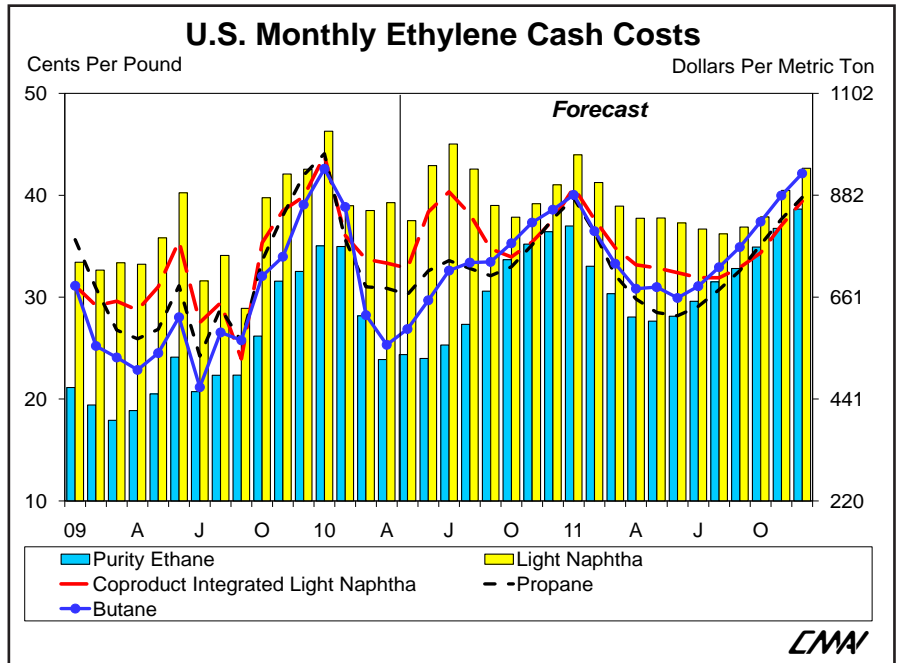


NORTH AMERICA

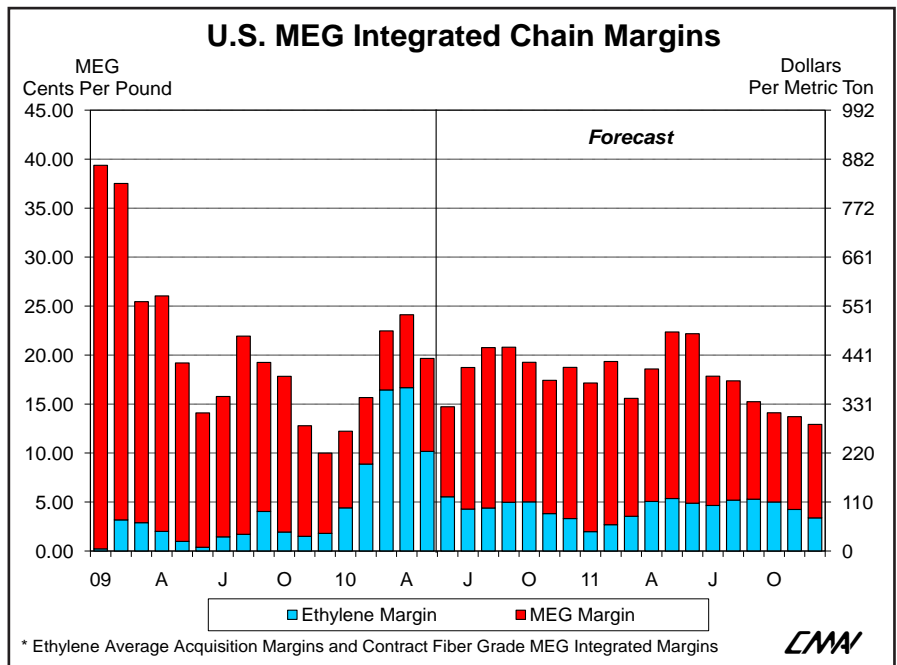
Ethylene

The May contract price settled down 7.75 cents per pound, to 44.75 cents per pound (\$987 per ton). May spot prices remained at 45 cpp but in very thin trading, likely indicating some shortage of prompt material. June spot prices slid lower to 39.5 cpp as all Gulf Coast crackers are expected to be running. The market held its breath to see if additional production issues might lead to a price spike after problematic CPChem and Ineos cracker restarts late in May. The lack of reported deals also points to the current tightness in supply as inventories are still low. However, both producers seemed to be making progress which led to lower late June bid/ask prices. Once these units restart, supply should be ample. Even with some revival of domestic demand, improved export levels will be needed to absorb the additional production. Cash costs are at a low enough level to support derivative exports.



Glycols & EO

Contract prices declined in May, reflecting falling U.S. ethylene prices and a softening in the Asian MEG spot market that became quite pronounced as the month progressed. The same forces will clearly also affect June prices in North America. The North American May MEG contract price settled down 1.8 cents per pound (\$40 per ton) at 46.7 cents per pound, FOB U.S. Gulf (\$1030 per ton). The range of posted MEG North American Benchmark prices for May was 55 - 58 cents per pound, FOB U.S. Gulf (\$1213 - \$1279 per ton), and MEGlobal announced their June posting at 48 cents per pound FOB U.S. Gulf (\$1059 per ton), a reduction of 7 cents per pound (\$154 per ton) from May.



The various posted price reductions indicate that the June contract price will fall significantly. For that reason we are tentatively projecting a June North American MEG contract price of 43 cents per pound FOB U.S. Gulf (\$948 per ton), but the final price may be lower. MEG supplies and spot sales in North America were constrained by EO availability after some planned and unplanned plant shutdowns, but the supply tightness is not

expected to last for very long into June. Dow suffered an unplanned outage at a Louisiana EO plant in the last two weeks of April, and then took a planned catalyst change at Seadrift through most of May. Dow declared force majeure on EO on about April 19 and implemented sales controls on EO and derivatives. In a related move MEGlobal is maintaining 100% sales control on MEG in North America until further notice. They will be taking a planned shutdown of one of their Prentiss, Canada plants in June. No other producers have implemented allocation measures but are watching inventories and order patterns. The fact that spot MEG prices in Asia declined at an accelerating rate in the second half of the month is an indicator that an Asian supply surplus has emerged. The surplus is likely to spread to other regions so that a period of falling global MEG prices is projected to continue. In an interesting development, we believe Shell will not renew its lease of their storage facility in Vancouver, Canada. This is not surprising, considering the Singapore startup, and means the company would no longer regularly export MEG to Asia from Canada. Thus, 100% of its Scotsford, Canada production will be intended for customers in the Americas.

DEG remains in very tight supply in North America. Low availability supported the 2 cents per pound (\$44 per ton) price increases that were announced for May, despite falling prices for ethylene and MEG. There were additional June increases posted, but MEGlobal rescinded that increase and held the benchmark price unchanged at 61 cents per pound (\$1345 per ton). There is still a range of posted prices for June from 61 - 65 cents per pound (\$1345 - \$1434 per ton). Apparently some producers have tighter supplies than others and are using price premiums to manage their volumes. DEG prices are now very significantly higher than MEG prices for the fourth consecutive month. This dynamic is being created by the shutdown and low operating rates of units that generate higher ratios of DEG, which is a trend that has been previously reported and which may continue for some time. The major producers tout this change as inevitable and permanent, but in our opinion it remains to be seen whether or not this market shift will be long lasting. A majority of new production units coming onstream in 2009-2010 still make substantial quantities of DEG co-product. There are only four OMEGA licensed plants and a handful of METEOR units worldwide, and most other new units have not implemented technologies that make such dramatic reductions in DEG output. The demand is still recovering, and there is a theoretical DEG price at which certain end-use sectors will begin substitution to other polyols in applications like unsaturated polyester resins (UPR) and urethanes, and a gut feeling says that at current price premiums of about 10-15 cents per pound (\$220 - \$330 per ton) substitution may already have begun.

EO prices settled fairly quickly again for May, because ethylene agreement was reached on June 2. The ethylene settlement was down 7.75 cents per pound (\$171 per ton) so the EO contract price will come down to 52.3 cents per pound (\$1153 per ton). EO supplies were affected by olefins and EO unit shutdowns at several U.S. Gulf Coast producers, and the overall supply situation is worse at the end of May than it was early in the month. Huntsman reportedly continued to have intermittent problems but kept their two EO units running, presumably minimizing glycols production but maintaining EO feeds to the derivatives units at acceptable rates. Dow completed a planned shutdown of Seadrift, TX and then suffered some short unplanned EO unit problems after restart late in May and into early June. Demand for EO was boosted by production of dispersants to treat the BP oil release in the Gulf of Mexico. Some but not all of the dispersants being used contain ethoxylated surfactants.

Ethoxylates – In addition to the operations-related supply shortages of EO, the ethoxylated surfactant business continued to face very severe shortages of both natural and synthetic alcohols. Shell announced to customers that they had suffered a catalyst performance problem at their Geismar, LA synthetic linear alcohol facility. They declared a Force Majeure event affecting their performance through May on delivery of NEODENE, NEOFLO, LINEVOL and NEODOL brand alcohols and ethoxylates. Natural alcohols supplies that were diverted away from North America after demand crashed in late 2008 and early 2009 have not been restored yet. Therefore

both natural and synthetic alcohols are in short supply in North America. There was a noticeable surge in demand for a variety of surfactants, including apparently some ethoxylates, in formulations for dispersants and surface cleaning agents in response to the huge oil release from the BP well in the Gulf of Mexico. A large number of ethoxylators got engaged in producing the significant volume of material that continues to be used on the oil release, though the volume has fluctuated up and down with pressure from different environmental groups and changing rulings by governmental agencies.

Ethanolamines – The somewhat confusing series of March and April prices were eventually sorted out and actually mostly implemented successfully by May and widely accepted in the marketplace, but then undermined somewhat late in May by falling prices for feedstocks. The very sharp rise in ethylene and EO prices in March-April, Dow's planned shutdown at Seadrift during much of May, and recently very high global MEG prices provided justification support for ethanolamines increases and the prices moved up broadly and uniformly across products and end uses. Supplies were adequate, though not in surplus for May demand, despite Dow's EO problems in late April and the Seadrift shutdown. Ineos had recently completed a maintenance shutdown so they had smooth operations and may have filled any orders that Dow had difficulty with. Huntsman had rumored intermittent EO production issues, but there were no problems severe enough to create any serious supply issues with their customer base.

Glycol Ethers – Producers enjoyed a third month of successfully implementing price increases in May. Since February, the market has widely and almost uniformly accepted price increases that have totaled about 20 cents per pound (\$440 per ton) on EB and DB. The price increases have restored healthy margins to a product line that struggled to generate profits through 2009. Higher prices were supported by a combination of tight domestic supplies of EO derivatives and sharply rising market prices for both propylene and ethylene so the prices will be vulnerable to challenge by buyers now that prices for both olefins have fallen dramatically, and especially so if EO tightness is eased by normal production operations in June, as is expected. The Gulf of Mexico oil release has sparked an up-tick in demand, because glycol ethers are components of some of the dispersant formulations that are being used to try to break up the oil slick.

EUROPE & MIDDLE EAST

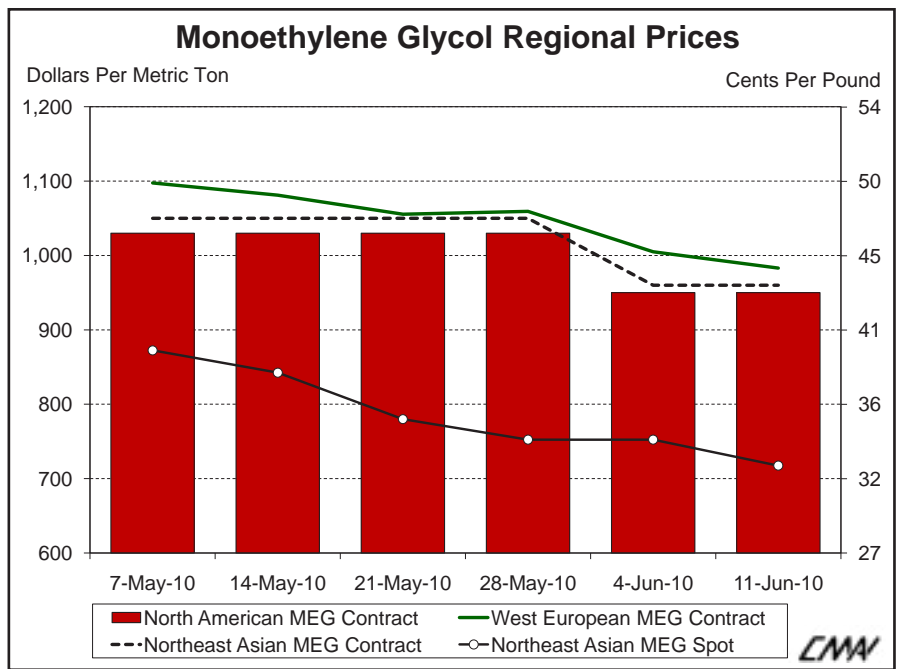
Ethylene

Availability of ethylene has tightened in Europe with a series of unplanned cracker outages. The supply-demand picture is tight and that has pushed the ethylene spot price up above €900/t. Those crackers still operating are running at high rates to meet buoyant demand and with low European naphtha prices now, cracker margins are also high. Naphtha is in surplus in Europe. However, with the Euro losing 8 % against the USD since the end of April, and with naphtha falling from \$756/t to \$675/t over the same period, negotiations are starting for the June contract price in Europe with great uncertainty as to what the future holds. Prices could move up slightly, or fall under pressure of falling naphtha and rising ethylene margins.

Glycols & EO

MEG supplies did not improve in Europe as much as was expected following successful restart of several planned catalyst changes in the first quarter. Supplies improved early in the month, and then several olefins operating problems led to constrained EO and MEG production in the second half. There was no obvious rebound in Middle Eastern import volume, despite high inventories and slipping prices in Asia. However, there were persistent unconfirmed rumours about Iranian MEG being offered for June delivery at attractive prices. The European May contract MEG price settled quickly at €856 per ton DDP, which was a decrease of €14 per ton from the April contract price. Producers and buyers seemed satisfied that the settlement was reasonable in the current

market. Europe will probably feel the pressure of sharply lower Asian prices, but perhaps less downward pressure as other parts of the world in June. Support for prices will come from relatively low MEG inventories, several planned June EO turn-arounds, and a collapsing Euro that makes European U.S. dollar net-backs among the world's lowest as of late May. Our current projection is that MEG contract prices will move slightly down in June, though a roll-over of May contract price is still possible. It still seems likely that import volumes should increase and prices soften as the summer progresses, but we have delayed and moderated the amount of our projected spot price decline.



DEG, TEG – DEG prices rose again in May, by about €100 per ton, with extremely tight supplies. Spot prices continue to be difficult to identify because the product availability was so limited. DEG prices are rising as MEG are declining, and DEG prices have surpassed MEG, as they have in Asia and especially in the U.S.. Some buyers reported that both DEG and TEG were virtually unavailable from producers, except to supply pre-existing business that was producer-supported under contract. Shortage conditions are expected to persist at least through June, and probably well into July, because there will be several planned shutdowns for maintenance of EO units. On the other hand, the major source for “on-purpose” TEG production at Ineos-Antwerp will be operating normally which could improve supplies of TEG. Increased imports of DEG and TEG from Saudi Arabia are the only change that could potentially improve availability significantly short term.

Ethanolamines – There has been little movement in prices since February, in contrast to North America. Prices were essentially unchanged from April, except that MEA slipped down slightly. Differing demand patterns in Europe have led to a significantly different price structure among the three ethanolamine congeners. DEA remains in long supply locally, and continues to be deeply discounted, compared with MEA and TEA, a remarkable contrast to the premium DEA pricing that has increased in North America. TEA, on the other hand, commands a price premium, due to its demand for use in synthesis of quaternary fabric softeners popular in European households. Overall, even with the big changes in Euro-dollar exchange rates, there is now a fairly normal and logical price parity across the continents, rather than the significant differentials that existed early in 2010.

Glycol Ethers – European prices moved up about €50 per ton. However, European prices have not moved up as much as in North America, and with the fall in the Euro the prices in Europe on a dollar basis in May were substantially lower than those in the U.S.. It remains to be seen whether or not supplies are sufficient in Europe to allow traders to take advantage of this large arbitrage opportunity.

ASIA

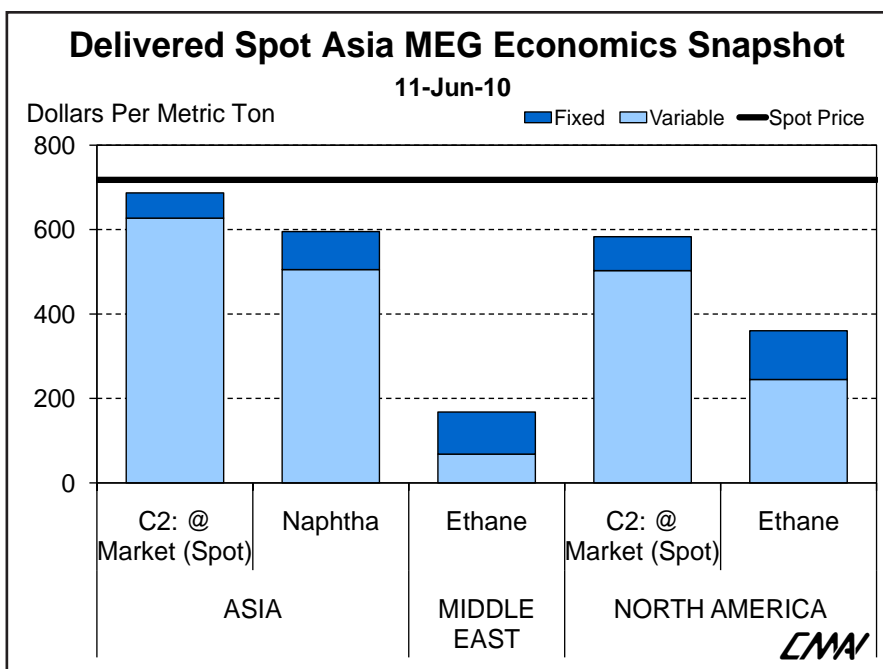
Ethylene

In Northeast Asia, fluctuating energy prices failed to change the downward movement of ethylene prices due to news of Middle Eastern cargo availability. Both buyers and sellers retreated from the market to await clear indications of price direction. The SE Asian market continued to show signs of decline. Supply from the Middle East improved after two cargoes from Abu Dhabi were reported sold for mid and end-June loading. Offers dropped to below \$980 per metric ton delivered. Furthermore, an Iranian cargo was reportedly sold into Southeast Asia for mid-July arrival and buying indications have fallen to \$880-\$900 per metric ton delivered. With new operations in Qatar and the U.A.E. coming on-stream, we expect further supply improvement in the market.

Glycols

Spot market activity for MEG in May broke from the pattern of recent months, and declined steadily to lows not seen for six months. Spot markets hit a low of about \$750 per ton CFR on about May 18, recovered to about \$770, and then slipped back. Demand from the polyester filament, staple and PET sectors remained steadily robust, but Asian MEG production has been strong and China's reported April imports of MEG were huge for the second consecutive month.

April import volume of 634,000 tons was the second largest month ever, after March at 689,000 tons. Participation was strong by all the usual major players: Saudi Arabia, Taiwan, Korea, and Canada. Singapore sustained a rate about double their historical norm before the Shell startup in late 2009. In 1st Quarter 2010 China's exports of polyester staple fibers sharply rose over the first quarter of 2009. PSF exports surged to a large number of destinations in the world and especially to South Asia. South Korea's exports of polyester staple fibers also increased in the first quarter this year, driven by a surge in sales to the U.S. market. However, as recently as early May, demand for polyester was weaker in China and staple fiber prices declined.



Shore tank space for MEG was very short and storage prices rose, leading to aggressive seller activity. Falling crude oil, securities markets and PTA prices caused an already fragile MEG market to drop correspondingly. The domestic spot market followed a similar pattern. Prices for big parcel transactions started the month at RMB7,400 ex tank, and then fell to RMB6,250-6,700 per ton in the past week. Sinopec posted its May contract nomination at RMB7,900 per ton, which is a rollover from April, but there has not yet been a final May settlement. Sabic and Shell both posted their June nomination at \$970 per ton CFR and MEGlobal posted their nomination at \$960 per ton CFR. Those prices are down \$80 and \$90, respectively, from the May levels. Looking forward, high coastal MEG inventories and extremely limited availability of spare storage tanks will remain an issue. Zhenhai PC's new 600kta unit was down most of the month due to olefins cracker problems, but operation is planned to resume by mid-June. India's IOC started up their new cracker and associated MEG unit, and reported they had made their first MEG

shipments in May. The timing of that unit may be difficult, as polyester production rates in India were reportedly down 10-15% and regional MEG prices are falling. Shell's Singapore unit is running well, and we believe Shell will not renew its lease of their storage facility in Vancouver, Canada. This is not surprising, considering the Singapore startup, and means the company would no longer regularly export MEG to Asia from Canada. Most other Asian producers reported MEG units running at high rates, but the rapidly falling spot prices have gotten close to cash cost of production, and that could cause many producers to consider reduced rates or even take a shut-down. Restocking demand from Chinese buyers may strengthen in the next weeks as prices have come down to very attractive levels. A continuation in restocking and speculative demand seen in late May could support the MEG prices to stabilize or even create an upward trend in the very short term, but the fundamental over-supply threat and extremely high coastal inventories will ultimately keep the market under downward pressure.

DEG prices rose again about \$100 per metric ton in May, due to continued tight supplies. List and spot prices achieved a significant premium over MEG prices for the month, though the price premiums were smaller than in North America. The sustained prices for DEG, and their resistance to the downward price pressure that has affected ethylene and MEG are another indication that we may be seeing a long term change in the DEG price dynamic globally. Some, but not all of the new production units are producing substantially less DEG than the historical co-product rates. Clearly, all of the units that have recently shut down, either temporarily or permanently, are those with higher DEG co-product outputs. Thus, the net change is a slightly declining DEG production rate simultaneously with steadily improving demand for DEG in the consumer durables markets (automotive, construction, appliances). Many applications for DEG are very price sensitive, so it remains to be closely watched how end-users react to these higher DEG prices. Whether they switch formulations to alternative materials and at what price will be a key variable to be watched in the coming months.

Ethanolamines – There were only small changes to published list prices in Asia in May, but there was significant downward movement in import spot price offers. MEA and DEA moved down about \$100 per ton, and TEA was slightly softer, but basically unchanged. DEA pricing tends to be the most volatile in the group because of the large short term swings in demand from the Chinese glyphosate (broad-spectrum herbicide) industry, which is affected largely by external agricultural markets. Exports of herbicides require country-by-country licensing, and Chinese firms are continuously completing these licensing requirements, and growing their penetration of overseas markets. Monsanto, the glyphosate leader, has reported the increasing competition and is reportedly reorganizing that business unit in response, due to reduced profit expectations this year. Chinese units have still been running well below capacity, so the pressure is likely to be sustained. Anti-dumping duties have been enacted in Brazil, though they are reportedly only loosely enforced, but stronger enforcement there and applications for action elsewhere is considered likely in 2010.