

Can Pulp Markets Remain Strong Into Fall?

Increased demand from P&W paper mills and exports to China have kept supplies tight, but a confusing mid-year rise in inventories could cause pricing battles.

— By HAROLD M. CODY, CONTRIBUTING EDITOR



With demand for market pulp strong for most of 2004 and supplies tight, prices have jumped up about \$100 since early this year. However, as summer winds down, pulp producers and consumers are watching the tealeaves, as usual, to see if a pricing battle might break out, caused by a rise in producer inventories in June.

The price on northern bleached softwood kraft (NBSK) pulp held flat at about \$680/metric ton in late July according to various sources, including FOEX. NBSK prices are up about 35% or \$150 since early last year.

Strong demand from traditional users such as printing and writing paper mills, coupled with a surge of exports to China, have helped sustain pulp demand at very high levels for

much of 2004. North American printing and writing paper output rose 10.4% in June and is up 6.4% year to date vs. 2003.

Printing and writing output in Europe was also high, as output in the first quarter rose 4.1% vs. the fourth quarter of 2003, exceeding 12 million metric tons for the first time. In turn, pulp mills operated at high levels of capacity this year to meet strong demand.

GLOBAL CHEMICAL PAPER GRADE MARKET PULP STATISTICS

(000 Metric Tons)	JUNE 2004	MAY 2004	% CHANGE
Total Production	3,067	3,155	-2.8
Total Shipments	3,028	3,153	-4.0
Closing Inventory	3,442	3,404	1.1

Table 1. Market pulp production, shipments, inventory—June vs. May 2004.

Source: American Forest & Paper Assn.

FOEX PULP PRICES

	JULY 27	JULY 20	JULY 13	JULY 6
NBSK (northern bleached softwood kraft) USD¹	679.62	679.62	679.62	679.62
NBSK (northern bleached softwood kraft) USD²	656.03	658.30	659.71	660.15
NBSK (northern bleached softwood kraft) Euro	538.13	532.91	533.23	543.42
BHKP (eucalyptus/birch) Euro	450.54	447.05	446.96	455.81
BHKP (eucalyptus/birch) USD	549.25	552.24	552.98	553.72

Table 2. NBSK and BHKP market pulp prices for four weeks of July 2004.

1. Price reflects transactions in the U.S. 2. Price reflects transactions in Europe, represented in U.S. dollars
FOEX calculates the PIX value based on real trade information from buyers, sellers, and agents.

“If there is to be any retreat in pricing, it should already be underway since September is normally a month when demand for market pulp begins to strengthen.”

Price Confusion

The June rise in inventories that prompted chatter about a potential slide in prices was unusual in that this is a month where inventories normally fall. Global producer inventories closed June at 3.4 million metric tons to correspond with 34 days of supply, according to the Pulp and Paper Products Council. Mills ran at about 95% of capacity while a decline in shipments to Europe also contributed to a rise in worldwide inventories.

June market pulp production was 3.067 million metric tons, down 2.8% versus May production figures. Shipments dropped by 4% in June versus the prior month, falling to 3.028 million metric tons.

If there is to be any retreat in pricing, it should already be underway since September is normally a month when demand for market pulp begins to strengthen. Compounding the uncertainty is the fact that buyers in regions such as

Asia or Western Europe may increase their orders. With printing and writing markets remaining strong, it appears that pulp prices are unlikely to retreat and may, in fact, post further gains, unless there is a wide swing in pulp purchases, i.e. a major decrease, by Asian or European buyers.

Tables 1 and 2 respectively show the most recent demand and pricing statistics for chemical market pulp grades in the U.S. and Europe. ■