



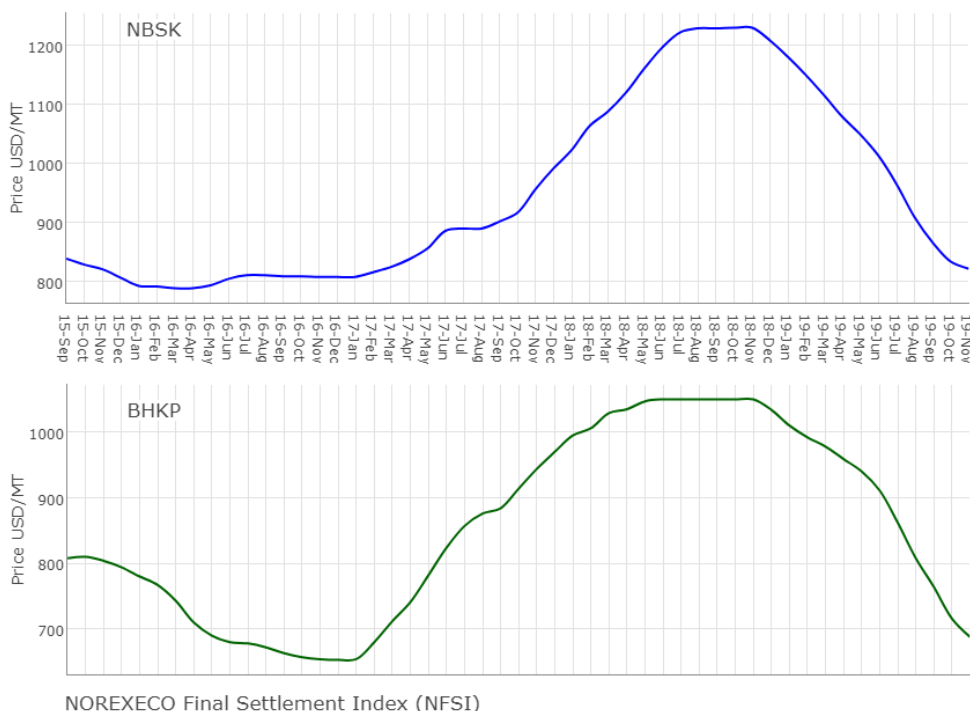
Pulp&Paper • News&Trends • Your December Newsletter

Eucalyptus Pulplog Prices in Brazil Have Fallen Over the Past Year & in 2Q19 Reached Lowest Levels in 3 Years

Pulpmills in Brazil had some of the lowest wood fiber costs in the world in the 2Q/19, according to the WRQ. Over the past three years Eucalyptus pulplog prices have fallen while the global Hardwood Fiber Price Index (HFPI) has trended upward to reach its highest level in four years.

Lower operating rates at the major pulp mills in Brazil and healthy inventory levels of wood fiber took pressure off prices of Eucalyptus pulplogs in the 2Q/19. Eucalyptus pulplog prices have been on a roller-coaster ride ever since the Wood Resource Quarterly began tracking wood fiber prices in Brazil in 1988, mostly due to fluctuations in the exchange rates and changes in the fiber demand/supply balance.

Following a 15-year period from 1988 to 2003 when prices fluctuated between US\$20-50/odmt, prices took off and trended upward for almost eight years to reach an all-time-high in the 3Q/11. From 2011 to 2015, prices fell substantially to reach an 11-year low in the 4Q/15, which was followed by a period with slightly higher prices. In the 2Q/19, the average price reached its lowest level in over three years as the value of the US dollar strengthened.



Further Cuts to Recycled Containerboard Prices in November

Low recovered paper (RCP) prices and a supply overhang are the major factors shaping price talks on the German market for recycled corrugated case material. German recycled corrugated case material producers have increased deliveries to export markets in recent weeks. Exports are higher than in the same period last year, according to insiders. However, prices are reportedly under sizeable pressure on export markets, too.

British Recovered Paper Market Still Caught in a Dwindle

Recovered paper imports into China will likely decrease again next year as the government is expected to reduce the quotas again. The mood on the British recovered paper market is even worse than the weather in November. The withdrawal of Chinese paper producers, slower demand for new paper in Europe and a lack of alternative sales avenues in other Asian countries are taking their toll.

Lower-quality mixed paper (1.02) or even good-quality material from more remote destinations like Northern Ireland or parts of Scotland had already seen prices fall into negative territory in October. There is sometimes no money left even for good-quality paper in England. Loose material with a high graphic paper content is still commanding peak prices.

Shutdowns of Fine Paper Capacity in Europe Not Quite Keeping Pace with Dwindling Consumption

For a good decade now, the European woodfree uncoated and coated paper market has been experiencing structural change that is going hand in hand with a consistent decline in consumption and corresponding ramifications for the market. Paper manufacturers have responded by shutting down capacity and rebuilding machines. The last major wave of closures took place in 2014 and 2015 when roughly 2M tpy of capacity were eliminated within the span of two years.

Consumption has been in steep decline since then, especially for woodfree coated paper. According to Eurograph figures, woodfree paper shipments will likely have dropped by a total of roughly 1.3M t in 2018 and 2019 together, with woodfree coated paper accounting for roughly two-thirds of this sum.

This contrasts with capacity closures of up to 1M t in the same period in 2018 and 2019, most of which took place at Arjowiggins, UPM, Scheufelen, Lecta

and Feldmühle. However, this figure also includes some removed capacity for types of paper other than woodfree uncoated and coated paper category, especially at Arjowiggins.

New batch of **licences for recovered paper imports into China**. Chinese companies are allowed to import to **10.75M ton** so far this year.



Paper Producers Stabilize, But Risks Remain

A slowing global economy and trade war concerns have weighed heavily on US paper producers, who depend on demand for consumer product packaging from abroad against the backdrop of e-commerce shipping at home. As if that weren't enough, volatile materials costs have put additional pressure on major players like International Paper (NYSE:IP), Packaging Corporation of America (NYSE:PKG), and Domtar (NYSE:UFS). The question facing investors is whether now is the time to buy into the sector as troubles fade and valuations are attractive — or whether another shoe is likely to drop.

Statistics from the Pulp and Paper Products Council (PPPC) show that producer stockpiles rose to a high of 50 days' worth of supply during the second

half of 2018, versus long-term averages in the low 30 days range during the run up in prices. The latest PPPC data for October indicates that inventories have kept shrinking, if more slowly. With pulp inventory levels normalizing, a short-term bottom for pulp prices appears to be forming roughly \$300 /ton below the peak in 2018 -- good news for paper producers who have been forced to ride out this volatility.

Belarusian Company Signs Memorandums to Ship 24.000 ton of bleached sulfate pulp to China

OA O Svetlogorsk Pulp and Board Mill has signed two memorandums on the delivery of 24,000 tonnes of bleached sulfate pulp to two Chinese companies. The documents were signed during the 2nd China International Import Expo in Shanghai, the press service of the Belarusian timber, woodworking, pulp and paper industry concern Bellesbumprom told BelTA. In 2020 the Belarusian company will deliver 12,000 tonnes of pulp to each Chinese company to the tune of \$10.8M in total.

Tissue Paper Market Likely to Experience a Tremendous Growth in North America for the 5 years

Prior to 2014, the North America tissue paper market failed to grow as per its potential, due to various factors, such as the negative impact of retail industries and slowdown in the population growth rate. However, in 2018, the tissue paper market of North America has flourished, owing to an increase in production capacities, raw material prices, and use of advanced technologies. Value added innovation becomes a key of success to drive market growth. For instance, in 2016, an U.K.-based company, Better All Around, launched Ora paper towel in the U.S. market. The unique format and key attributes of this towel resulted in easy market penetration; in 2017, America's First Quality Tissue enhanced production capacity by introducing the TAD tissue line.

Tissue consumption in North America has increased mainly due to strong commercial business activities and increase in tissue trading, which propels the growth of the market. The demand for lightweight tissue paper and small-sized sheets has reduced in recent years. Progress in the commercial sector contributes to the major growth of AfH towelling products, which are heavy in weight as compared to the traditional ones.



M&A Activity / (Dis) Investments

- Sappi purchases Matane hardwood pulp mill in Quebec, Canada – it will decrease the pulp cost and earning instability for the company
- Kimberly-Clark to expand nonwovens capacity with an investment of \$20M
- Oji Holdings to expand thermal paper capacity in Brazil
- Ilim Group completes its project in Siberia with an investment of \$120M
- Lila Group doubles production capacity with c. \$80M investment
- Pixelle to acquire Specialty Paper Business from Verso Corp
- Fedrigoni acquires Ritrama
- Smurfit Kappa combines expertise with Mitsubishi HiTec Paper to create innovative food packaging
- Irving Tissue opens \$470M tissue production plant in Macon
- Nordic Kraft to restart pulp mill in Quebec
- Ence biofactory in Navia resumes production
- Stora Enso launches a new concept for constructing office buildings from wood
- UPM closes paper machine 2 in Rauma, Finland
- Cascades to close tissue converting activities at the Waterford and Kingman plants
- Containerboard producer Cartiera Pieretti suspends production
- Stora Enso has entered into a collaboration with HS Manufacturing Group (HSMG) to develop sustainable barriers for formed fibre products
- Stora Enso and Atos, a digital transformation company, collaborate on sustainable automated packaging solutions
- Fire razes tissue paper manufacturing factory in Budumburam, Ghana

New Developments

- Jiangxi Taison Paper optimizes performance with Valmet automation
- Valmet to deliver a new lime kiln and a fiberline upgrade for SCA Obbola kraftliner expansion project in Sweden
- Andritz successfully completes the largest concreting work for Klabin's Puma II project
- Toscotec enters the Caribbean market with a new TT SYD for César Iglesias, Santo Domingo
- Koehler Paper's new PM 8 produces first roll of paper at Kehl mill, in Germany
- Valmet delivers key technology for Bracell's new pulp mill in Brazil

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