StoneX®

# Benefits of a plastic swap

## Benefits

### Budget protection and competitiveness

Hedging with a plastics swap offers predictability on a margin basis to the cost of producing or packaging finished goods. Locking in a fixed price also offers an edge over the competition – with the ability to offer customers a "fixed product price" option in an environment of rising or volatile prices.

### Market volatility reduction

Plastics prices are volatile as they are a downstream derivative of energy. They are also susceptible to supply/demand dynamics as well as logistics and transportation disruptions. This means that prices can move up and down rapidly on a month-to-month basis. Hedging this exposure offers our clients the ability to minimize volatility that can affect the cost of plastic materials.

### Catastrophic price protection

The overwhelming majority of plastic production in the U.S. originates in the Gulf Coast region of Texas & Louisiana – where catastrophic weather such as hurricanes, winter freezes, flooding, and lightning strikes can shut down production – causing a market "event" that results in a price spike. Production, transportation, and other logistics are also impacted for these products when an unforeseen industry event occurs.

## Examples

### Plastics packaging producer example

Producers buy resin pellets (granules) at a monthly settled (floating) contract price that can change drastically month to month. They convert these pellets into a finished product and sell it to an end-use customer who has limited ability to absorb price fluctuations in plastic raw materials. The producer, whose customer may be sensitive to raw material fluctuations and may be looking for a fixed-price solution, can hedge the resin volume for particular products and create a predictable price scenario for their customer (as opposed to passing price increases along). This locks in the margin for that producer for a specified volume of business and time frame.

### Plastics packaging consumer example

Consumers usually have contracts with the producer who is making their packaging. Typically, monthly price changes in resin pellets are passed through directly to the packaging consumer. In other words, if the packaging consumer is unable to pass those costs along to their end-use (retail) customer they must "eat" unforeseen price volatility.

**General example: milk jug**

A producer is blow molding HDPE 1-gallon milk jugs and buying pellets. They sell the milk jugs to the dairy producers. The dairy farms are the packaging consumers buying 1-gallon milk jugs made of HDPE and filling them with milk. Each time the price of HDPE increases from the resin producer; the producer simply passes it along to the dairy farms. The packaging consumer is basically at the "whim" of the raw material/resin producer. The dairy is selling to the retail grocer, where they may have to guarantee a fixed price for a period of time.

## Players

**Resin producer:** Generally a large energy or chemical company making & selling plastic pellets (granules) to fabricator converter companies.

**End-use consumer:** Utilizes plastic parts or packaging to make a final product and sell it into retail. In the above example; dairy farm.

**Fabricator converter:** Molders and extruders of plastic pellets who fabricate & sell finished parts or packaging products to consumer product companies.

**Retailers:** Large chain retail stores with plastics risk in not only the retail products, but also in business operations such as plastic grocery carts, plastic baskets, plastic bags, etc. locking in some of their operational costs.


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