



HAWKINS WRIGHT

Outlook for Market Pulp

Supply, Demand, Costs and Prices

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What our Outlook for Market Pulp service offers...

The Outlook for Market Pulp service was launched in 1984. It is now established as a vital planning tool for any company or organisation that requires access to the most authoritative analysis of the market pulp sector. Because this programme of research has continued without interruption for many years, Hawkins Wright has been able to develop an extensive bank of data, experience and contacts.

Over ninety organisations regularly support The Outlook service. These include pulp producers — who together account for more than 85% of world supply — buyers, international agents and trading houses, state and provincial governments and financial institutions.

The Outlook for Market pulp service comprises 6 reports per year that provide analysis of:

- **Demand and trade:** global market pulp demand trends and five years forecasts by grade, and by region/country. Imports by country of origin.
- **Supply:** global market pulp supply trends and five years capacity forecast by grade, and by region/country. The analysis includes a market pulp capacity listing by mill.
- **Supply/demand balances:** global supply deficit or capacity surplus, five year forecast by grade.
- **Production costs:** detailed analysis of the production costs of the global market pulp industry by grade and by region. The analysis presents the costs by individual component (wood, chemicals, energy, labour, maintenance, other mills costs, freight and marketing/sales). The data is sourced from Hawkins Wright's unique annual production cost survey and allows for the provision of costs curves for the softwood, hardwood and mechanical pulp sectors.
- **End use market review:** detailed appraisal of the end use markets for pulp, looking at paper and board demand trends and the outlook for supply. Global project listing for graphic papers and tissue.
- **Price Forecasts:** five year price forecast for BEKP and NBSK, delivered to North America, CIF West Europe and CIF China.

The following pages include a table of contents and list of figures and tables included in a typical Outlook for Market Pulp report.

About Hawkins Wright

Hawkins Wright is an independent consultancy providing a range of strategic, forecasting, market intelligence and business information services to the international forest products and bioenergy industries.

Since 1982 Hawkins Wright has provided authoritative and cost-effective services based on in-depth research of the global forest, pulp & paper and bioenergy industries. These services include private consultancy assignments covering a full range of marketing and strategic subjects as well as regular multi-client reports and newsletters.

Our consultancy services build on our global perspective of the macro- and micro-economic trends driving the international forest industry and downstream product markets. Assignments can range from advice on a client's business development or feedstock sourcing strategies to highly detailed market feasibility assessments of prospective projects.



The contents of a typical report

Section One:

Market pulp demand

Historical BCP demand by region and by grade

Chinese imports of market pulp

Consumer stocks

BCP demand forecast by region and by grade

Section Two:

Market pulp supply

Current market pulp capacity

Capacity forecast summary

Supply forecast risks

Confirmed changes to supply

Projects with uncertain schedules

Impact of dissolving pulp

Section Three:

Supply/Demand balance

Historical supply/demand balance

Supply/demand projections by grade

Short term supply and demand

Section Four:

Production costs

Global weighted average production costs

BSKP cash cost by region

BHKP cash cost by region

Global cost driver review

Net equilibrium price

High yield pulp costs review

Section Five:

Prices

Global economic review

Commodities

Exchange rates

Price forecast:

CIF West-Europe, CIF China, Del North America

Appendix 1:

Market pulp mill capacity listing, by region and by grade

Softwood kraft pulps

NBSK & SBSK

Radiata and other softwood

Fluff pulp

Hardwood kraft pulps

Birch

NMHW & SMHW

BEKP

Asian BHKP (including Acacia)

High-yield pulps (including BCTMP)

Unbleached kraft pulps

Sulphite

Appendix 2:

Top 20 market pulp producers by capacity, grade and market share

Appendix 3:

Paper capacity changes

Appendix 4:

Tissue capacity changes

The grades covered in the report include: NBSK, radiata, fluff/SBSK, birch, NBHK, SBHK, BEKP, BAKP, sulphite, UKP and HYP.

The regions covered by the report include: North America, Nordic, West Europe, Latin America, Japan, China, East Europe, Oceania and Other Asia.



List of Tables and Figures contained in a typical report

- Table 1: World BCP demand, by region
Table 2: World BCP demand, by grade
Table 3: World BCP demand forecast by region
Table 4: World BCP demand forecast by grade
Table 5: World BSKP demand forecast by region
Table 6: World BHKP demand forecast by region
Table 7: World market pulp capacity, by grade and by region
Table 8: World market pulp capacity by region (all grades)
Table 9: World market pulp capacity forecast summary
Table 10: World market pulp capacity forecast summary
Table 11: World market pulp capacity forecast by region
Table 12: Projects with uncertain schedules
Table 13: Recently active swing capacity
Table 14: BSKP cash costs by region, CIF China
Table 15: BSKP cash costs by region, CIF West Europe
Table 16: BHKP cash costs by region, CIF China
Table 17: BHKP cash costs by region, CIF West Europe
Table 18: IMF GDP forecast
Table 19: Pulp price, US\$/t, CIF Europe to 2019, before discounts
Table 20: Pulp price, US\$/t, delivered North America to 2019, before discounts
Table 21: Pulp price, US\$/t, CIF China to 2019
Table 22: Market pulp capacity by mill, Canadian NBSK
Table 23: Market pulp capacity by mill, Scandinavia and Germany, NBSK
Table 24: Market pulp capacity by mill, NBSK mixed species/other softwood
Table 25: Market pulp capacity by mill, other softwood
Table 26: Market pulp capacity by mill, US southern softwood
Table 27: Market pulp capacity by mill, US fluff pulp
Table 28: Market pulp capacity by mill, Scandinavian birch
Table 29: Market pulp capacity by mill, Northern mixed hardwood
Table 30: Market pulp capacity by mill, Southern mixed hardwood and Asian hardwood
Table 31: Market pulp capacity by mill, eucalyptus
Table 32: Market pulp capacity by mill, sulphite
Table 33: Market pulp capacity by mill, unbleached kraft
Table 34: Market pulp capacity by mill, high yield pulp
Table 35: Top 20 market pulp producers by capacity
Table 36: Paper capacity changes, Europe
Table 37: Paper capacity changes, North America
Table 38: Paper capacity changes, China
Table 39: Tissue capacity changes, China
Table 40: Tissue capacity changes, Asia, Middle East & Africa
Table 41: Tissue capacity changes, Europe
Table 42: Tissue capacity changes, Latin America/North America
Figure 1: BCP demand by grade
Figure 2: Relative growth performance of BHKP/BSKP demand by market
Figure 3: BCP demand, mature vs. emerging markets
Figure 4: Chinese imports of BSKP and BHKP
Figures 5-12: World-20 shipments by grade and by region
Figure 13: Consumer stocks
Figure 14: Chinese BSKP pulp imports by month
Figure 15: Chinese BHKP pulp imports by month
Figure 16: Global fibre consumption by grade: market pulp vs. integrated pulp vs. recovered fibre
Figure 17: World BCP demand forecast by region
Figure 18: World BCP demand forecast growth by grade
Figure 19: World BCP demand forecast by grade
Figure 20: World market pulp capacity, by grade and by region
Figure 21: Annual change in BCP capacity and growth by grade



List of Tables and Figures contained in a typical report (continued)

- Figure 22: World BSKP capacity by grade
- Figure 23: World BHKP capacity by grade
- Figure 24: Latin American pulp projects by location
- Figure 25: Cost (per tonne) of newly installed or converted capacity (excl. forestry resource)
- Figure 26: Historical DWP price premium vs. BEKP and NBSK (net prices), CIF China
- Figures 27-28: Illustration of long term annual BCP supply and demand projections
- Figure 29: Illustration of long term annual BSKP supply and demand projections
- Figure 30: Illustration of long term annual BHKP supply and demand projections
- Figure 31: BHKP and BSKP ratios
- Figure 32: World-20 producer inventories, days of supply
- Figure 33: World-20 BSKP/BHKP production
- Figure 34: Latin American market pulp production (BCP only)
- Figures 35-38: BSKP seasonality
- Figures 39-42: BHKP seasonality
- Figures 43-46: BCP seasonality
- Figure 47: World weighted average production cost history
- Figure 48: Index of selected major pulp producing currencies against the US dollar since 2011
- Figure 49: BSKP net equilibrium price, CIF China
- Figure 50: BSKP cash costs by region, CIF China
- Figure 51: BSKP cash costs by region, CIF West Europe
- Figure 52: BHKP net equilibrium price, CIF China
- Figure 53: BHKP cash costs by region, CIF China
- Figure 54: BHKP cash costs by region, CIF West Europe
- Figure 55: Evolution of the BHKP cost curve
- Figure 56: Evolution of the BSKP cost curve
- Figure 57: High yield costs by region, CIF China
- Figure 58: The US dollar Index
- Figure 59: Pulp prices against major commodities indices
- Figures 60-65: Exchange rates: currency vs. US dollar
- Figure 66: Exchange rates and pulp prices: BSKP vs Euro/Dollar
- Figure 67: Exchange rates and pulp prices: BHKP vs Euro/Dollar
- Figure 68: Printing & writing shipments from the mature markets
- Figure 69: European market pulp vs P&W paper prices
- Figure 70: European P&W shipments
- Figure 71: North American UWF imports by month
- Figure 72: North American P&W shipments
- Figure 73: Chinese paper exports by month
- Figures 74-79: Paper producers' converting margins
- Figure 80: Converting margins for European CWF producer
- Figure 81: Printing & writing paper prices as an index
- Figure 82: Global tissue capacity investment by region
- Figure 83: Global tissue production by region
- Figure 84: Pulp price, US\$/tonne, CIF Europe (before discounts)
- Figure 85: Pulp price, US\$/tonne, CIF China (net)
- Figure 86: Pulp prices, €/t, CIF Europe
- Figure 87: Pulp prices, reais/t, Canadian\$/t, CIF Europe
- Figure 88: Hardwood price forecast, CIF Europe, different US\$ scenarios
- Figure 89: Softwood price forecast, CIF Europe, different US\$ scenarios
- Figure 90: NBSK price, US\$/t, by region, to 2017
- Figure 91: BEKP price, US\$/t, by region, to 2017
- Figure 92: Top 20 market pulp producers by capacity

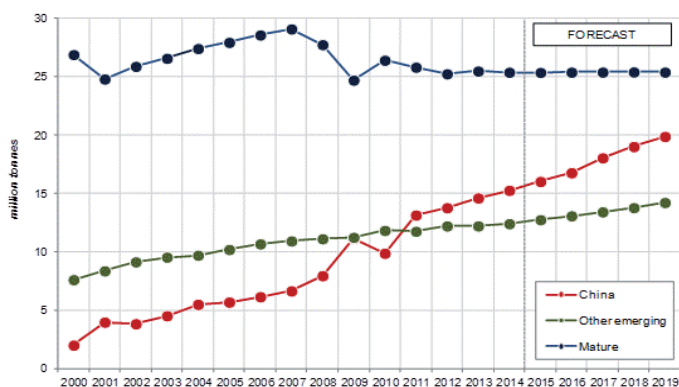


Sample pages

World BCP demand forecast by region, 2013-2019

	2013	2014	FORECAST					% p.a. 2014-19	000t 2014-19
			2015	2016	2017	2018	2019		
North America	7,560	7,540	7,550	7,605	7,650	7,695	7,740	+0.5%	+200
Nordic	1,990	1,925	1,985	1,985	1,980	1,975	1,970	+0.5%	+45
West Europe	13,605	13,590	13,515	13,475	13,445	13,420	13,380	-0.3%	-210
East Europe	1,940	2,200	2,290	2,375	2,470	2,560	2,675	+4.0%	+475
Latin America	3,155	3,310	3,375	3,485	3,590	3,705	3,830	+3.0%	+520
Oceania	255	260	275	275	280	280	275	+1.1%	+15
Japan	2,055	2,045	2,020	2,030	2,020	2,015	2,010	-0.3%	-35
China	14,600	15,255	16,015	16,760	18,035	19,000	19,865	+5.4%	+4,610
Asia/Africa	7,110	6,890	7,075	7,210	7,350	7,505	7,705	+2.3%	+815
TOTAL	52,270	53,015	54,100	55,200	56,820	58,155	59,450	+2.3%	+6,435

Source: Hawkins Wright



Source: Hawkins Wright

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17



SECTION ONE: MARKET PULP DEMAND

Global BCP demand growth will average 2.3% p.a. during the forecast period, generating an average of 1.3 million t of additional shipments every year.

Our forecast has been revised upwards by 1.3 million t since the April report, to reflect the additional supply growth that is now forecast for 2018-2019. Demand is partly supply driven, and the forecast assumes the recently confirmed projects of Fibria and Eldorado will accelerate the process of substitution of non wood fibres and recovered paper with BEKP.

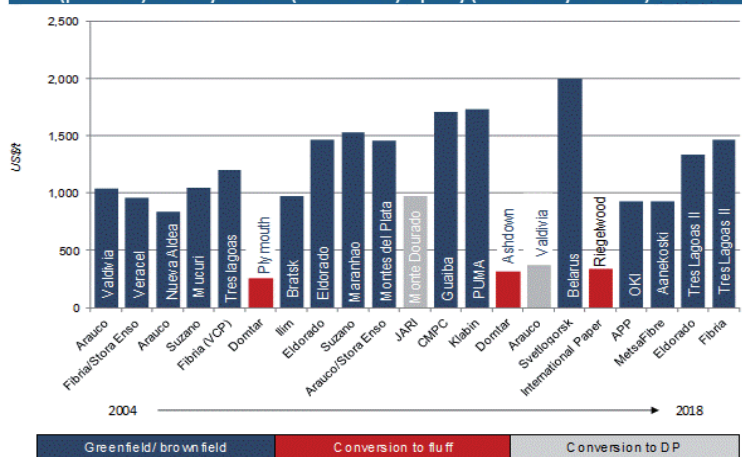
Some of the upward revision to demand is accounted for by the mature markets, where demand is now projected to remain relatively unchanged through the forecast. Virgin fibre demand will be supported by the ramp up of new virgin fibre tissue capacity, and the displacement of recovered fibre and integrated pulp.

Demand in the emerging markets is forecast to increase by 6.4 million t during the period 2014-2019, of which 4.6 million t will originate in China.

Projects with uncertain schedules

In view of the fact that pulp markets will be structurally over-supplied over the next five years, and that the costs of installing new capacity have increased across Brazil and other parts of the southern hemisphere (see chart below), we believe it will be increasingly difficult to raise finance for further large scale projects in plantation based BHPK mills. In our view, it is more likely that the future capacity will be lower than currently forecast as certain uncompetitive facilities are forced to close down. Nevertheless, there are still a very high number of projects which are seeking approval. The list on the following page is by no means exhaustive, but includes those projects which we believe stand most chance of being realised.

Cost (per tonne) of newly installed (or converted) capacity (exc. forestry resource)



Source: Hawkins Wright

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35

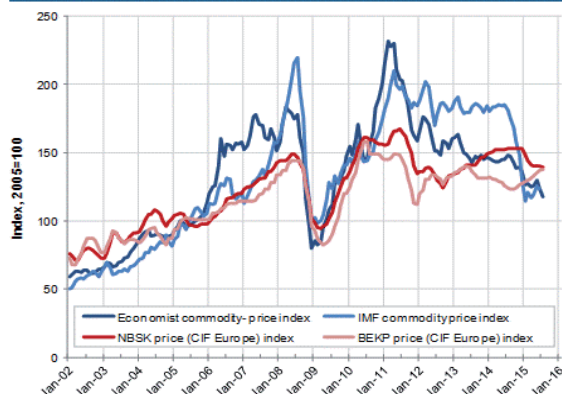


SECTION TWO: MARKET PULP SUPPLY



Sample pages

Commodities



Source: Economist, Hawkins Wright

However, prices stabilised in June and there is some anxiety that drought conditions affecting many countries, combined with the effects of a stronger and more protracted El Nino effect, may cause supply constraints that more than offset the weaker demand through the second half of the year. The chart above shows that although there is usually a good correlation between pulp prices and the commodity indices, hardwood pulp prices have significantly outperformed over the past twelve months. Even for softwood (which had outperformed through 2013 and 2014), the correction has been relatively mild compared to most other commodities.

Pulp and paper behave like commodities but are more closely related to the consumer economy than energy and metals which are highly geared to construction and heavy industrial activity. Pulp prices did not reach the heights of other commodities during China's construction boom, but nor have they suffered so much in the downturn. The transition towards consumerism is promoting demand for hygiene products and quality packaging. In addition, the drive to improve the environment has also been to the benefit of imported wood pulp as it gradually displaces lower grade domestic fibres. As a result the slow-down in pulp demand has been more muted than that of other dry bulk commodities.

Nevertheless, pulp markets will continue to be influenced by macro-economic factors such as the Chinese economy and the US dollar, and the current disaffection from the investment community towards the commodity sector in general must be taken into account. Most analysts think it will take several years before global demand can catch up to absorb the additional capacities from new mines and oil fields which are now being realised. This closely correlates with our supply-demand analysis for market pulp, as a record amount of new capacity is added in the coming five years.

Analysts are heralding the end of the commodity super-cycle, as slowing Chinese demand and the strong US dollar drive prices lower. The Bloomberg commodity index recently fell by 3.3 percent to the lowest level since 2009, and indices published by the IMF and the Economist magazine have also dropped to levels not seen since the build up to the financial crisis (see chart).

Energy commodities and metals have been hit worst, with copper sliding by 6 percent in one week to reach a six year low at end July. Copper prices have been depressed by slowing Chinese demand at the same time as increased supply is coming to the market following investment decisions made in the boom years. This is a common theme. Brent crude fell back to \$55 per barrel in the last week of July and US prices have fallen below \$50, a level which should start to stimulate curtailment amongst the highest cost shale producers.

Agricultural commodities have also depreciated through the first six months of the year, partly due to better than expected harvests.



Market pulp capacity by mill, Canadian NBSK

		Total						Total
		2014	2015	2016	2017	2018	2019	2019
Northern softwood								
COASTAL BRITISH COLUMBIA								
PAPER EXCELLENCE	HOWE SOUND	425	+20	+15	-	-	-	460
CATALYST	CROFTON	365	-	-	-	-	-	365
COASTAL PULP AND PAPER	HARMAC	365	-	-	-	-	-	365
COASTAL BC	TOTAL	1155	+20	+15	-	-	-	1,190
INTERIOR WESTERN CANADA								
ALBERTA PACIFIC	ATHABASCA	90	-	-	-	-	-	90
CANFOR PULP	INTERCON	330	-20	-	-	-	-	310
CANFOR PULP	NORTHWOOD	600	-	-	-	-	-	600
DOMTAR	KAMLOOPS	300	-	-	-	-	-	300
DAISHOWA-MARUBENI	PEACE RIVER	200	-	-	-	-	-	200
MERCER	CASTLEGAR	520	-	-	-	-	-	520
PAPER EXCELLENCE	MACKENZIE	240	-	-	-	-	-	240
PAPER EXCELLENCE	SKOOKUMCHUCK	255	-	-	-	-	-	255
WEST FRASER (DM JV)	CARIBOO	345	-	-	-	-	-	345
WEST FRASER	HINTON	420	-	-	-	-	-	420
WEYERHAEUSER	GRAND PRAIRIE	360	-	-	-	-	-	360
INTERIOR	TOTAL	3660	-20	-	-	-	-	3,640
EASTERN CANADA								
AV TERRACE BAY INC	TERRACE BAY	350	-	-	-	-	-	350
DOMTAR	ESPANOLA	120	-	-	-	-	-	120
DOMTAR	DRYDEN	320	-	-	-	-	-	320
IRVING	ST JOHN, NB	30	-	+50	-	-	-	80
PAPER EXCELLENCE	PICTOU	285	-	-	-	-	-	285
RESOLUTE FOREST PRODUCTS	THUNDER BAY	210	-	-	-	-	-	210
RESOLUTE FOREST PRODUCTS	ST FELICIE	375	-	-	-	-	-	375
EASTERN	TOTAL	1690	-	+50	-	-	-	1,740
CANADA	TOTAL	6905	-	+65	-	-	-	6,970

Source: Hawkins Wright





Deliverables and order form

An annual corporate subscription to the Outlook for Market Pulp service costs **£5,150** (or the equivalent in US dollars or euros). The service comprises:

- Three main reports published in April, August and December, containing detailed supply, demand and price analyses and five-year forecasts. (The August report also contains the results of Hawkins Wright’s unique Cost Survey.) The reports are distributed as electronic and hard copies.
- Three interim forecast updates, published in February, June and October. Taken together with the main reports, these updates allow the key forecast data and assumptions – in particular the price forecast – to be updated every two months. Distributed electronically.
- Hawkins Wright’s response to any questions that the subscriber may have on matters relating to the international pulp and paper market throughout the year. In this way Hawkins Wright can be used as a virtual extension of the subscriber’s own marketing or market research department.
- A personal presentation: it will usually be possible for a Hawkins Wright consultant to meet with each client at least once a year to make a presentation on market developments.

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