



HAWKINS WRIGHT

Outlook for Market Pulp

Supply, Demand, Costs and Prices

A multi-client service, available now

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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 5-year forecasts by grade, and by region/country. Imports by country of origin.
- **Supply:** global market pulp supply trends and 5-year 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, 5-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.



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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.



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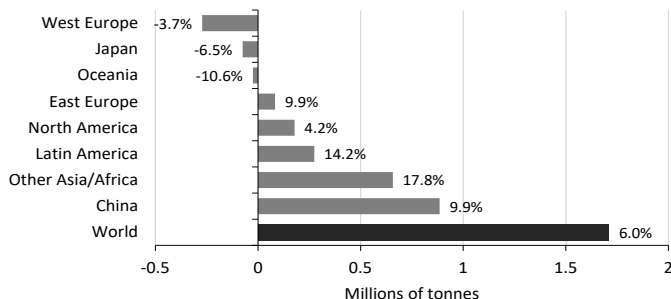


Sample pages

Shipments through the year-to-date



World-20 demand, change in 000s tonnes, 7 months 2020 vs. 2019

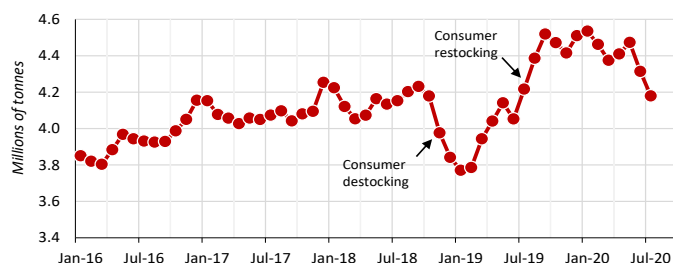


During the first 7 months of this year, World-20 shipments of BCP grew by 6% over the prior year period, equal to 1.7Mt. All growth was attributable to BHKP, shipments of which surged by 14.8%. By comparison, shipments of BSKP contracted by 2.7%.

Pulp shipments have performed well during the year-to-date owing to strength in demand from the tissue industry and some precautionary purchases during Q2 as buyers sought to protect themselves against any potential Covid-related supply disruptions.

Having said this, the weakness in pulp demand during the first half of last year (as consumer stocks were drawn down) makes the year-on-year comparisons very flattering: World-20 shipments to China have grown by 10% y-t-d, whilst deliveries to Other Asia/Africa are up 18%. Amongst the other major markets, shipments to Latin America have grown by +14%, whilst deliveries to North America have jumped by 4% and to East Europe +10%. Conversely, shipments to West Europe have fallen by 3.7% y-t-d whilst deliveries to Japan have slipped by 6.5%.

World-20 shipments of BCP (3 month moving average)



Source: Hawkins Wright, PPPC

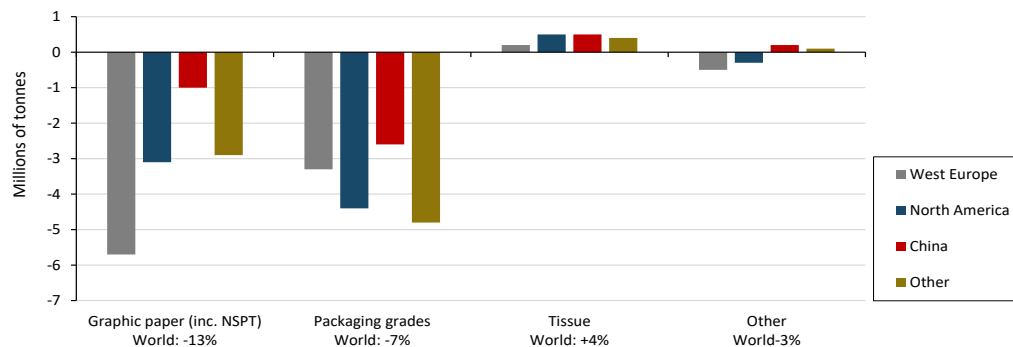
BCP demand estimates, 2020 vs 2019



In the April report we presented a detailed analysis of our BCP demand forecasts for 2020, by end-use market. We made assumptions regarding production levels for each of the major end-use markets for pulp, and then modeled the likely market pulp demand derived from each sector. Our initial conclusion suggested a 2Mt contraction in underlying market pulp consumption should be expected this year, but that this would be partially offset by some consumer stock building and some displacement of integrated pulp. As a result we had forecast decline in shipments of 1.7Mt comprising a 0.7Mt drop in shipments of BHKP and a 1Mt decline in deliveries of BSKP.

Since publishing the April forecast, we have acquired greater visibility on the performance of the end use markets, allowing us to update our forecast assumptions. A summary of our latest projections for global production of paper and board are presented below:

World paper and board production by grade and by region, volume change 2020 vs. 2019 (millions of tonnes)



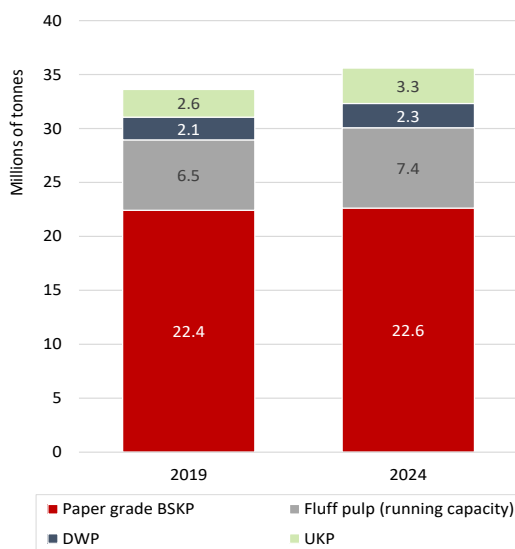


Sample pages

BSKP capacity forecast overview



Market pulp furnished with softwood, 2019 vs. 2024



The chart opposite quantifies global market pulp capacity furnished with softwood, by grade for 2019 vs 2024. The key features include:

- UKP capacity expanding from 2.6Mt to 3.3Mt, approximately half of which will result from the conversion of existing bleached softwood capacity.
- Softwood DWP capacity growing by 0.2Mt (net), all of which will result from the repurposing of existing bleached softwood capacity.
- Fluff pulp capacity growing from an estimated 6.5Mt in 2019 to 7.4Mt in 2024. The growth in supply will not require additional investment but will be achieved by a change in the production bias of existing swing mills already equipped to produce fluff pulp.

Note that the repurposing of significant volumes of bleached softwood market pulp capacity to fluff pulp, UKP and DWP will offset nearly all of the growth in BSKP supply dedicated to bleached paper grade purposes.

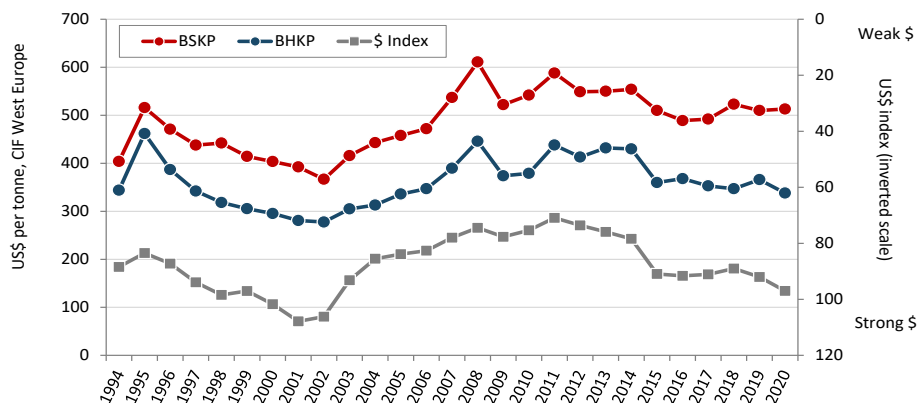
World weighted average production costs



Global weighted average production costs have been fairly flat over the past four years, reflecting the relative stability of the US dollar (see next page). Fibre costs have fallen in local currency terms in most regions this year, albeit for different reasons. In addition, pulp mills have faced fewer unscheduled interruptions relative to the period 2017-2018, implying greater efficiencies and lower unit costs.

Weighted average BSKP costs (CIF Europe) are estimated at \$517/t in Q3 2020, whilst the weighted average for BHKP is estimated at \$338/t. The spread between average softwood and hardwood production costs is therefore around \$144/t, a record high. Arguably, it is more relevant to look at the difference between marginal producers when forecasting a trend price differential. The gap between the "equilibrium price" of softwood and hardwood kraft is \$135/t (CIF China), as shown on pages 96 and 107.

World weighted average production cost history, 1994-2020





Deliverables and order form

An annual corporate subscription to the Outlook for Market Pulp service costs **£5,850** (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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