

Graphic paper markets hit rock bottom this year, but now have shown some recovery in demand since mid-summer. The “new normal” is taking some time to reveal itself to the print industry, and high-cost paper producers are being forced to make hard decisions about mill and/or paper machine closures. As we continue to tread through uncharted waters during this pandemic crisis, it is very difficult to predict market dynamics for 2021. We do know that there is a high risk of significant mill and/or paper machine conversions to other grades, and further closures and curtailments as we head into 2021. Because there are so few producers, paper markets have been “event driven” for some time now, but even more so now.

## Recent News

- **Cascades** plans to convert the idled newsprint mill in Bear Island, VA to a 1st quartile containerboard machine capable of producing high-quality, lightweight, 100% recycled linerboard and medium for North America.
- **Domtar** has announced they will convert their printing and publication grades paper mill in Kingsport, Tennessee to 660,000 tons/year recycled containerboard production.
- **Park Falls Pulp & Paper** (formerly Flambeau River) is back in operation with new ownership. Yong Liu, an entrepreneur from New Jersey, bought the Wisconsin mill and restarted production on one of the three paper machines at the mill. The mill is producing wet lap, a pulp product that it sells to other mills, which turn it into paper products.
- **Kruger** will permanently shut down its newsprint, specialty papers, and pulp production at its Brompton, Quebec, mill, after a 6-month temporary shut that began earlier this year.
- **Sappi Limited** has successfully renegotiated the covenant suspension period applicable to their credit facility financial covenants.
- **UPM** will close their Kaipola paper mill in Finland. This mill operates three machines with an overall capacity of 720,000 tpy, of which 450,000 tpy are newsprint and 270,000 tpy are coated mechanical grades. UPM intends to shut down the site by the end of 2020.
- **Verso** has announced that Adam St. John resigned as president, CEO and member of board of directors, effective September 30. Current board member Randy J. Nebel was named as interim president and CEO.

## Market Drivers

- **Wood Pulp** - Prices were unchanged in September. They are currently 1.5% higher than January prices.
- **Currency Exchange** - The US Dollar has declined in recent months in the fallout from the COVID19 pandemic. The CAD is at 0.76 and the Euro at 1.18 today.  
*Source: OANDA*
- **National Load to Truck Ratio** data shows 5.5 loads per available truck, as increased shipments and shortage of capacity and drivers are causing increased freight costs and potential disruption.  
*Source: DAT Freight & Analytics*

	Q3-20	Q4-20	Q1-21	2020
<b>Results + forecast:</b>	<b>vs Q3-19</b>	<b>vs Q4-19</b>	<b>vs Q1-20</b>	<b>vs 2019</b>
Catalogs Mailed	-27%	-23%	-16%	-21%
Magazine Ad Pages	-30%	-25%	-21%	-25%
Printing Shipments	-16%	-14%	-13%	-14%
<b>For the month:</b>	<b>Sep '20</b>	<b>Aug '20</b>	<b>Sep '19</b>	<b>% yr/yr</b>
Crude Oil Avg. Price	\$40	\$42	\$57	-30.6%
NBSK Pulp	\$1,130	\$1,130	\$1,133	-0.3%
EUR/USD	\$1.18	\$1.18	\$1.10	6.9%
CAD/USD	\$0.76	\$0.75	\$0.75	0.9%

*Source: Public Domain; Industry Publications*



# Paper Grade Review

- **Coated grades** – Coated paper prices have remained stable since mid-year, in spite of accelerated market weakness and low operating rates. Producers have managed supply with ample downtime. Now, with catalogs and magazines accelerated decline in demand, coated paper producers are seeking orders to fill their paper machines. Despite the closure of Verso's Wisconsin Rapids paper mill this summer, there remains surplus supply of coated grades.
- **Uncoated freesheet grades (UFS)** - The UFS market is stronger than most, and demand for UFS offset should continue to improve over the coming months, bolstered by election media. Imports are down almost 40% this year, but operating rates remain at less than par for UFS producers. If idled paper machines restart too quickly, prices will be under downward pressure.
- **Uncoated groundwood grades (UGW including SC)** – The combination of retail, magazine, and catalog print reductions since the pandemic crisis, has devastated demand for uncoated groundwood grades of paper...specifically supercalendered and machine finish 60-75 brightness grades. RISI Fastmarkets predicts 28% decline in UGW paper demand for 2020, with no foreseeable rebound in 2021. Risk of further capacity shuts is high.
- **Newsprint grades** – Newsprint prices are approaching a five-year historical low, and a point at which producers will be forced to remove significant newsprint production capacity to stave off further erosion. High cost newsprint paper machines are at risk for closure.

Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	Aug '20	Jul '20	Aug '19	Aug '20	Jul '20	Aug '19	
Newsprint	186	180	315	171	176	279	4 to 6 weeks
Uncoated Groundwood	149	151	171	155	142	211	4 to 8 weeks
Uncoated Freesheet	569	564	688	507	498	602	4 to 6 weeks
Coated Groundwood	138	136	133	99	80	152	6 to 10 weeks
Coated Freesheet	466	506	498	180	158	244	6 to 8 weeks

000s omitted; Source: PPPC, AFPA, Quad Paper Services

The following table shows total tons of announced paper mill downtime YTD through October... This does not include unannounced downtime taken by mills.

Paper Grade	Tons Shuttered
Coated Freesheet	343,000
Coated Groundwood	30,000
Newsprint	560,000
Uncoated Freesheet	815,000
Uncoated Groundwood	428,000
<b>TOTAL TONS REMOVED</b>	<b>2,176,000</b>