

Current paper market conditions are a stark contrast from those we saw during 2018, where we experienced the tightest market conditions we've seen in recent years. Some markets are faring better than others, but overall demand for paper is down and this is reflected in the market data. However, the coated freesheet market in N.A. will tighten significantly with Verso's closure of their Luke MD mill in June. Paper is readily available with shorter lead times for coated and uncoated groundwood grades, with some slack capacity. Uncoated freesheet prices have risen, but the full \$60/ton increase announced for March has not yet been fully implemented in the market. Newsprint producers are selling offshore to help fill the void caused by anemic domestic demand. Mills will curtail production to stabilize paper prices this year.

Recent News

- **Verso Corp.** announced it will permanently close its paper mill in Luke, Maryland, in response to the continuing decline in customer demand for the coated freesheet (CFS) grades produced at the mill. The closure, which is expected to be complete by June 30, will reduce CFS production capacity by approximately 450,000 tons. *(Verso press release)*
- The two largest containerboard producers in North America (**IP and WestRock**), who produce over 50% of this market capacity, implemented 820,000 tons of downtime in Q1. This represents 9% of the U.S. Q1 containerboard production of nearly 8.8 million tons. *(RISI Pulp & Paper Week)*
- **ND Paper's** Rumford mill recently completed a series of modifications to optimize the systems that filter retention, drainage and formation (RDF) specialty chemicals on its three paper machines, with a goal to reduce wet end breaks and improve the efficiency of expensive chemicals. *(NDP press release)*
- **UPM 1Q 2019 results:** EBIT up 5% from a year ago to Euro 374 million. Sales grew by 7% to EUR 2,693 million. Operating cash flow increased to EUR 320 million. *(UPM press release)*
- **President Trump** has increased pressure on China to reach a trade deal, saying he would hike U.S. tariffs on \$200 billion worth of Chinese goods this week and target hundreds of billions more soon. *(Reuters)*

Market Drivers

- **Verso's closure** of their Luke, MD CFS mill in June, should have no major impact on the market this year, except to eliminate excess capacity and stabilize prices.
- **Wood pulp prices** decreased \$25/tonne in April, they are down 7% ytd in 2019, but remain 4% higher than year ago prices.
- **Currency exchange** rates vs. the U.S. dollar have trended downward since 2018. The euro has averaged 1.13 YTD with a high of 1.15 in January and a low of 1.11 in May. The Canadian dollar has averaged 0.75 YTD with a high of 0.76 and a low of 0.74... favoring Canadian producers.

	Q2-19	Q3-19	Q4-19	2019
<i>Forecasted:</i>	vs Q2-18	vs Q3-18	vs Q4-18	vs 2018
Magazine Ad Pages	-10.6%	-9.2%	-4.6%	-8.9%
Printing Shipments	1.2%	-0.3%	-0.2%	-2.5%
Catalogs Mailed	-1.6%	-1.8%	-1.7%	-4.1%
Newspaper Ads \$	-12.5%	-11.8%	-10.8%	-12.0%
<i>For the month:</i>	Apr '19	Mar '19	Apr '18	% yr/yr
Crude Oil Avg. Price	\$64	\$58	\$66	-3.7%
NBSK Pulp	\$1,333	\$1,358	\$1,280	4.1%
EUR/USD	\$1.12	\$1.13	\$1.23	-8.6%
CAD/USD	\$0.75	\$0.75	\$0.78	-5.1%

Source: RISI Paper Trader data & public domain



Paper Grade Review

- **Coated** – CGW grades are faltering and price indices have begun to show some slippage due to spot pricing in the market from two small CGW producers. The large producers remain disciplined thus far. CFS grades will tighten after Verso’s Luke mill closure in June, but CFS prices should remain flat for the year.
- **Uncoated freesheet (UFS)** – Growing UFS imports are filling the void caused by G-P’s closure, and demand continues to fall 2-3% per year. Mills indicate they will fully realize the \$60/ton March 1 increase by end of Q2, but RISI predicts UFS pricing to remain flat for the remainder of 2019.
- **Uncoated groundwood (UGW including SC)** – Demand for UGW grades has been falling faster than for other grades over the past few years. PPPC shows a 9% drop in UGW demand for Q1 this year, and we would expect to see capacity closures to stabilize and bring balance to this market. RISI predicts that over 400,000 tons of annual UGW capacity will be removed over the next two years.
- **Newsprint** – Newsprint producers have turned to the export market for relief from the faltering demand in North America... with exports up 16% so far this year (34% jump in March alone). Newsprint capacity will have to be removed this year to prevent further price slippage. Offshore markets offer only a short term solution to slack capacity, because these markets provide far less margin to the mills.

Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	Mar '19	Feb '19	Mar '18	Mar '19	Feb '19	Mar '18	
Newsprint	313	302	195	316	252	326	6 to 8 weeks
Uncoated Groundwood	185	186	153	67	66	72	6 to 8 weeks
Uncoated Freesheet	662	668	655	584	576	658	12 to 14 weeks
Coated Groundwood	110	96	92	133	125	157	6 to 8 weeks
Coated Freesheet	503	466	395	269	236	291	6 to 8 weeks

000s omitted; Source: PPPC, RISI Fastmarkets, & Quad Paper Services

Ink on Paper

The Myth: Paper is bad for the environment

The Fact: Paper is one of the few truly sustainable products. Paper is made from wood, a natural resource that is renewable, recyclable and can be managed sustainably. About 39% of the fiber used in papermaking in the U.S. is obtained through recycling. The rest comes from wood that is typically obtained through: 1) thinning of forest stands being grown to larger diameters to provide raw material for production of lumber and plywood, 2) patch clearcutting of smaller diameter trees managed for pulp production, and/ or, 3) collection of chips and sawdust produced as by-products in the production of lumber. (Dovetail Partners, 2016)

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