

Paper markets in North America remain in short supply with low inventories and rising prices. As a result of the COVID-19 economic impact in 2020, multiple paper producers eliminated significant graphic paper production capacity...upwards to 40% in some paper grades. Some mills transitioned paper machines to packaging grades, while others shuttered altogether. This year, there has been a significant bounce back in print and paper demand to the point where the paper mills are sold out through at least the fall. Consequently, mills are operating at 100% in some cases, and as a result, the mills have no room for error for the balance of this year. Lead times and LDCs for orders have increased. To add to a difficult situation, shipping costs have skyrocketed across the country and there is a shortage of trucks and drivers. Imports have been inhibited by container shortages and higher costs to ship internationally. Anticipate that most grades of paper will remain in short supply through the end of this year and potentially continuing in the first half of 2022 for some grades. As producers seek to maximize machine efficiencies, expect reduced brand and basis weight offerings, including elimination of entire product lines and basis weights.

Recent News

- **Evergreen Packaging** announced that they will exit the coated groundwood paper business. As a result, the Company will permanently cease production of coated groundwood paper at its Pine Bluff, AR location. The mill will work directly with our coated groundwood customers to meet their product needs and support their transition to new suppliers until production ends in Q4. This closure is projected to complete by October 31, 2021, with shipments continuing until inventory is depleted. *(Source: Company Press Release)*
- **Domtar** has announced it will restart the uncoated freesheet paper machine at its Ashdown, AR mill. This PM has a capacity of 168,000 tons/yr. and is expected to resume full operation in January 2022. *(Source: Company Press Release)*
- **Paper Excellence**, a global diversified manufacturer of pulp and specialty, printing, writing, and packaging papers will acquire all the issued and outstanding shares of Domtar (NYSE:UFS) for \$55.50 per share, in cash. On July 29th, stockholders of Domtar Corporation approved a proposal to adopt a business combination with Paper Excellence B.V. *(Source: Company Press Release)*
- **Resolute Forest Products** preliminary 2Q 2021 results: sales up by \$528 million year on year to \$1,140 million. The company incurred an operating loss of \$7 million in the paper segment in the quarter, \$17 million narrower than the previous quarter. *(Source: Company Press Release)*

Market Influencers

- **Mill costs** have skyrocketed in 2021, forcing mills to raise paper prices several times this year.
- **Wood Pulp** – prices have risen 40% this year, but over the past two months, have begun to erode.
- **Fuel and Energy** prices are driving up costs everywhere.
- **Global Shipping** and supply chain disruptions continue amidst the pandemic.
- **National Load-to-Truck Ratio** data currently shows the national load-to-truck ratio at 6:1...normally 3:1. Demand is driving up rates. Expect this to continue in the 2nd half of this year. *Source: DAT Freight & Analytics*

	Q2-21	Q3-21	Q4-21	2021
<i>Forecast</i>	vs Q2-20	vs Q3-20	vs Q4-20	vs 2020
Catalogs Mailed	24%	7.8%	7.1%	3.5% *
Magazine Ad Pages	6.1%	26%	17.1%	2.9% *
Printing Shipments	22%	13%	6.7%	7.2% *
<i>For the month:</i>	Jul '21	Jun '21	Jul '20	% yr/yr
Crude Oil Avg. Price	\$72	\$71	\$41	77.4%
NBSK Pulp	\$1,575	\$1,615	\$1,140	38.2%
EUR/USD	1.18	1.20	\$1.15	2.6%
CAD/USD	0.80	0.82	\$0.74	7.7%

*Source: Public Domain; ERA * Q1-21 was down double digits*



Paper Grade Review

- Coated grades** – Evergreen Packaging announced they will cease producing CGW grades by October 31. This will remove about 180,000 tons/year of CGW capacity, leaving only five producers of these grades in North America. Shipments are up, inventories are down, and operating rates are at 100% for all coated grades. Mills have implemented tonnage allocations with their customers, and there is a considerable shortage of coated paper supply in the market. As such, coated paper prices have increased by about 12% in 2021, with another price increase announced for September/October timeframe.
- Uncoated freesheet grades (UFS)** - The UFS market is tight with domestic mills operating at 99% of capacity. Shipments are up and capacity and inventories are down vs. last year. Imports have increased while exports have decreased. Domtar will restart its UFS paper machine at its Ashdown, AK mill in January 2022. Prices have risen 13% thus far this year, and some smaller producers have announced a third increase of \$3/cwt effective September 1st.
- Uncoated groundwood grades (UGW including SC)** – The market for supercalendered (SCA+ and SCA++) grades has benefitted this year from coated paper supply shortages and grade migrations to SC grades. While UGW mills were operating at 84% in June, the SC mills are operating at closer to 100% as their order books are full and they implementing allocations for September and October. UGW prices have increased 12% YTD. Anticipate an additional \$2.00/cwt price increase for Q4.
- Newsprint grades** – Newsprint markets remain tight with mills operating at 95% of capacity. Over the past two years, mills have removed 40% of newsprint production capacity in North America, and Catalyst Paper will exit the newsprint market in Q3 of this year. Newsprint inventories are down 50% vs. same period last year, and newsprint prices have risen almost 25% in 2021 thus far. Expect secular declines in demand to continue as we near year end.
- Sheet-fed and Digital grades** – Depleted inventories remains the key topic for these grades, as mills are not able to replenish due to increased new orders. Order lead times have increased considerably, as mills are requiring orders be placed at least 12 weeks out, with order LDCs that have lengthened to 5 or 6 weeks depending upon the brand. Coated mills are on supply allocations. Prices increased in Q2 and Q3 this year, with another increase announced for September.

Paper Grade	Mill Inventory *			Mill Shipments **			Mill Capacities **			Current Avg Order Lead Time †	For the month of June 2021...				
	Jun '21	May '21	Jun '20	Jun '21	May '21	Jun '20	Jun '21	May '21	Jun '20		Mill Inv. mo/mo	Mill Inv. yr/yr	Shipments yr/yr	Capacity yr/yr	Operating Rates
Newsprint	16	16	32	205	207	182	215	215	318	6 to 10 weeks	-4.0%	-50%	13%	-32%	95%
Uncoated Groundwood	24	23	35	163	179	122	194	194	242	8 to 12 weeks	3.6%	-33%	33%	-20%	84%
Uncoated Freesheet	29	29	46	536	499	444	549	549	652	12 to 14 weeks	-2.0%	-37%	21%	-16%	98%
Coated Groundwood	18	22	45	106	104	80	105	105	153	14 to 16 weeks	-18.8%	-60%	33%	-31%	100%
Coated Freesheet	34	40	134	199	180	127	182	182	244	14 to 16 weeks	-14.5%	-75%	57%	-26%	110%
Sheet-fed grades										12 to 16 weeks					
Digital grades										12 to 16 weeks					

Source: PPC, Quad Paper Services † ALL lead times (LDOs) are significantly longer due to current market conditions

* Reported as days on hand of paper mill inventory. ** Reported in thousand tons.