

# Paper Market Update

January 2019 | Volume 11 | Edition 1

*Not surprisingly, paper price increases of 2018 have adversely impacted demand for many grades, and led to grade migrations to achieve cost savings. Coated paper markets have loosened as we head into 2019, and mill lead times are shrinking. GP just announced a March mill closure that will eliminate approx. 8% of the uncoated freesheet market capacity in North America. The newsprint market has loosened and projected declines in demand will force further mill closures.*

## Recent News

- **New Indy Containerboard** has announced that, on December 31, 2018, it completed the previously disclosed purchase of the Catawba, SC, paper and pulp mill from Resolute Forest Products pursuant to the terms of the asset purchase agreement dated October 2, 2018. They will continue to produce coated and SC grades of paper through the end of 2020, and convert to packaging thereafter.
- **Port Hawkesbury Paper** states that their 2019 order book is full six years after reopening the Nova Scotia mill, which produces supercalendered paper.
- **Georgia-Pacific (GP)** will stop making uncoated freesheet (UFS) paper at its Port Hudson, LA, mill in March and shut its two paper machines. This will eliminate about 630,000 tons/yr of UFS capacity, which is +/- 8% of the North American market for this grade.
- The **Chinese government** released new recovered waste paper (RCP) import permits for 2019 amounting to 431,500 tonnes. These permits were granted in order to avoid RCP market shortages, as in 2018 when much stricter regulation was introduced. The move has given the industry hope that China may also loosen the heavy regulations of the import of RCP, choosing instead to see it as a recyclable resource.
- The **U.S. Postal Service** posted the best on-time delivery rate during the 2019 holiday season, with 98.8% of Parcel Select deliveries made on time, followed by UPS at 98.3% on time and FedEx and 97.6%.

## Market Drivers

- **Wood pulp prices** finally reached a peak in November and took a downward turn in December, down by \$5 to \$15/metric ton. Mill fiber costs can range between 14% to 26% of the total cost of paper.
- **Economists** say that risk for a recession in the U.S. is at a six year high due to the federal shutdown causing business and consumer confidence to wane, ongoing trade disputes with China, and potential impact to the financial markets.
- **Currency exchange** rates for the euro and Canadian dollar continue their downward trend vs. the U.S. dollar.

Wood Pulp Prices for NBSK



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## Paper Grade Review

- **Coated** – According to RISI data, demand for coated groundwood (CGW) actually increased 1% in 2018, as compared to a decline of 3% for coated freesheet (CFS) grades. 2019 ushers in probable changes to both coated markets. Some CFS producers may go back to producing UFS grades, and Sappi continues its SBS conversion at the Somerset mill. CGW may see even more change in 2019, as Nine Dragons gears up to convert coated capacity to packaging grades on PM25 at their Biron mill. In any case, further capacity reductions will be necessary to maintain balanced markets.
- **Uncoated freesheet (UFS)** – GP announced they will close their UFS mill in LA in March, removing 8% of the N.A. UFS capacity. This will bolster market balance and likely provide stability in this market for 2019.
- **Uncoated groundwood (UGW including SC)** – According to industry analysts, SC will benefit from capacity conversions to packaging in CGW, but accelerated declines in demand would necessitate further capacity shuts or conversions to maintain market stability and not decline. The market for machine finish high brightness grades typically follows newsprint, and so expect loosening in this market with accelerated declines in demand.
- **Newsprint** – The 2018 newsprint tariffs are behind us and newsprint supply has become more readily available. Demand for newsprint will fall in 2019 (forecasts of -12% in newspapers and -2% at commercial printers), so supply must decline to balance the market if the mills hope to maintain current price levels. If prices fall, producers will likely not hesitate to shutter capacity once profitability becomes negative.

Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	Nov '18	Oct '18	Nov '17	Nov '18	Oct '18	Nov '17	
Newsprint	204	199	176	318	346	338	12 to 14 weeks
Uncoated Groundwood	155	150	140	70	70	76	12 to 14 weeks
Uncoated Freesheet	593	603	675	577	634	563	12 to 14 weeks
Coated Groundwood	69	69	99	130	139	148	6 to 10 weeks
Coated Freesheet	376	350	415	271	296	274	6 to 10 weeks

000s omitted; Source: PPPC & Quad Paper Services

	Q4-18	Q1-19	2018	2019
Forecasted:	vs Q4-17	vs Q1-18	vs 2017	vs 2018
Magazine Ad Pages	-11.4%	-10.0%	-15.9%	-8.4%
Printing Shipments	-2.0%	-1.9%	-1.6%	-1.5%
Catalogs Mailed	-2.0%	-2.3%	-2.2%	-3.4%
Newspaper Ads \$	...down 9% in 2018			
For the month:	Dec '18	Nov '18	Dec '17	% yr/yr
Crude Oil Avg. Price	\$49	\$57	\$58	-14.6%
NBSK Pulp*	\$1,430	\$1,435	\$1,205	18.7%
EUR/USD	\$1.14	\$1.15	\$1.19	-4.4%
CAD/USD	\$0.74	\$0.76	\$0.79	-5.8%

\*Pulp prices have increased 52% since 2016

