

Market Pulp

Increased energy costs and well managed domestic mill inventories, coupled with strong demand by other regions, have helped keep market pulp prices on the rise.

— By Harold M. Cody, Contributing Editor



Market pulp—likely the best example of a true paper industry commodity product—is certainly exhibiting a feature common to global commodities. It is unpredictable.

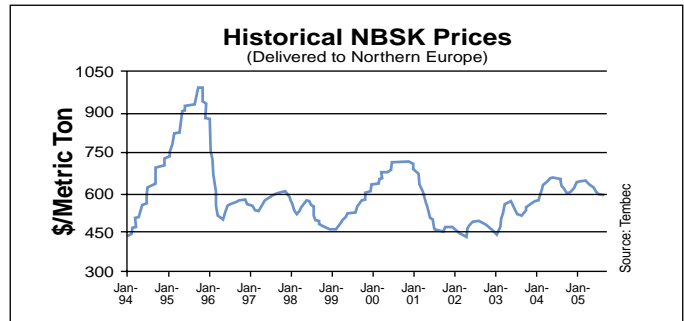
Strong price gains posted in 2003 to 2004 carried into early 2005 as prices gradually moved up, continuing a general upward trend that began in early 2003.

During the summer, however, prices slipped as they often do during the summer doldrums. But “lo and behold,” inventories dropped, and with the help of a big push on manufacturing costs due to the surge in energy prices, notably for oil and natural gas, price increases were widely announced on NBSK for U.S. markets in October.

Since it is occurring just as demand for key pulp end uses such as printing and writing paper picks up due to seasonal order patterns, this modest increase should succeed at least in part. Most major producers slated an increase in NBSK for Oct. 1, which if passed-on fully would raise U.S. prices about \$20/ metric ton. Some producers also indicated prices would rise in Asian and European markets as well.

Analyzing such a complex market consisting of many product segments—hardwood, softwood, southern pine, eucalyptus, mixed hardwoods, mechanical pulp, etc.—driven by a wide array of end use markets, is certainly challenging. From a local market demand standpoint, the rationale behind the recent price increase attempts seems a bit counterintuitive since underlying market pulp demand (by grades such as coated papers) has been lackluster in the U.S. in 2005 despite continued solid economic growth. North American printing and writing grade demand through August declined 1.9% vs. 2004, while production was off 2.2%. Coated paper shipments are down a whopping 7.3% due to the drop in Canadian output.

Asian Demand Critical. However, pulp mills have managed inventories well and demand in other regions has been good—in some cases even strong—thus setting the stage for the price increases. Based on another month of strong shipments, pulp inventories fell again in September to 33 days worth of supply, compared with 36 days in August and 40 in September 2004.



A key factor was strong shipments to China, up nearly 20% over last year as buyers likely tried to beat the expected fall price increases. In the past five years, world pulp demand has grown about 7 million metric tons, with demand by the Far East accounting for 58% of this increase. North American demand during this period actually decreased.

The outlook for 2006 is promising, particularly early in the year, but uncertainty creeps in as we gaze further out. Prices will likely move up into early 2006, riding the push of higher costs due to the sudden rise in oil and natural gas costs in the U.S. Supply disruptions due to capacity withdrawals arising from the continued rationalization of higher cost North American pulp capacity and other downtime (hurricanes) have helped and will continue to do so.

Looking forward, the big question is whether paper mills in Asia and Europe can sustain demand enough to offset what is likely to be weak demand in the U.S. and the fact that, later in 2006 and into 2007, rising capacity for hardwood pulp is likely to lead to lower operating rates. This sets up a scenario where prices may be trending down by this time next year.

Prices could spike further in 2006, jumping to more than \$650/metric ton, or they may simply ride a bit of a price surge. On the plus side, the relatively poor performance of several North American pulp producers has led to the closure of some high cost mills. If these stay down permanently and don't restart under new ownership, price gains this fall likely will be maintained into next year. Either way, it appears that pulp really isn't a bad market to be in right now. ■

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