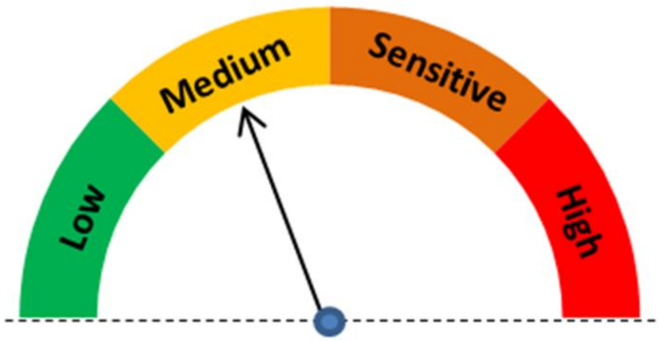
Euler Hermes Economic Research

Global Sector Report

CHEMICALS

Sector Risk Rating



What to Watch?

- Changes in fossil fuels' price impacting both feedstock costs and final product prices
- R&D spending required for all chemical players to shore up margins
- Big players' M&A activity remaining at a high level to secure current market shares
- Overcapacities in some industrial sectors worldwide sharpened due to China's readjustment, lower demand, and reduced global output

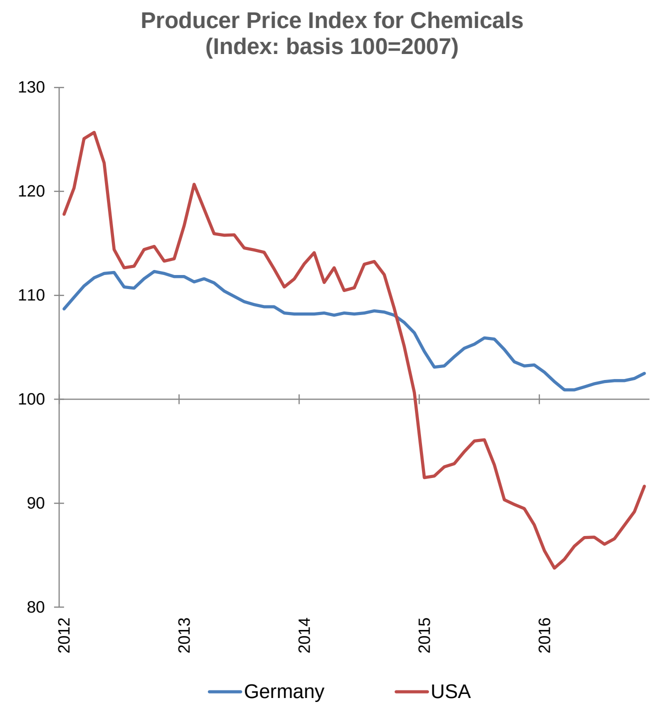
Unlike global sales, volumes have gone up

Chemicals are a cyclical business, closely tied to variations in countries' GDP. In fact, many chemical products are used up in early stages of the manufacturing supply chain. Upstream chemicals usually build upon the dynamism of their main outlet (i.e. industrial manufacturing) across the world. Fine chemistry products such as cosmetics bear on big trends in consumer spending.

Estimated at USD1500bn (pharmaceuticals excl.) *at 2010 prices*, the global chemical output experienced a decent year in 2016 despite low oil and gas prices bringing the cost of feedstock down. In spite of growth in the volume of chemicals of around +1.5%, deflationary pressures exerted a strong drag on worldwide sales.

In 2017, we expect global chemicals sales to remain somewhat flat despite a volume growth estimated at +1.1%. The collapse in the naphtha price has helped both Asian and European chemicals come closer to their North American competitors still boosted by their higher exposure to the (very) low ethane price.

However, lackluster global growth, especially across Western Europe and Latin America, might curb any further substantial momentum in growing chemical sales worldwide.



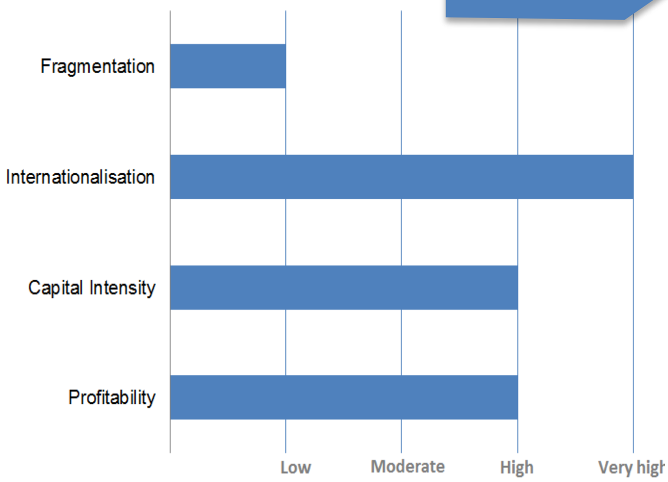
Sources: IHS, Euler Hermes

Key Players

Country	Role	Sector Risk
United States	#1 exporter #2 producer #2 importer	
Germany	#3 exporter #4 producer	
China	#1 producer #1 importer	

ID Card

Sector Value: **1,510bn** USD



Strengths

- Innovative sector linked to a strategy of upmarket positioning
- Very diversified outlets softening the impact of external shocks on firms' revenues
- Sound level of operating cash flows enabling corporates to cope with high capital requirements

Weaknesses

- Activity highly sensitive to the global economic situation
- Capital intensity resulting in high level of debt
- Poor public image in terms of environmental issues
- Struggling agrochemicals linked to declining revenues in farming markets worldwide

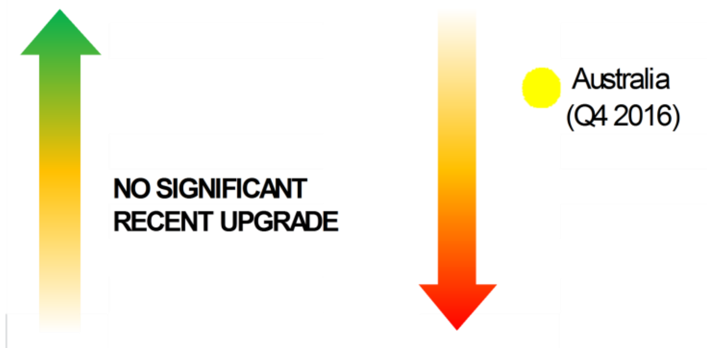
Subsector Insight

Basic chemicals: This subsector has a close relationship with the industrial production cycle as its products are used further down the supply chain.

Soaps, detergents, cosmetics: All made of chemical products, they are affected by trends in consumer spending.

Agrochemicals: This subsector is tied to global food prices and to farming revenues as a result.

Recent Sector Risk Changes



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