

Demand has dropped off for most paper grades, but producers are showing discipline thus far with regards to price pressures vs. mill downtime. Wood pulp prices continue to drop...5% thus far in 2019. Offshore imports are on the rise in early 2019 in almost all paper grades. Factors include: weaker European markets, higher U.S. prices compared with Europe, and the strong U.S. dollar. Mill order lead times have shortened as most grades are readily available. The risk factor for paper prices will be if/when producers remove further production capacity rather than allow their price gains of 2018 to erode.

Recent News

- UPM plans to permanently close PM10 at UPM Plattling, Germany, reducing the annual capacity of coated groundwood paper in Europe by approximately 155,000 tons.
- Verso Corp. plans a major boiler rebuild at its paper mill in Wisconsin Rapids, Wisconsin, in 2019.
- Two Sides North America has released a new fact sheet on why paper made in North America can be a responsible purchasing choice. [Read the full press release](#)
- White Birch closed the Bear Island newsprint paper mill in March. This eliminates 240,000 tonnes/year of newsprint capacity in North America.
- Catalyst Paper Corporation is now called Paper Excellence, following the acquisition by Paper Excellence Canada (PEC) last month. This includes its three facilities located in Crofton, Port Alberni and Powell River. Catalyst manufactures 1.3 million tonnes of pulp and paper products which include NBSK pulp, industrial packaging, food service, coated ground-wood, newsprint and directory papers.
- Kruger Specialty Papers has invested \$40 million to build a new bleached thermomechanical pulp (TMP) plant at Trois-Rivières and to upgrade production at their Wayagamack mill in QC.

Market Drivers

- Wood pulp prices decreased another \$25 - \$30/tonne in March, down over 5% ytd in 2019.
- Currency exchange rates vs. the U.S. dollar continue to decline in 2019. The Canadian dollar has moved from a high of 0.76 down to 0.74 this year, while the euro has moved from 1.15 in January down to 1.12.
- Demand for paper is down over 11% thus far in 2019.

	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	-2.7%	-4.7%	-1.5%	-4.2%
Newspaper Ads \$	-8.1%	-11.0%	-8.7%	-9.7%
<i>For the month:</i>	Mar '19	Feb '19	Mar '18	% yr/yr
Crude Oil Avg. Price	\$58	\$55	\$63	-7.1%
NBSK Pulp	\$1,355	\$1,380	\$1,260	7.5%
EUR/USD	\$1.13	\$1.14	\$1.22	-7.4%
CAD/USD	\$0.75	\$0.76	\$0.78	-4.0%

Paper Grade Review

- **Coated** – Weak demand, rising imports, rising mill inventories, and lower fiber costs are all contributing to downward pressure on coated paper prices. CGW grades are readily available, but some mills have taken downtime in an effort to keep pricing at current levels.
- **Uncoated freesheet (UFS)** – UFS prices have begun to move upward from the announced increase, but delays and negotiations have softened impact. The availability of imported paper is impacting the ability of mills to realize the full announced price increase of \$60 for March. The UFS cut size market is tighter than the offset rolls segment.
- **Uncoated groundwood (UGW including SC)** – Shipments are down 7% ytd in 2019. Similar to coated grades, UGW suffers the same issues including: weak demand, rising imports, and lower fiber costs. Additionally, because 70% of UGW is produced in Canada, this market is also impacted by the stronger U.S. dollar over the Canadian dollar. Canadians can produce the paper for lower costs, and sell into the U.S. market at higher margins.
- **Newsprint** – Newsprint price indexes fell \$15/tonne in March following very low operating rates January through March. Operating rates have dropped to 77% of capacity. Despite the Ashland mill closure, significant newsprint capacity will be removed this year if prices are to stabilize and not head downward any further; however, with fewer producers making newsprint, capacity rationalization can quickly impact pricing.
- **What to expect...**
 - Paper producers to fight to maintain their 2018 price gains by adjusting supply
 - Mills to proactively control supply through grade switching, conversions and shuts
 - Wood pulp prices continue to erode
 - RISI is forecasting between 4% to 6% drop in demand for coated grades in 2019
 - RISI is forecasting a relatively balanced UFS market for 2019
 - RISI forecasts an overall 6% drop in demand for UGW grades in 2019

Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	Feb '19	Jan '19	Feb '18	Feb '19	Jan '19	Feb '18	
Newsprint	302	252	190	252	311	316	6 to 8 weeks
Uncoated Groundwood	186	179	154	66	65	67	6 to 8 weeks
Uncoated Freesheet	668	677	667	576	598	611	12 to 14 weeks
Coated Groundwood	91	88	97	125	131	133	6 to 8 weeks
Coated Freesheet	466	436	411	236	273	271	6 to 8 weeks

000s omitted; Source: PPPC & Quad Paper Services