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 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.

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**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

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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:
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  Radiata and other softwood
  Fluff pulp
Hardwood kraft pulps
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  BEKP
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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.
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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 Fibna and Eldorado will accelerate the process of substitution of non-wood fibres and recovered paper with BCP.

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 0.4 million t during the period 2018-2019, of which 4.6 million t will originate in China.

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 BCP 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.
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Outlook for Market Pulp

Analysts are heralding the end of the commodity super-cyle, 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 8 percent in one week to reach a six year low at the end of 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.

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 affect, 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 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 price sensitive and driven by 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 analyst for market pulp, as a recent amount of new capacity is added in the coming five years.
Deliverables and order form

An annual corporate subscription to the Outlook for Market Pulp service costs £5,450 (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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