associates.com/Biodiesel-Prospectus_2006Julya.pdf)

## Europe Methanol Update

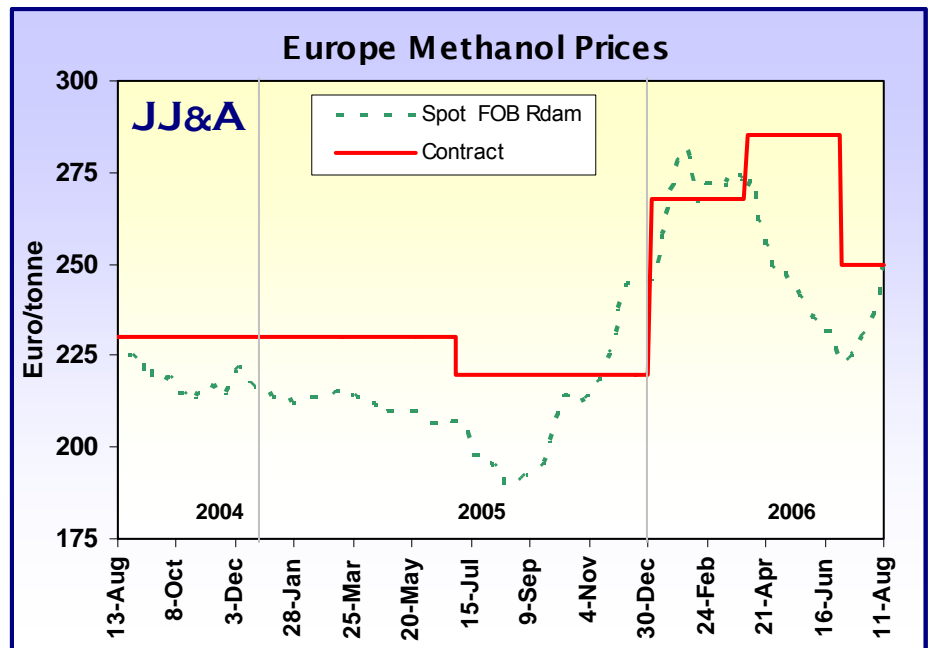
Only once during the last two years did the methanol spot market price remain below the estimated net contract value during the two last months of a quarter (even providing an economical incentive for consumer spot purchases) and this was during the second quarter this year. Most of the time the spot market was driven by supply related issues requiring suppliers to buy, even at a loss, to honour contractual obligations (even if some limited consumer purchases were needed on a P+C basis). At that time (May – June this year), many saw here the preliminary signs of the long an-

nounced but never experienced change in market fundamentals from balanced/tight to balanced/long for supply and demand. This was at the centre of the discussions around the third quarter contract price settlement and despite the original disagreements of what would be a “fair” value for the third quarter, a reduction was generally estimated to be warranted. Starting the new quarter we saw the market getting prepared to “test” the fundamentals: without new supply disruptions the market was expected to gradually “absorb” the planned outages by using the built-up inventories or, alternatively, if coming out of the planned outages at minimum inventory, re-starts would be problematic and other unplanned supply-chain issues were to occur, the market would get tight or short.

This latter seems exactly what has happened. Minor (on a global scale) local production operating issues, logistics in disarray due to major outages in key production hubs and uncertainty about swaps/off-take promises have sent sellers, producers and traders (maybe even a few consumers) in search of spot molecules. And there aren't any for prompt delivery. Bids for prompt or H1 September at €250 FOB Rotterdam didn't find any offers. We hear that offers for second half September were made at €260 FOB but haven't been able to find sellers admitting they are capable (or willing) to deliver. With no reduction in demand foreseen at this moment we see no relief from the current situation on the horizon. To the contrary, any further unplanned supply disruption or increase in demand not yet covered would keep **strong** upward pressure on prices. At best, reduction in demand for MTBE could stabilise the situation, but the perceptions stemming from observing the US market make many European players nervous, maybe rightfully so.

## Asia Methanol Update

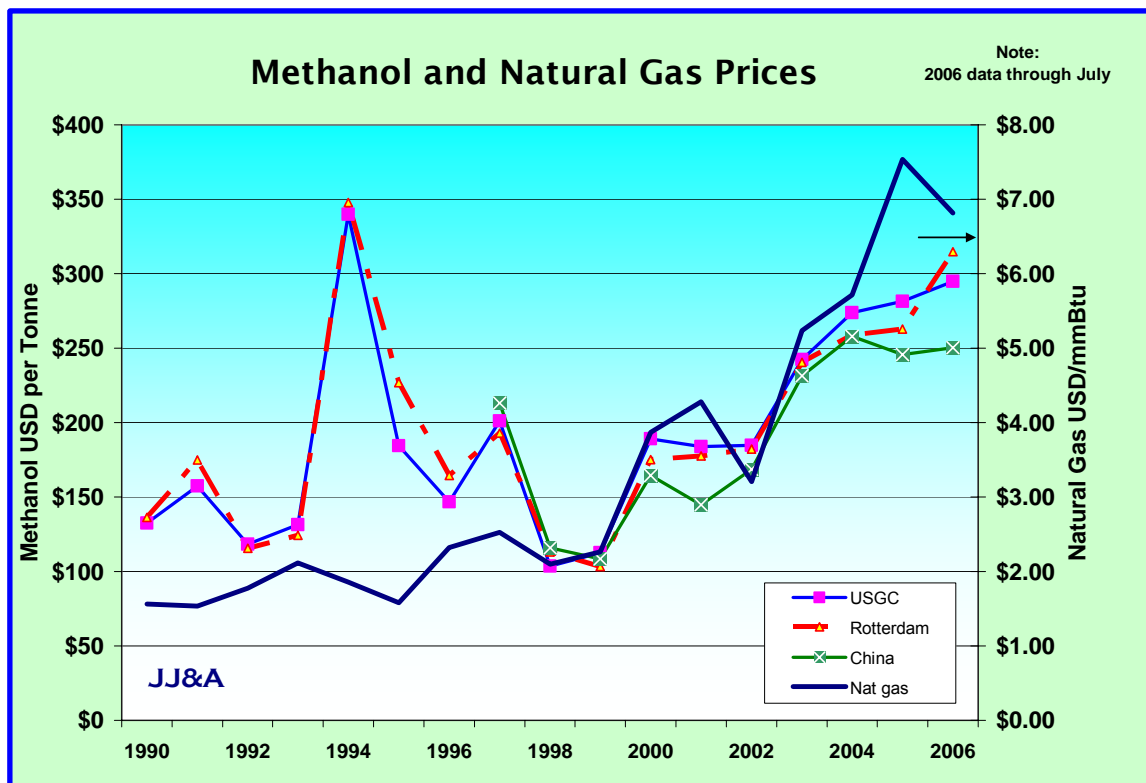
Asia markets are beginning to feel some of the effects of the tight situation in Europe and North America. With spot prices well above \$300/mt in Europe and \$385+ in the US, any incremental product that might be available from any region other than Asia, is looking to go to the US or Europe. We have seen some global traders looking to move product from Asia to the US, but with recent outages in Asia, the product is needed in Asia. Because of the global situation and the seasonal increase in demand in parts of Asia just weeks away, there may well be a firming of methanol prices in Asia over the next few weeks. Operating issues in Iran are contributing to the situation in Asia as volumes have been significantly less than anticipated. There does not appear to be any definitive answer as to when Iran will resume normal operations at its 1,000,000 tonne Fanavaran plant, nor is it clear when the new 1.65 Million tonne Zagros plant will start up.



*Asia Methanol Update, continued*

This week, activity remained quite thin in most of Asia with consumers covered with contract volumes for the most part and not a lot of product was on offer. In **Korea**, sellers are becoming more bullish and buyers are fighting the inevitable increases that are developing. In addition to upward pressure on prices, there is talk of a major supplier increasing its posted price for September as well. Reflecting the sentiment of the market, we have increased our spot posting by \$5/mt to \$290-\$295/mt in Korea. The situation in **Taiwan** appears relatively stable this week. Buyers continue to say that they would only pay \$270/mt or less, but have acknowledged that sellers are not willing to offer anything near that level. With the upward pressure on regional pricing and consumers covered on term contracts, it might be quite some time before any significant spot activity is seen in Taiwan.

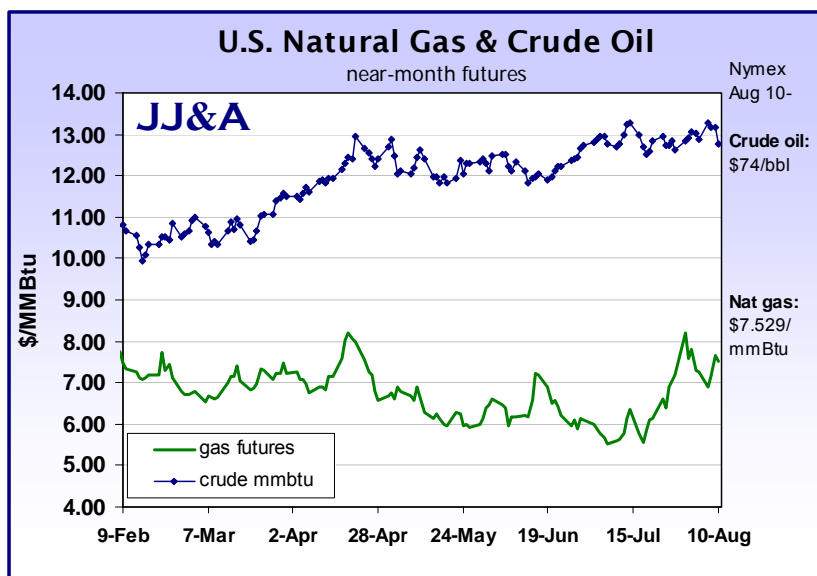
In **Southeast Asia**, recent outages and the pending outage at the Medco plant continue to apply pressure to supply. While the Medco 330 KTA Medco plant has been constrained on gas for several months and operating at less than 60 percent, the volume is needed for local markets with imports currently difficult to locate. We have increased the low end of our range by \$5/mt to \$295/mt, reflecting the tightness in the market. **China** continues to be well-covered with local production in the East while rain and storms in the South have pushed prices up significantly for imported product. The reported range was CNY 2760-2800. If anything, the East is getting weaker with adequate local production and more capacity coming. However, we still believe that the balance for China will not significantly change with net imports continuing between 1.1 and 1.3 million tonnes per year for this year and next. Prices in the East are reported between CNY 2520 and 2575 this week. In **India**, it is somewhat a mixed situation this week. Not a lot of product is being offered which tends to firm prices, but due to heavy rain in most industrialized regions, spot demand was quite subdued. Our assessment for the week is unchanged at (nominal) \$285-\$295/mt.



## US Natural Gas Snapshot

It was another choppy week for natural gas prices (see chart, top right). The front month futures contract on the NYMEX initially dipped Monday and Tuesday on easing temperatures. The contract then climbed 7 percent on Wednesday following predictions that this week's storage report would show another record withdrawal based on last week's record electricity demand. Thursday's EIA storage report did indeed show a withdrawal, but forecasts calling for much lower temperatures across the Northeast this weekend took some steam out of the market, with the September contract closing down \$0.122/MMBtu Thursday at \$7.529/MMBtu. The 12-month natural gas futures strip on the NYMEX (Sep 2006-Aug 2007) was trading at \$9.393/MMBtu at the close of the reporting week (Thursday August 10), an increase of \$0.224/MMBtu from last week's level of \$9.169/MMBtu. The 12-month strip has gained more than \$1.09/MMBtu since late July. The average futures price for next winter's heating season contracts (November 2006 through March 2007) was \$10.749 per MMBtu at the close of the week, up from the week-ago level of \$10.493/MMBtu. The February 2007 contract is the highest priced contract at \$11.347/MMBtu. Henry Hub cash prices were in a very wide trading range again this week, dipping below the \$7/MMBtu level on Monday before climbing again towards \$8 by Thursday.

The US EIA's latest natural gas storage report for the week ending August 4th showed a 12 Bcf implied net withdrawal from storage, which was below analysts' expectations of a 5-15 Bcf injection. This was the second time ever that there has been a storage withdrawal during the summer period (the first time was July 21 of this year). The withdrawal was not surprising given the fact that last week's US electricity demand set a record high. Total gas in storage is reported at 2,763 Bcf, which is 306 Bcf (+12 percent) higher than last year's level of 2,457. It is also 374 Bcf (+15 percent) above the 5-year average inventory level of 2,389 Bcf for the report week. Some regions are finally expected to get a break from the scorching heat next week, with record low temperatures forecasted for the Northeast.



### U.S. Natural Gas Prices

Benchmark	Aug 4	Aug 7	Aug 8	Aug 9	Aug 10
Henry Hub cash	7.44	6.98	7.06	7.59	7.88
September futures	7.246	6.907	7.158	7.651	7.529
October futures	7.471	7.123	7.349	7.857	7.727
'Inside FERC' - August Houston Ship Channel	6.36				

Natural Gas Prices in US \$/MMBtu

### U.S. EIA Energy Price Outlook

forecast as of August '06	Year				Percent Change		
	2004	2005	2006	2007	04-05	05-06	06-07
Crude oil; WTI, \$/bbl	41.44	56.49	70.29	69.38	+36.3	+24.4	-1.3
Natural gas; \$/mcf	10.75	12.82	13.53	13.53	+19.3	+8.8	-3.0

JJ&A

### U.S. Natural Gas In Underground Storage Billion Cubic Feet - Week ending August 4, 2006

