

Paper markets have cooled down since the end of 2018. Since then, the GP Port Hudson closure announcement has triggered a round of uncoated freesheet price increases for March. The coated markets have softened somewhat since the busy season has ended, as have the markets for newsprint and uncoated groundwood MF high-bright grades. The markets for SC grades, uncoated freesheet and super-high bright UGW grades are relatively tighter, although paper is available with normal mill order lead times.

Recent News

- **Georgia-Pacific (GP)** will cease UFS paper production at its Port Hudson, LA, mill in March, removing about 630,000 tons/yr of UFS capacity. This is 8% of the North American market for that grade.
- **UPM** has been ranked on the 23rd place in the list of 100 most sustainable corporations by the Corporate Knights, the Canadian-based media and research company. UPM is the only company listed in the Paper and Forest Products category
- **Sappi** 1Q 2019 results: EBITDA excluding special items was up 14.5% from a year ago to \$197 million
- **Metsä Board** 4Q 2018 results: comparable operating results, up 10% from a year ago to Euro 60.1 million
- **Resolute Forest Products** preliminary 4Q 2018 results: operating income was up 41% from a year ago to \$75 million
- **UPM's** operating profit rose by 50.5% to Euro 744 million in 2018, driven by biorefining, energy and graphic paper
- **Weyerhaeuser** 4Q 2018 results: net earnings before special items were down 70% from a year ago to \$70 million

Market Drivers

- **Currency exchange rates vs. the U.S. dollar:** The euro is at \$1.13 trending downward, while the Canadian dollar is at \$0.75 trending upward since December.
- **Energy costs** are down in 2019, as is the cost of crude oil, down 19% vs. same period last year.
- **The accelerating decline** in demand for newspaper inserts, directories, magazines, and paperback books will adversely impact paper demand and operating rates in 2019.
- **Wood pulp prices** peaked in Q4, then decreased 2%, by \$25 to \$30/tonne in January. Fiber costs represent between 14% - 26% of paper mill production costs.

	Q1-19	Q2-19	2018	2019
<i>Forecasted:</i>	vs Q1-18	vs Q2-18	vs 2017	vs 2018
Magazine Ad Pages	-11.0%	-9.7%	-17.2%	-8.3%
Printing Shipments	-1.9%	-2.1%	-1.6%	-1.6%
Catalogs Mailed	-2.3%	-4.7%	-2.3%	-3.9%
Newspaper Ads \$...down 9% in 2018			
<i>For the month:</i>	Jan '19	Dec '18	Jan '18	% yr/yr
Crude Oil Avg. Price	\$52	\$49	\$64	-19.3%
NBSK Pulp	\$1,405	\$1,430	\$1,210	16.1%
EUR/USD	\$1.14	\$1.14	\$1.25	-8.4%
CAD/USD	\$0.75	\$0.74	\$0.81	-7.8%



Paper Grade Review

- **Coated** – Coated paper markets were strong in 2018, following large capacity closures in 2017, and saw price increases of between 10%-15%. Coated groundwood grades are readily available now, as mills look to keep their order books full. Coated freesheet producers also have the option to increase production of uncoated freesheet grades if demand warrants.
- **Uncoated freesheet** – GP's Port Hudson closure has led to an announced price increase of \$3/cwt for March, by all UFS producers in N.A. UFS mill operating rates were at low levels as we ended 2019; however, the GP shut removes 8% of the supply base. As a result, RISI is forecasting a much stronger average rate of 95% for 2019.
- **Uncoated groundwood (UGW including SC)** – Demand for SC UGW fell by only 1% in 2018 according to PPC data. UGW demand is facing secular declines in directories, newspaper inserts, paperback books, and magazines, all of which are important end uses for this market segment. RISI is forecasting an overall 6% decline in UGW demand over this year and next. Prices for the lower brightness UGW will follow newsprint while SC prices will follow lightweight coated prices.
- **Newsprint** – Newsprint demand was down by 11% for 2018 within the following segments: newspaper demand fell by 14%, while demand from printers fell by 6.5% in 2018. Newsprint mill inventories rose at the end of 2018, to their highest peak since 2009. If it becomes necessary, look for larger producers to curtail price erosion by removing capacity. Newsprint prices have been stable through January, and the mills are showing a disciplined approach to pricing thus far.

What to expect...

- Newsprint and UGW lower brightness mills will fight to hold pricing at current levels, despite facing accelerated drop in demand.
- Uncoated freesheet and super-high brightness UGW markets to remain tight in 1H-2019, leveling out to a stable market in 2H-2019.
- Coated freesheet producers may increase UFS production to counteract demand shortfalls.
- Wood pulp prices continue to erode.

Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	Dec '18	Nov '18	Dec '17	Dec '18	Nov '18	Dec '17	
Newsprint	229	204	183	325	318	331	12 to 14 weeks
Uncoated Groundwood	160	155	142	69	70	71	12 to 14 weeks
Uncoated Freesheet	640	593	713	540	577	596	12 to 14 weeks
Coated Groundwood	73	69	107	135	130	141	6 to 10 weeks
Coated Freesheet	406	376	411	272	271	281	6 to 10 weeks

000s omitted; Source: PPC & Quad Paper Services

