

Melamine industry update

23 September 2009

The DSM Melamine Industry Update is an important window on the ever-changing world melamine market. As global market leader, DSM Melamine is uniquely positioned to provide this broad perspective. We believe that sharing up-to-date information on melamine global trade and commerce, through this quarterly bulletin, contributes to the sustainable performance of the whole industry chain. [Download the archived back-issues here.](#)

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- Economists say that economies have bottomed out. There are tentative signs of recovery, mainly in Asia, but risks remain
- The wood-based panel industry sees signs of recovery, but still far from pre-crisis levels. Price increases are announced for wood-based panels and resins
- Demand for melamine increases
- Melamine supply has been scaled down to meet current demand levels
- Melamine prices have not kept pace with raw material price developments. As a result, significant losses for melamine players
- In the next few months however, we expect raw material prices to actually increase, making a bad situation worse
- Conclusions

Economies have bottomed out, economists say

Tentative signs of recovery, mainly in Asia; risks remain

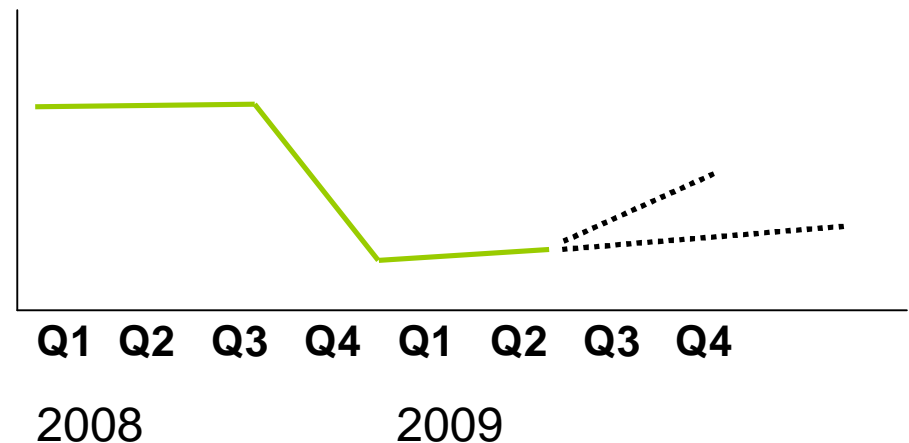
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The Organisation for Economic Co-operation and Development sees positive developments in global economies, and has made upward correction for the G7 GDP growth numbers.

[Read the full story here \(PDF\)](#)

- Global financial markets have stabilized and confidence has gained, but risks remain
- Housing markets in the US and the UK are showing modest signs of recovery both in terms of prices and volume
- After a massive de-stocking in Q4 2008 and Q1 2009, inventory corrections may take place, adding to demand growth
- Emerging economies like China have rebounded sharply

Leading Economic Indicators (LEI) from [The Conference Board](#) are positive for the reviewed regions.



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Economic recovery, especially in China and APAC

First signs of improvement in Europe and US

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Asia

- Economies are bottoming out and show some first signs of recovery especially in China and APAC
The New York Times, 24 August 2009
- China's economy continued to expand with the official PMI 54.0 in August, the highest reading since April 2008
Rabobank Global Daily, 2 September 2009
- Japanese Economy Grew 2.3% in Q2 2009
TradingEconomics.com, Bloomberg, 10 September 2009

Europe

- The German ZEW index of investor confidence rose to 57.7, the highest level in more than three years in September
Rabobank Global Daily, 16 September 2009
- The German manufacturing PMI rose to 49.2, still sub-50 but the best reading in 12 months
Rabobank Global Daily, 2 September 2009
- UK data show mortgage approvals rising to 50.1K in July from 47.9 the prior month and the highest reading since April 2008
Rabobank Global Daily, 2 September 2009

The Americas

- US home sales, durable orders buoy recovery hopes
Reuters News, 26 August 2009
- The US manufacturing PMI stormed back into expansionary territory with the headline showing 52.9, improving from July's 48.9 and the first 50+ reading in 19 months
Rabobank Global Daily, 2 September 2009
- Empire Manufacturing index for NY state blasted into positive territory last month and yesterday we saw a further rise in the Empire index from 12.08 to 18.88
Rabobank Global Daily, 16 September 2009
- Housing construction rises 1.5 percent in August, the highest level in 9 months, boosted by apartment building
Associated Press, 17 September 2009

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Wood-based panel industry sees signs of recovery

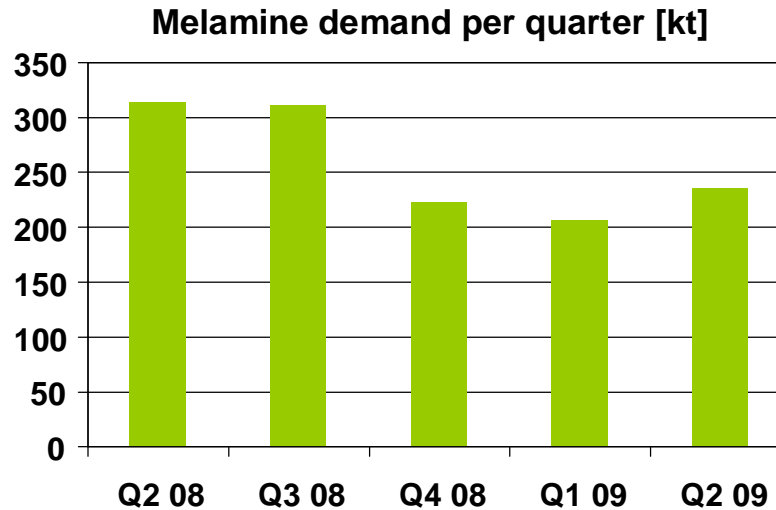
Price increases are announced for wood based panels and resins

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- Wood based panel production index Germany on a slow recovery. Wood-based construction and prefab parts production is back on historical numbers of 2007 and 2008
Production index numbers - Verband der Deutschen Holzwerkstoffindustrie – Statistischen Bundesamt, August 2009
- Analysts of the wood-based panel markets believe the industry is on a recovery mode, on the back of improving economies, especially Asia Pacific and China
Jaako Pöyry, August 2009
- MDF/HDF manufacturers managed to prevent further decay in selling prices
EUWID, Wood Products and Panels, 26 August 2009
- OSB manufacturers now pushing through second price increase; Demand for OSB has picked up again the last few weeks
EUWID, Wood Products and Panels, 9 September 2009
- Furniture manufacturers: costs look set to have bottomed out now
EUWID, Wood Products and Panels, 26 August 2009
- Strong domestic demand for bathroom furniture; In most instances, demand in Germany is on par with the level of demand seen last year, some manufacturers even registered increases
EUWID, Wood Products and Panels, 9 September 2009
- Glunz raises wood-based panels prices
Fordaq News, 7 August 2009
- Rollover or marginal price rise expected by adhesive resin manufacturers
EUWID Wood Products and Panels, 12 August 2009
- Huntsman targets USD 200/t price hike for September Europe MDI
ICIS news, 18 August 2009
- BASF plans to push through higher prices for glue resin. BASF gave notification of an increase of EUR 15/t in its glue resin prices for deliveries as from 1 September. The company said this action is due to the ongoing unsatisfactory earnings position, that has deteriorated further since mid 2008. According to BASF, the rise in urea and methanol costs had already been unable to be offloaded on to glue resin prices in full in the second half-year 2008
EUWID Wood Products and Panels, 9 September 2009

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Global demand in Q2 2009 was 15% higher than Q1 numbers, with Asia Pacific and China leading the recovery.

Recovery to 2007 levels is not expected until 2011/2012, but industry analysts indicate that the wood-based panels industry is on a “fast” recovery track.

Short term

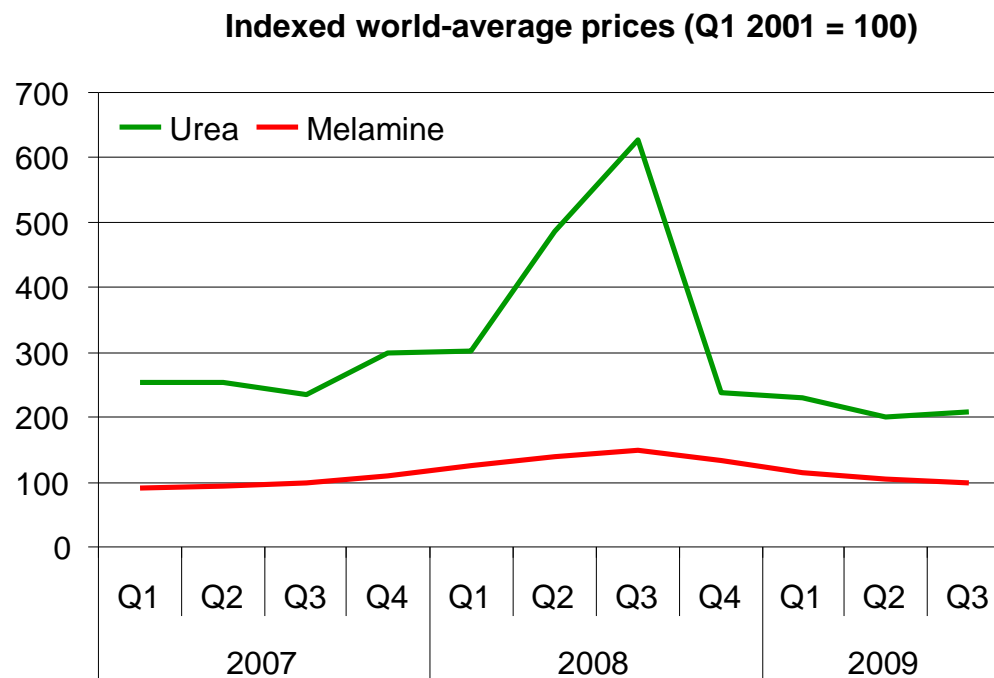
- Globally, some plants have been idled due to poor economics and low demand. In China particularly, the state of “by-product” markets (ammonium nitrate, soda ash etc) has further deteriorated economics and thus operating rates
- Industries Qatar is expecting to complete the construction of one melamine line by 2010 (Qatar Gulf Times, 9 Sep 2009). It was originally planned to start up in 2009. No further update was given for a second line

Medium and long term

- There is a global overcapacity of melamine. This capacity will grow even further, but actual output may take more time to materialize
- We see inefficient plants continuing to be closed or mothballed. In the last 5 years, some 240kt of capacity was closed and a further restructuring of the production base seems inevitable

Melamine prices did not keep pace with raw material price developments This means significant losses for melamine players

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Zakłady Azotowe Pulawy SA misses Q4 expectations, mainly due to negative margins on melamine and caprolactam. In both cases, benzene or natural gas input prices are listed as too high to support current product prices

PAP Market Insider, 3 September 2009

DSM reported a negative operating profit for its melamine business

DSM Q2 2009 financial results, 4 August 2009

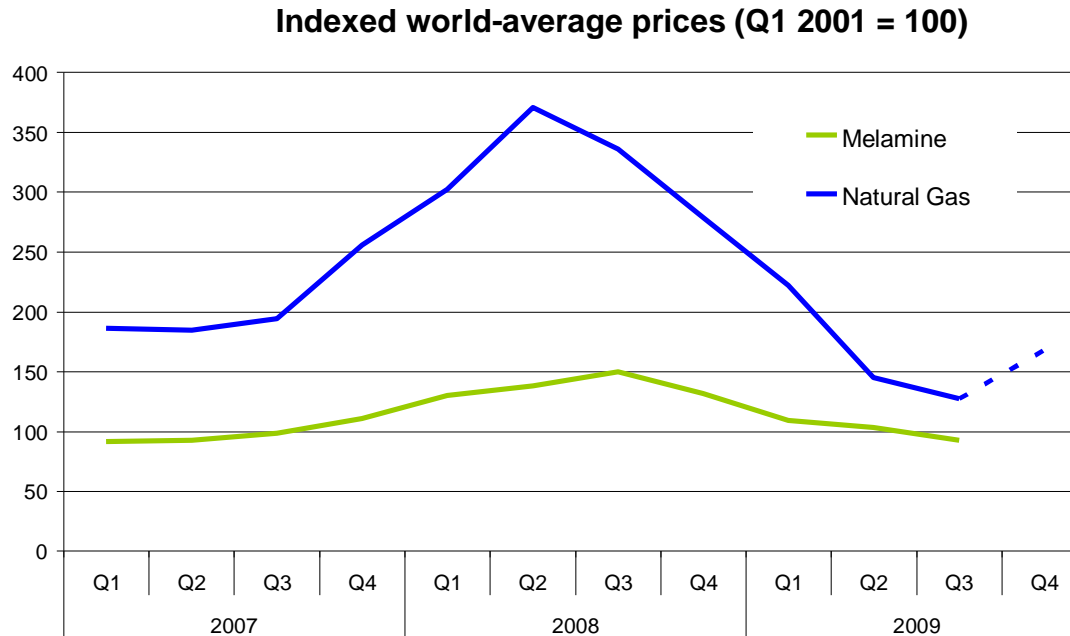
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A raw material price increase is expected in the next months

Making a bad situation worse

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US natural gas trading at USD 2/MMBtu. Prices will break upward by the end of the year. A surge in futures for November has prices trading in the low USD 4/MMBtu. The first few months of 2010 have futures prices in the low USD 5/MMBtu

ICIS news, 25 August 2009

GUD and NGC futures for natural gas on European Energy Exchange (EEX) project a 50% increase on September quotes for Q4 2009

www.eex.com

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- Recovery of global economies, which is also visible in the wood-based panel value chain
- Melamine supply has been scaled down and adjusted to low demand levels
- Recent melamine demand improvements have tightened the market
- Melamine players have been making severe losses
- Raw material prices are expected to rise again
- In order to remain a sustainable partner in the value chain, the melamine business needs to increase prices

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Please note that DSM Melamine has moved to a new global headquarters on 1 June 2009.
Click here for the [new address](#).

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