



# Pulp Mills Hope to Ride Late 2013 Momentum into 2014

While the picture remains a bit fuzzy for next year and differs considerably for short vs. long fiber grades, 2013 was without doubt a decent year for market pulp overall. NBSK prices posted solid gains and the market ended the year on an upswing. The main questions for 2014 are new capacity, global economic strength and demand by China.

By Harold M. Cody

Stability isn't normally associated with the paper industry and in particular the pulp segment is often the epitome of a cyclical global commodity. However, for much of 2013 the pulp market has appeared to be relatively stable at least when compared with big market swings caused by upheavals such as the 2008/2009 recession or the 2011 price collapse.

Some of this "stability" is because the world itself is a bit more stable compared to the last couple of years, at least in the major developed economies. The economic and financial problems in Europe have eased, or at the least did not explode as feared into a full blown crisis, and the U.S. economy is boringly grinding ahead at a tepid pace with some bright spots (housing, stocks) along the way. Most projections peg the U.S. economy to improve at a slightly better pace next year, notwithstanding the uncertainty caused by Washington's inability to function normally. And while problems such as Syria plague the world they remain, so far, localized to a large extent.

Never the less, it's an improvement over 2012 when global pulp markets reflected weakness due to the ongoing financial crisis in Europe and slowing growth in China, which combined to temper demand for pulp globally. This resulted in 2012 NBSK list prices averaging about \$875/tonne or down just over \$100 per tonne from peak 2011



**Global market pulp shipments through the first three quarters of the year are up 2.7% vs. 2012 led by a 3.3% increase in hardwood and a 2.4% rise in softwood shipments.** Photo courtesy Metsa Fibre.

levels of over \$1,000/tonne. Prices fell even further in Europe and China. The underperforming global economy led to a decline in world printing and writing demand which dropped 1% - 2% vs. 2011 according to various estimates.

## Shipments, Pricing Continue Upward Trend

However, not all the news was bad as demand for grades such as tissue, plus some consumer stock building, offset this decline and world pulp shipments last year rose 2.5%

to 43.4 million tonnes. Shipments to Europe and North America fell in 2012 but surged 10% to China reaching 10.2 million tonnes. Chinese imports have risen significantly in recent years, except for 2010, when they fell 7.1% from the prior year, and China is now a huge pulp market.

These same overall trends continued in 2013. Global market pulp shipments through the first three quarters of the year are up 2.7% vs. 2012 led by a 3.3% increase in hardwood and a 2.4% rise in softwood shipments. Surprisingly, shipments to North America have risen 6.3% during the same period while shipments to Western Europe up just 0.7%. Shipments to China are only up 1.7% so far although they've gained in recent months.

More importantly, pulp prices have shown strength this year. Prices initially moved up earlier in the year including a \$30/tonne increase on NBSK in April which was the

second increase in 2013. Coming off the summer, prices were stable during the third quarter of 2013 in all regions of the world, with North American NBSK list prices at US\$947. Then a \$20/tonne increase was announced for Oct. 1 that raised benchmark NBSK prices to \$970/tonne. Prices also increased \$20/tonne to Europe. This was quickly followed up in October when NBSK mills announced a second increase of \$20/tonne effective Nov. 1. The market also supported a \$20/tonne increase in China.

### What's Driving Prices?

Several factors are behind the stronger prices including supply issues and inventories. It's reported that the slow ramp up of BSK capacity at the 720,000 tpy line in Bratsk, Russia was one factor. Chinese paper mills had pulled down inventory in the spring and summer, however, they held off buying pulp so the thinking goes in anticipation of the new tonnage coming on the market at attractive prices. When they had to go elsewhere imports rose and helped lower global stocks.

Supply side issues including downtime problems in North America have also been a factor with unplanned outages reported at Canadian NBSK mills during the third quarter. The shut of 400,000 tpy of Kraft pulp capacity in August in Europe also contributed. Chinese buying picked up recently rising to 1.2 million tonnes in September, up 16% vs. 2012, although this was down from 1.28 million tonnes in August.

These factors resulted in a drop in producer softwood stocks by one day to 27 days of supply in September, with all grades down 4 days due to a 7-day drop in hardwood stocks. The hardwood level of 42 days isn't considered a tight market, however, despite the big drop.

Nevertheless, it seems that the downward direction of stocks gave momentum to the market and helped drive the recent gains. It should be noted that transaction prices have not increased as much as list prices. In addition, the market for hardwood grades is weaker, owing in part to over supply issues.

A steady shift in pulp consumption patterns in recent years has also had a positive impact. For example, ten years ago printing and writing papers accounted for almost two-thirds of NBSK demand. However, P/W grades now only account for about a third of softwood demand. In contrast, higher growth tissue grades consume almost 40% of demand and the share consumed by specialty papers has risen to about 20%.

### Headwinds in 2014?

While in general the news has been good, certainly not all pulp market indicators are positive and there could be some

serious headwinds to fight in 2014 to sustain recent gains. For example, North American printing and writing paper demand through September 2013 is running 1.8% below prior year levels and newsprint demand is off 10%. Total U.S. paper and board production through August 2013 was flat vs. 2012, down 0.3%, with paperboard output up 1.9% but offset by a 3.4% decline in paper output. Tissue production was the only paper grade posting an increase, up 4.3% vs. 2012 levels.

Another important concern for next year is the impact of a surge in hardwood market pulp capacity. However, producers are well aware of this and some changes have been made to the timing of some projects. For example, Montes del Plata (Stora/Arauco) in Uruguay (1.3 million tpy BEK) has been delayed until the first quarter of 2014 from an initial target date of third quarter 2013. Other major projects include new capacity at Maranhao (Suzano), Brazil (1.5 million tpy BEK) and Oji Papers' Nantong City mill in China, a 700,000 tpy hardwood mill.

And these projects come on the heels of the late 2012 startup of what is reported to be the world's biggest pulp line — the 1.5 million tpy BEK Eldorado Tres Lagoas mill in Brazil. It's possible that almost 4.75 million tpy of hardwood capacity could come on stream in a one year period. Thus, depending on the timing and market conditions the impact could range from minimal to a significant downward pressure on prices.

Looking at 2014 there's a good chance the softwood market's momentum will carry into next year. While not universal, many projections indicate the U.S. economy should have a better year in 2014. This may be a big "if" of course, but if Europe also continues to muddle along, overall pulp shipments should post additional gains. This will occur in particular if China continues to restock.

However, there are concerns about the Chinese economy too, which grew "just" 7.7% from a year earlier through the first nine months of 2013, but this would be China's worst performance in 23 years. This uncertainty makes it hard to predict the level of pulp imports which is a huge swing factor. And as noted, hardwood over capacity, particularly for BEK, is a real concern for BHK mills.

2013 ended up being a better year than many expected, even given some weakness in the global economy. Can 2014 be another good one? ■

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