



HAWKINS WRIGHT

Pandémie et déroute de la chaîne logistique... et après ?

AFVP Divonne - Juin 2022

Hawkins Wright LTD

Jusqu'ici, on a eu...

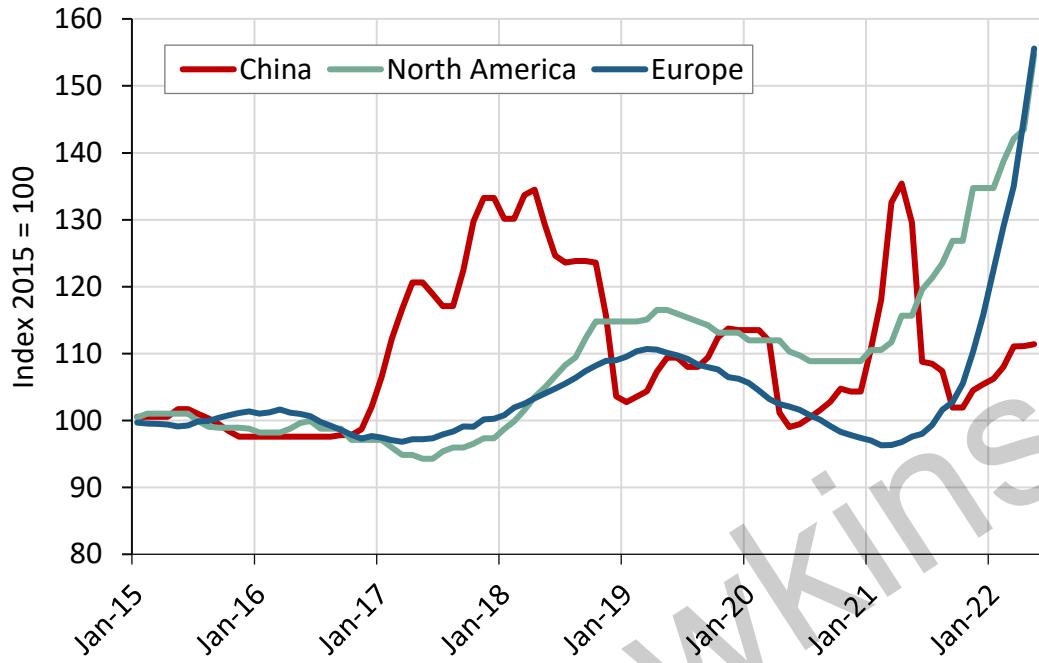


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China's paper market de-coupled from the West

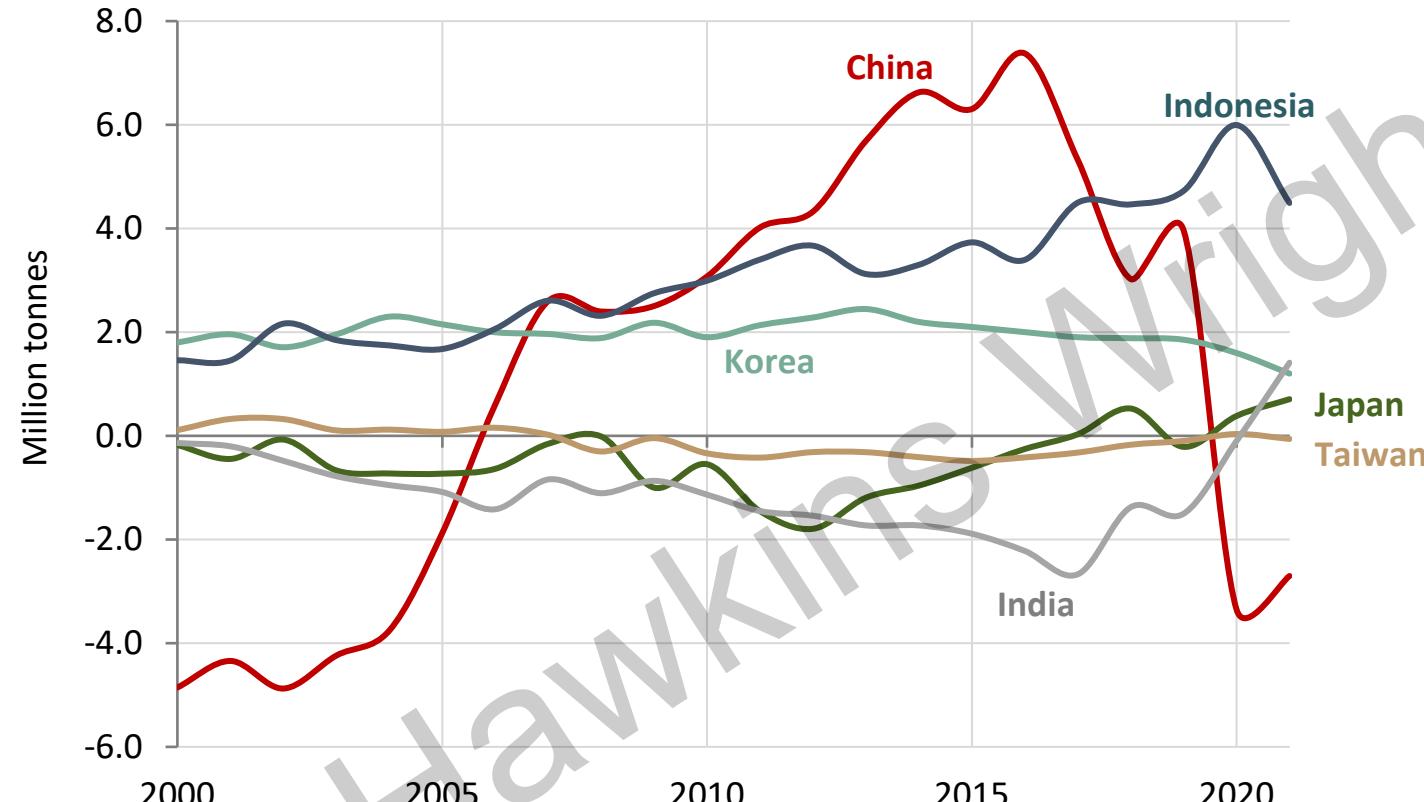


Regional P&W paper price trends



- Inflationary forces were rising in Europe from mid-2021. Russia's invasion has fuelled the fire
- EU GDP grew by 5-7% in 2021 as Covid restrictions were gradually lifted...but labour markets and supply chains could not meet post-covid demand
- P&W capacity cuts combine with a fall in Chinese net exports of P&W (-2.5 million tonnes since 2016)...and USA has cut capacity even more than Europe
- UPM strike removes 2.2Mt/y P&W (and 1.5Mt/y market pulp)

Net exports of P&B (HS code 48)



Source: GTT.com

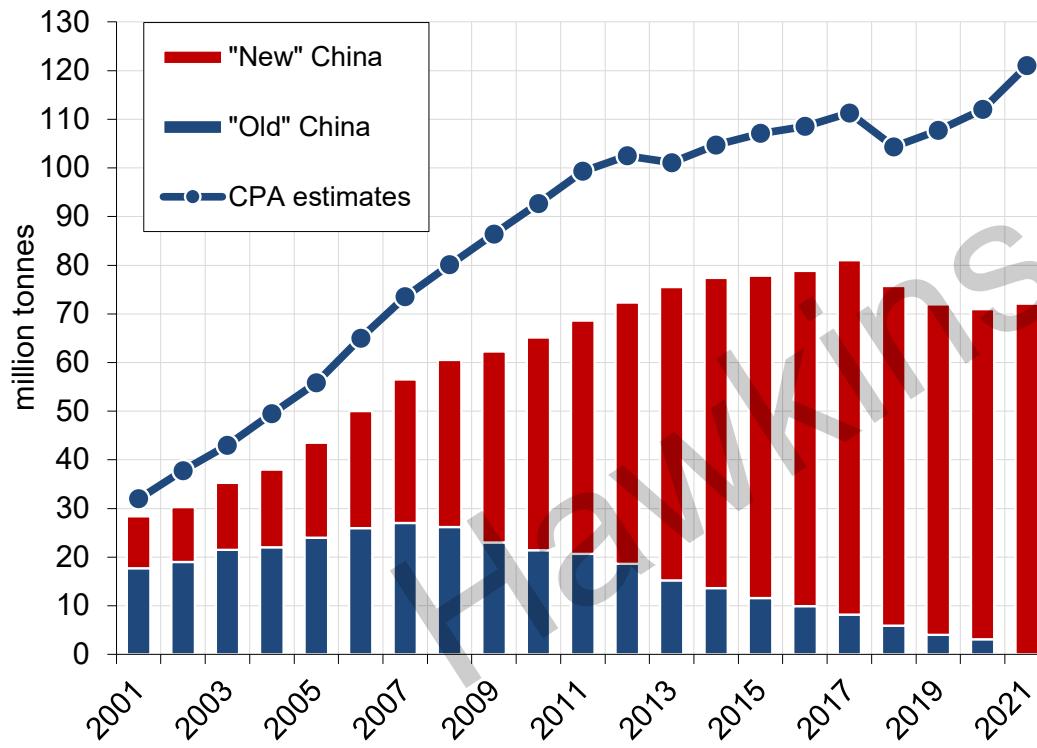
- Despite continued investment in P&B capacity, Chinese competitive position has deteriorated relative to its Asian neighbours and the West.
- Fibre shortages, energy rationing, logistics bottlenecks, structural changes in the labour market. And yet, investment continues to accelerate.
- This has underpinned price inflation in Western paper markets, and exacerbated Chinese over-capacity.

Chinese P&B production & fibre imports

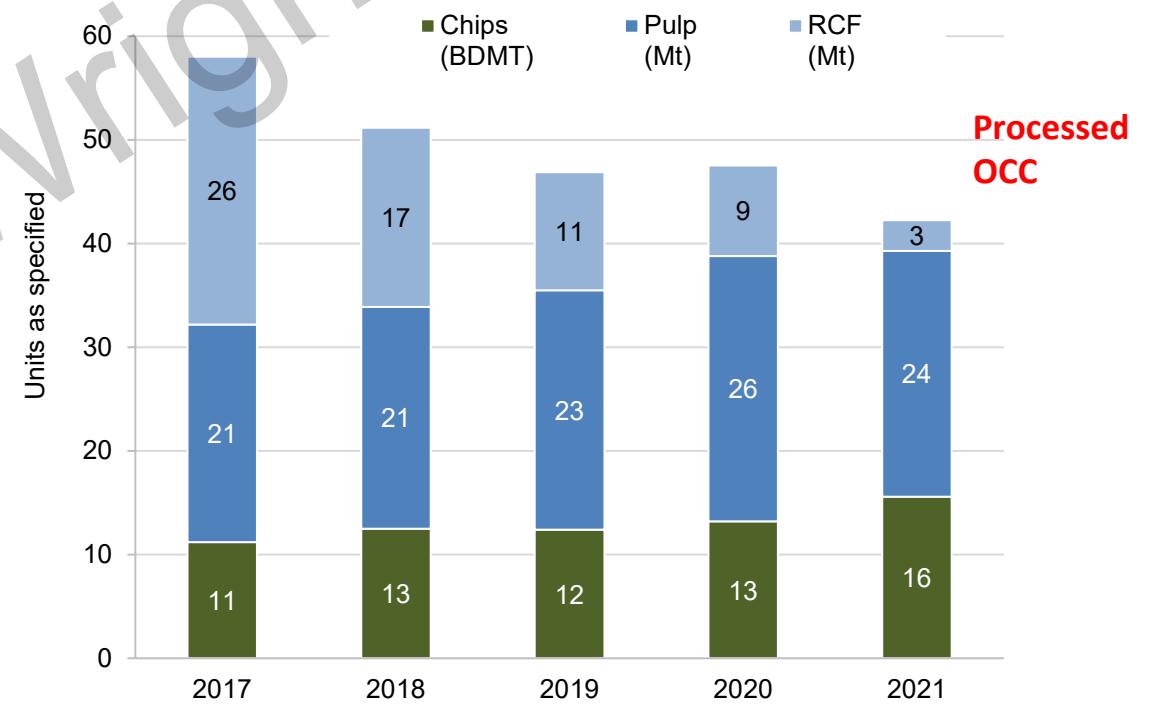


- Pulp imports increased by 3Mt in four years 2018-21, +5 million BDMT chips = 5.5Mt kraft pulp equivalent
- RCF imports decreased 23Mt...~ 16Mt pulp equivalent?
- China lost around 10Mt imported fibre since 2017, which they are attempting to replace

China paper production



China fibre imports



China's response to fibre deficit

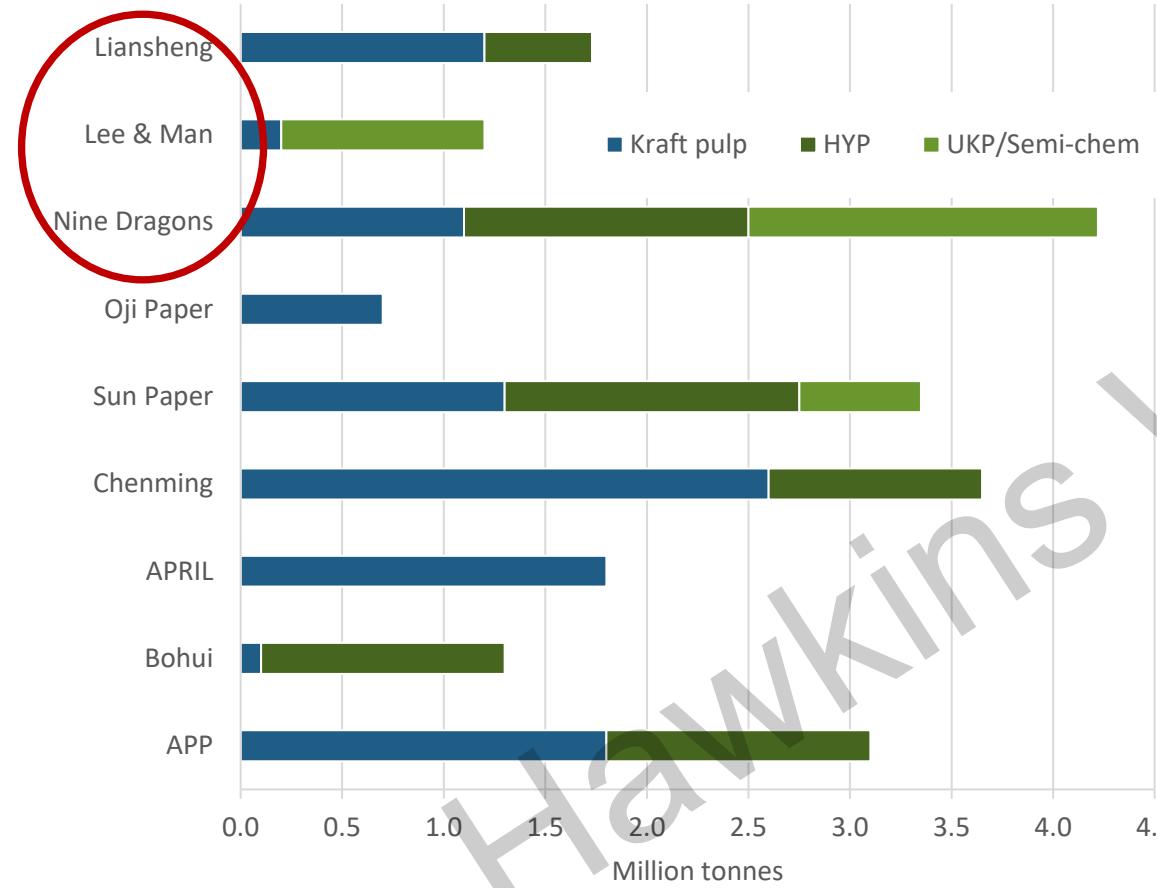


- Increase local RCF collections
 - Increase imports of UKP & unbleached recycled pulp (URP)
 - Increase local pulp production
-
- Their success or failure will impact on global pulp & paper markets, obliging us to monitor more closely through our multi-client reports
 - Outlook for unbleached fibre (UKP & URP)
 - Outlook for pulpwood supply to Asia Pacific-Rim (chips report)

China pulp production & investment

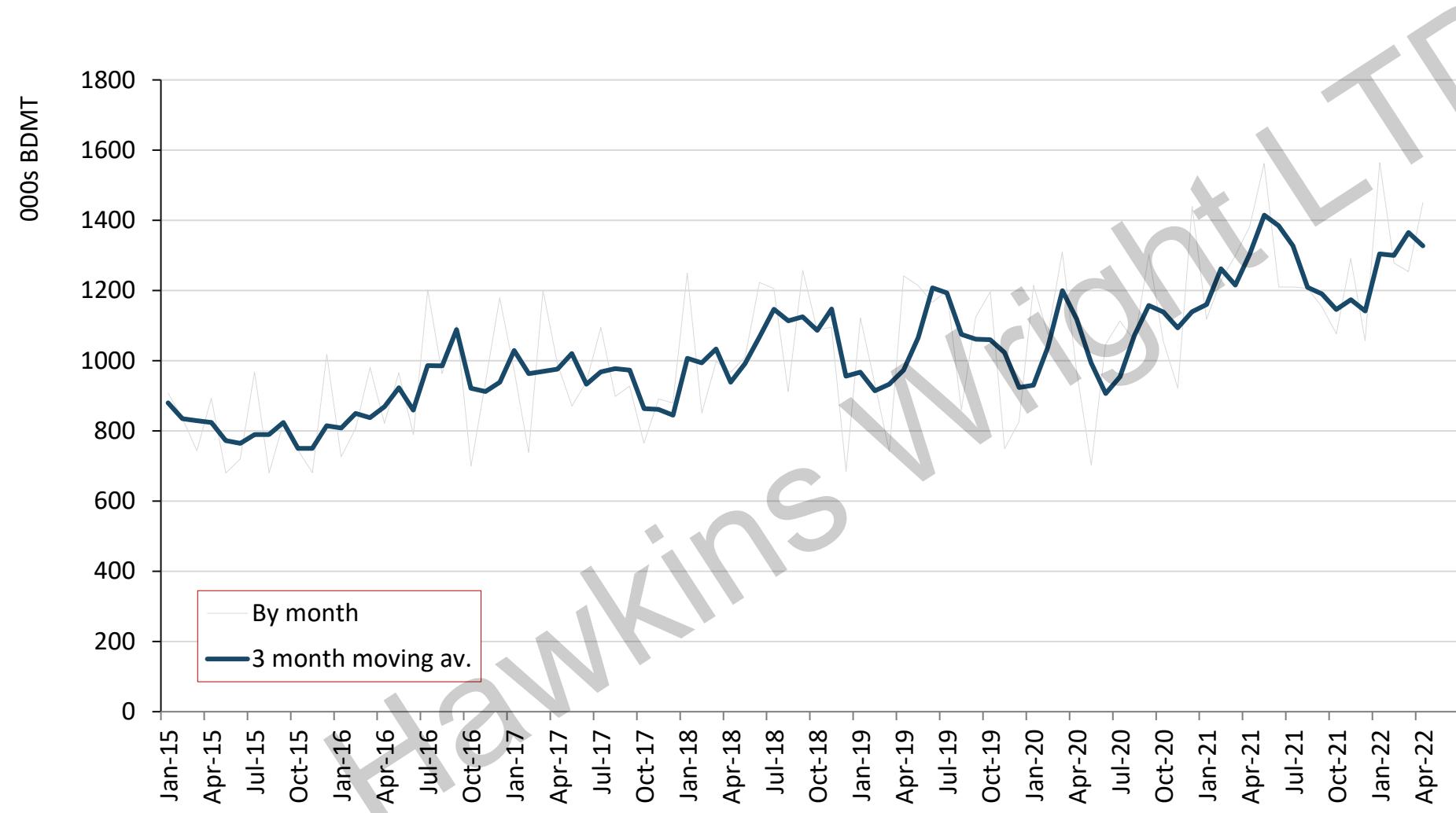


Leading pulp producers, 2024 (based on confirmed plans)



Company/mill	Pulp grade	Capacity	End use	Target Start
Nine Dragons		4,220		
Wuhan, Hubei	UKP	600	Liner	Q3 2022
Dongguan, Guangdong	UKP/Semi	600	Liner	Q2 2022
Chongqing	UKP/Semi	500	Liner	Q3 2022
Shenyang, Liaoning	UKP/Semi	620	Liner	Q4 2022
Beihai, Guangxi	HYP	1,400	Liner, ivory, P&W	Q4 2023
Beihai, Guangxi	UKP	500	Liner	Q3 2023
Lee & Man		3,220		
Jiujiang, Jiangxi	UKP/Semi	340	Liner	Q4 2022
Chongqing	UKP/Semi	340	Liner	TBC
Hongmei, Guangdong	UKP/Semi	340	Liner	TBC
Fangchenggang, Guangxi	BHKP/HYP	2,200	Ivory, liner	TBC
Huatai Shandong	HYP	300	P&W	Q4 2022
Liansheng		1,730		
Zhangzhou, Fujian	HYP	530	Ivory	Q1 2023
Zhangzhou, Fujian	BHKP	1,200	Ivory, P&W, tissue	Q3 2024
Sun Paper, Nanning Guangxi	n/a	n/a	n/a	TBC
Quzhou Wuzhou Specialty		2,050		
Jiujiang, Jiangxi	HYP	500	Ivory, P&W	2023
Xiaogan, Hubei	BHKP	750	Ivory, specialty, liner	TBC
Xiaogan, Hubei	HYP	800	Ivory, specialty, liner	TBC
Shanying, Fuyu, Jilin	BHKP	300	Market	TBC
Jianhui Paper	HYP	400	Liner, Ivory	TBC
Total chemical (BHKP, UKP, DWP)		4,350		
Total HYP (BCTMP/APMP)		5,130		
Total UKP/Semi-chem		2,740		
Total		12,220		

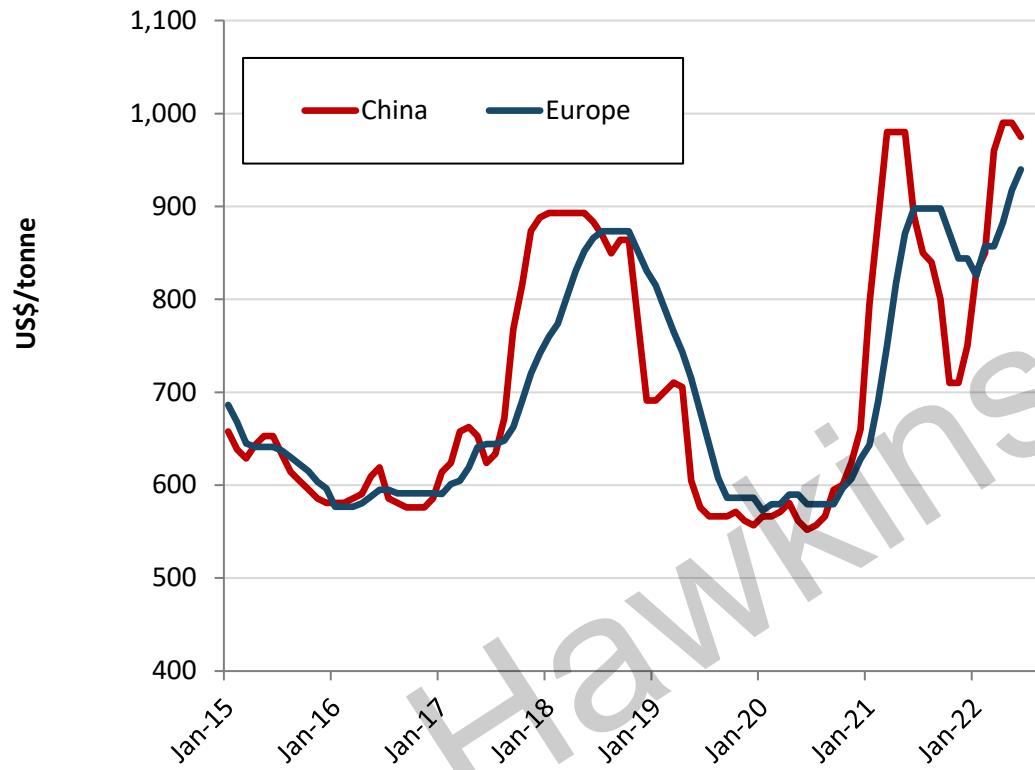
Chinese hardwood chip imports by volume (3 month moving average)



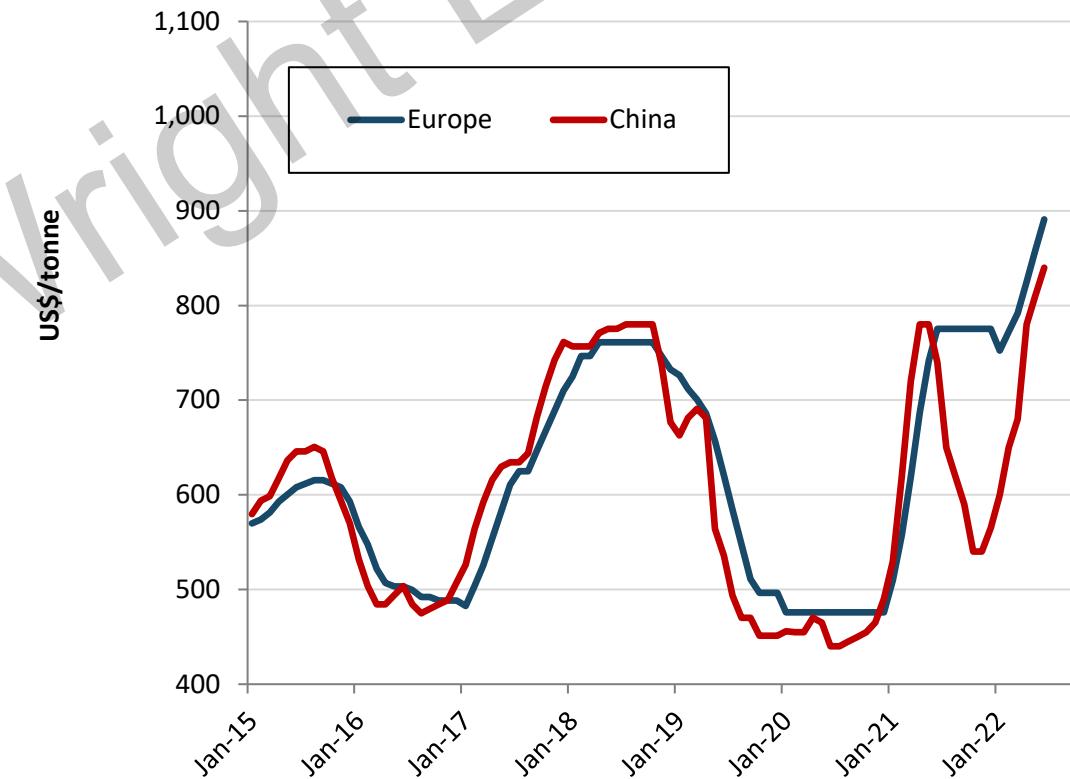
Regional price variations continue: Europe vs China



Net pulp price indications: NBSK



Net pulp price indications: BEKP

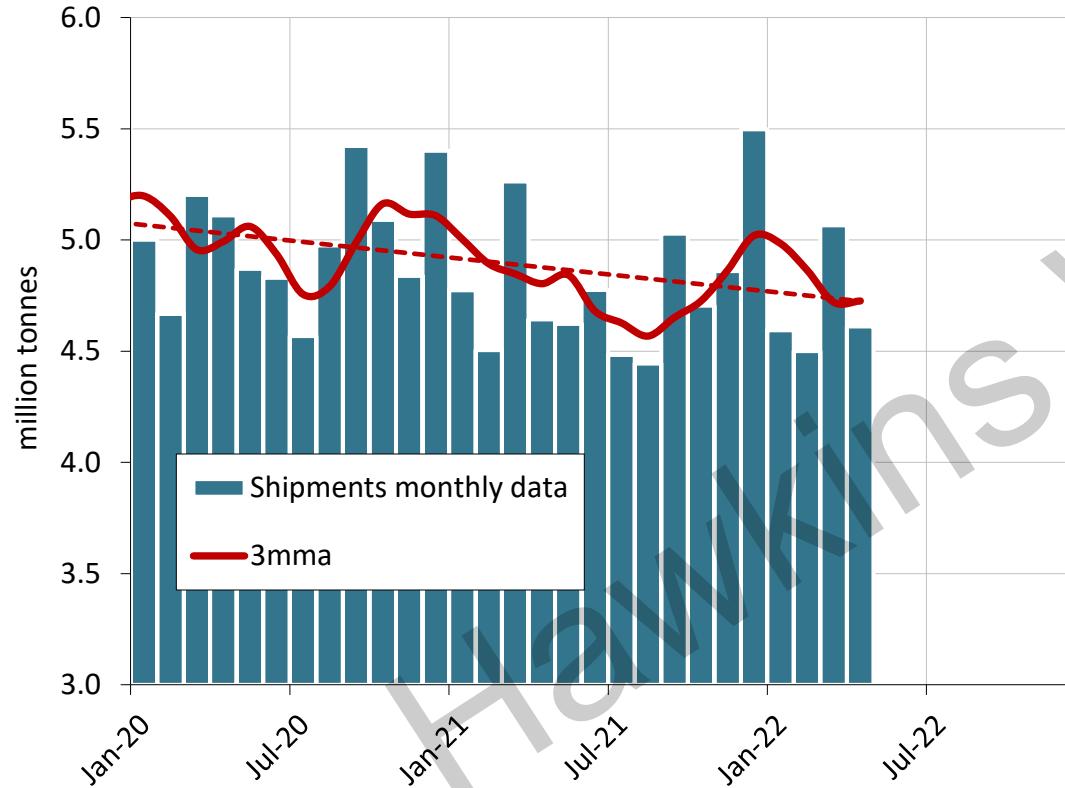


Market pulp shipments trending down for >2 years

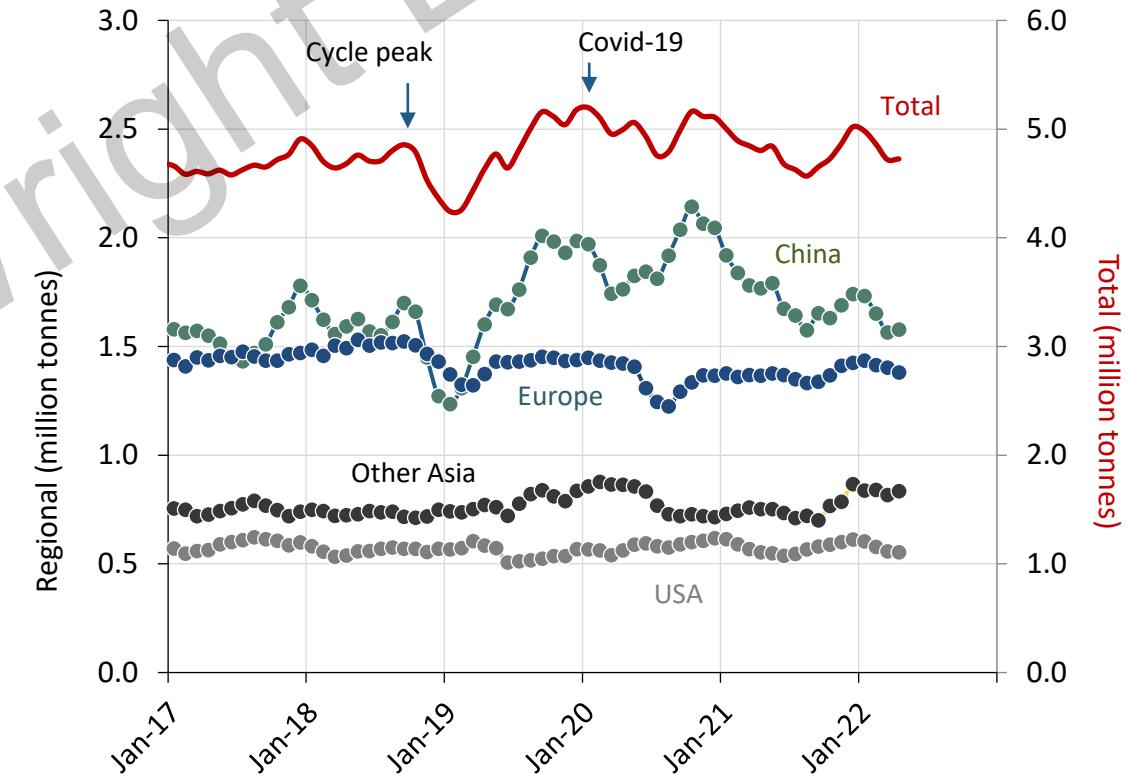


But how much of the decline is related to China's slow-down and contractions in tissue production (inventory cycle), and how much is simply a function of freight shortages and delays?

Global Pulp Shipments



Global Pulp Shipments, by region

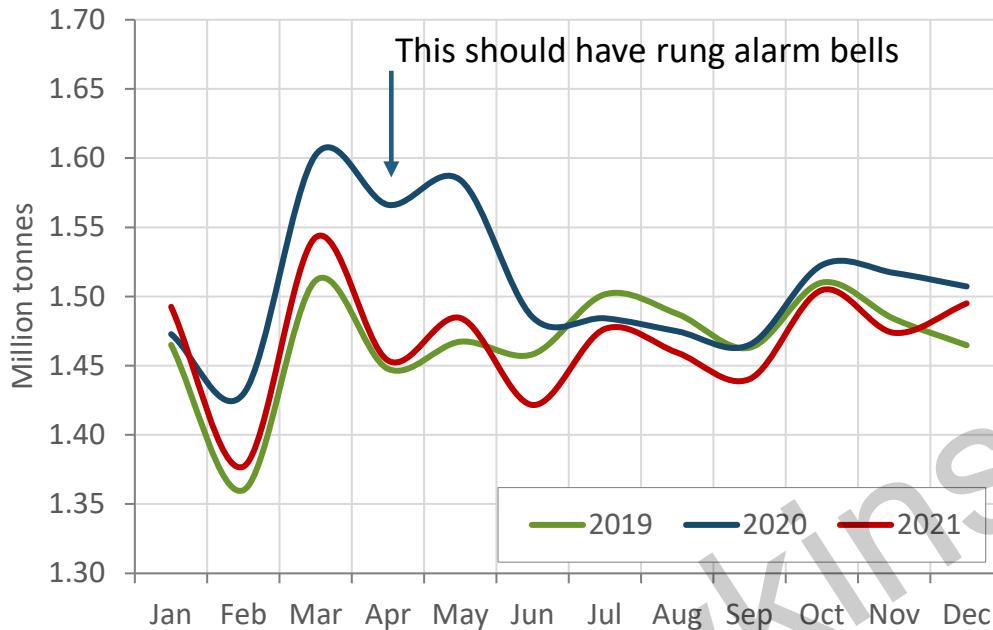


Source: Pulpwatch, trade associations

The twin engines of market pulp demand (tissue and China) are misfiring...

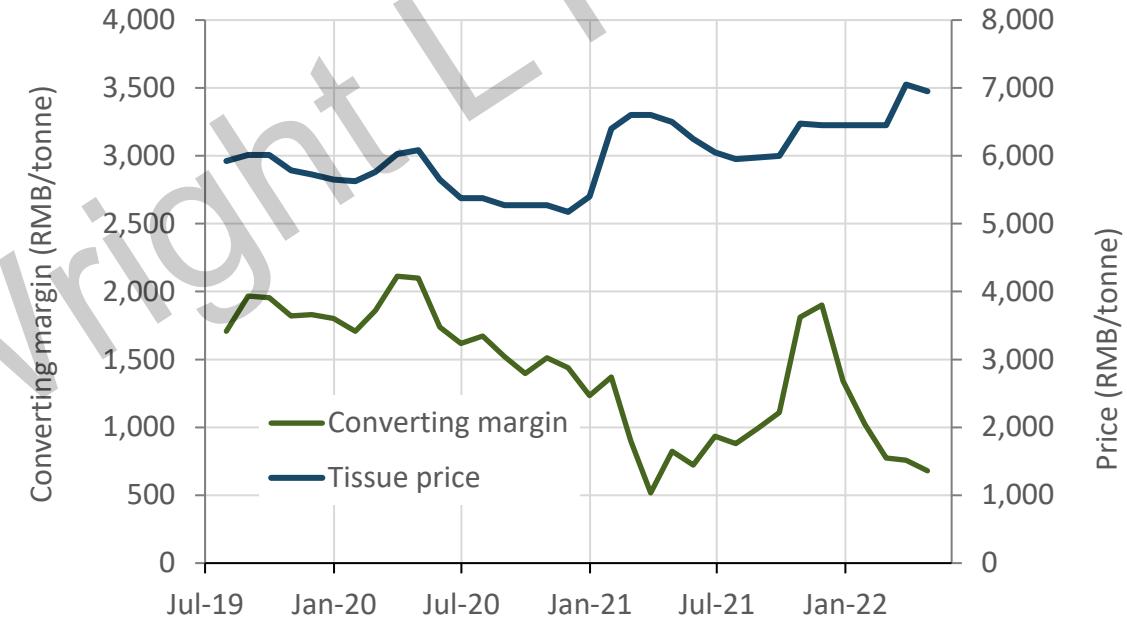


Tissue production (ex-China)



Source: CEPI, AF&PA, JPA, KPMA, IBA

China; tissue price and converting margin



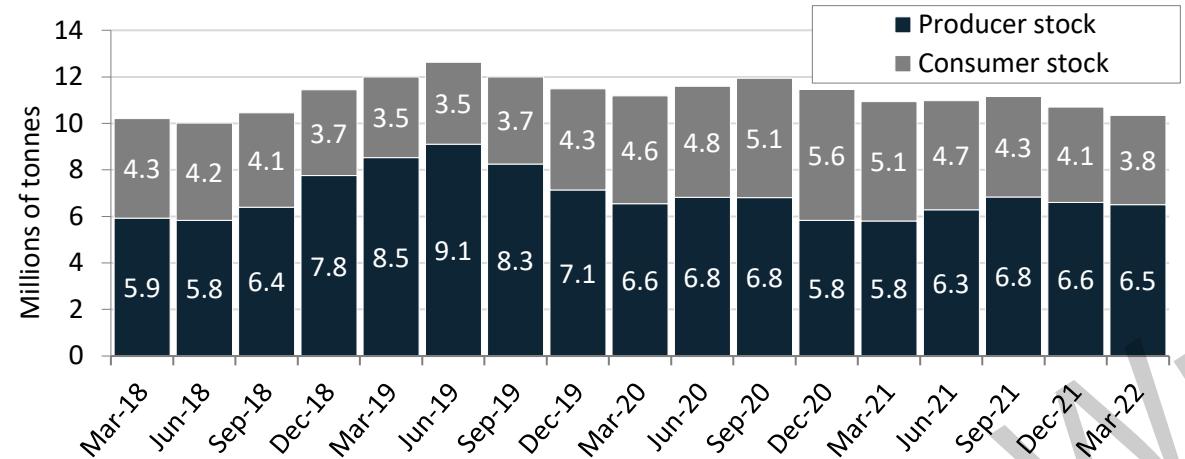
Source: Imore, Hawkins Wright

In addition to inventory cycle, tissue export volumes suffered from rising freight costs in 2021, and output now suppressed by cost inflation

Pulp market due a major re-stock...but when?



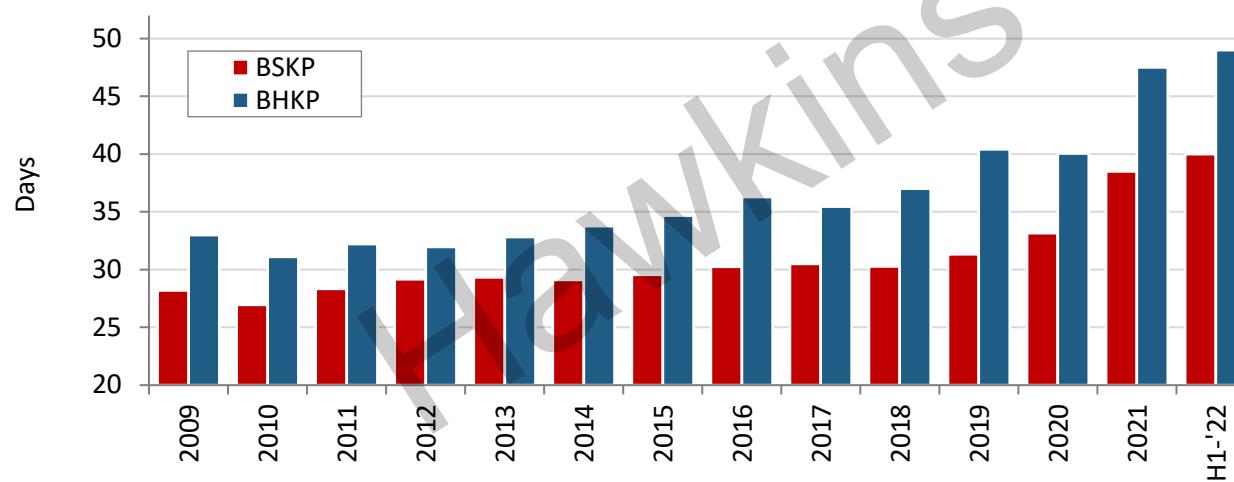
Producer v consumer pulp stocks



Consumer stocks have fallen by 1.8Mt since Q4 2020. Now at lowest levels since Q4 2018 (during which time underlying demand has increased).

Some paper mills forced to slow down or stop due to lack of raw material

Pulp delivery lead times



Supply further disrupted during H1 2022:

- Heavy maintenance in LATAM
- UPM strike
- Ukraine war



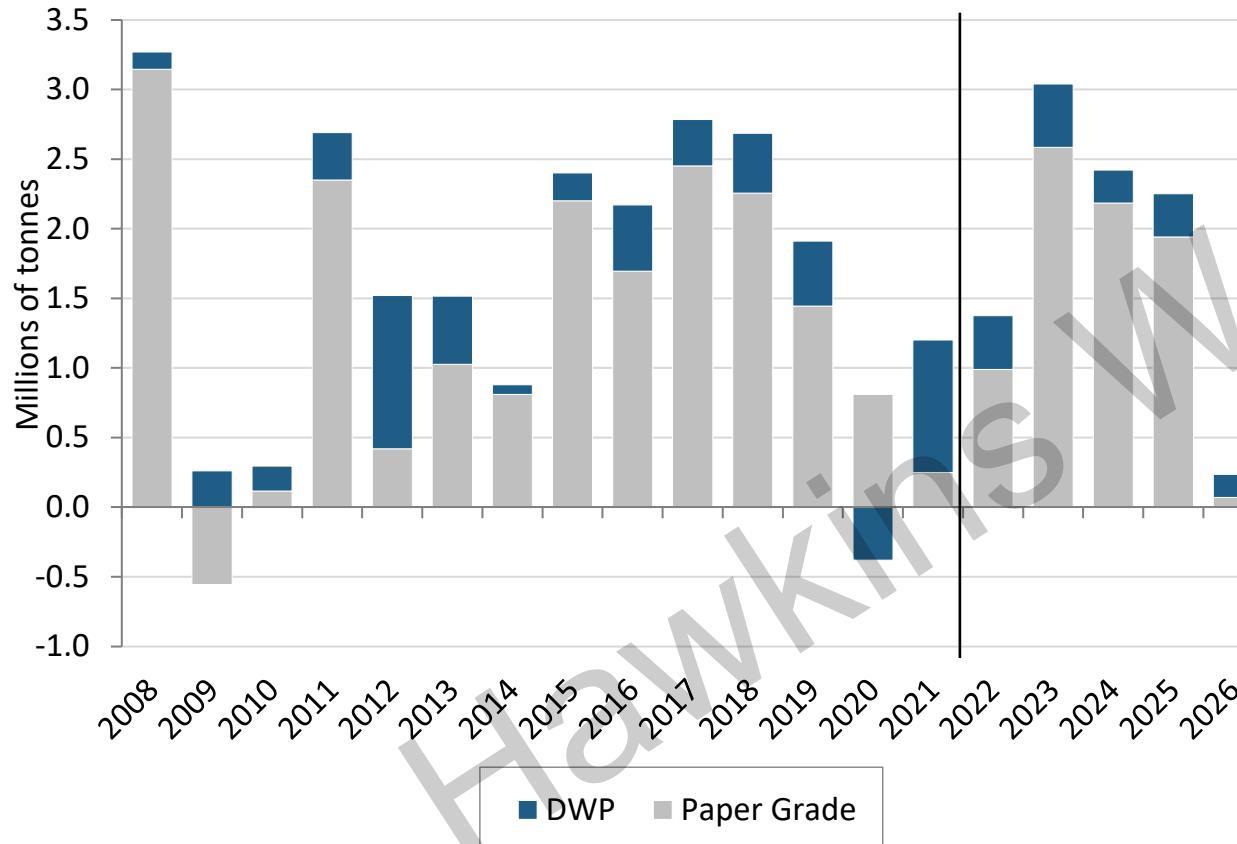
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Le cyclique va disparaître, mais le structurelle restera...



The correction will come, but already the looming surplus looks more digestible than six months ago

Total chemical pulp capacity growth, 2021-2026: +9.3Mt (DWP +1.6Mt, PG +7.8Mt)



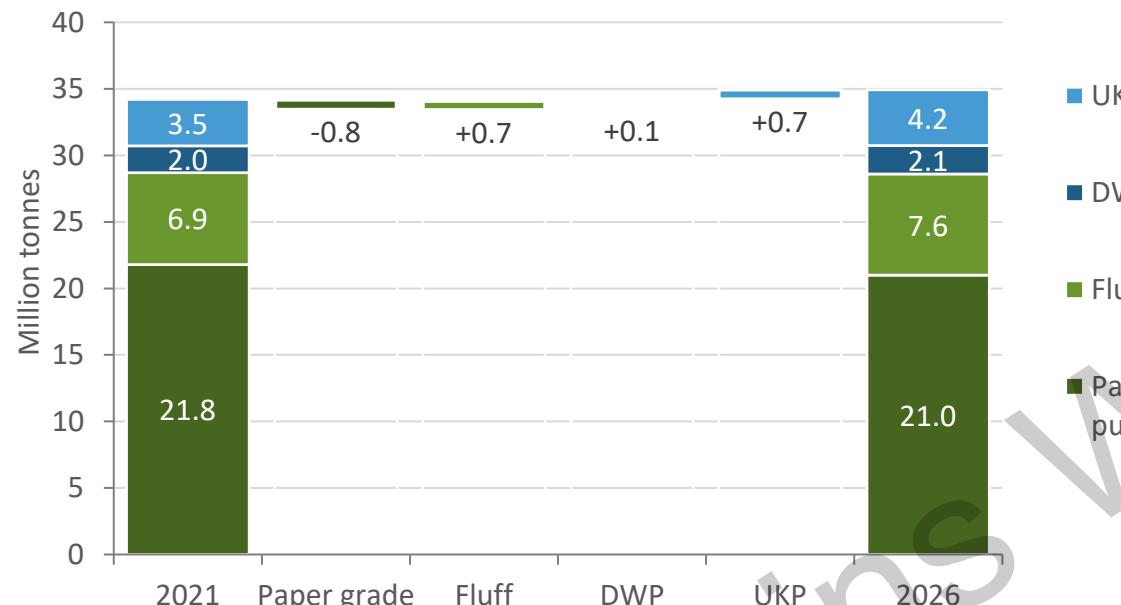
Source: Hawkins Wright estimates based on confirmed plans

- Project delays
- Mill closures (Resolute, West Fraser, West Rock...)
- Fibre shortages:
 - Russian birch (impact not yet fully factored in to our projections)
 - Asian chips (Vietnam appears close to sustainable maximum export volume)



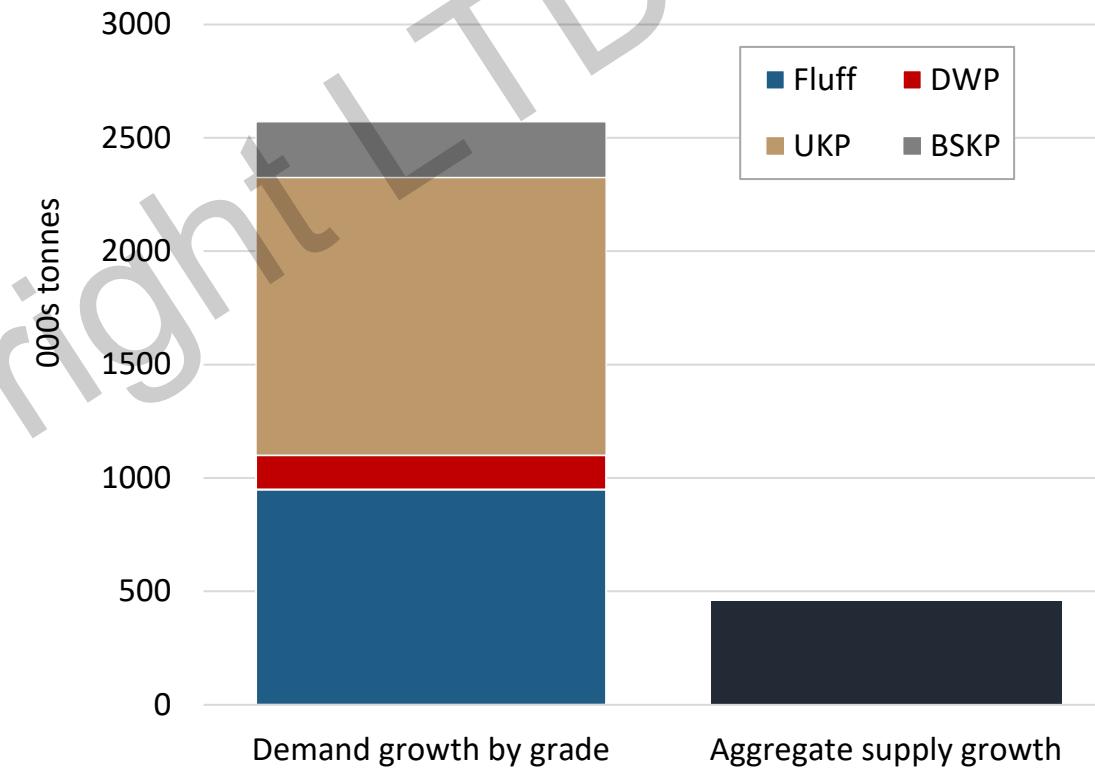
And BSKP is structurally under-supplied

Market pulp furnished with softwood, by grade, 2021 vs. 2026



Source: Hawkins Wright Outlook for market pulp, April 2022

Supply vs demand growth, 2021-26



Paper grade BSKP capacity growth from Kemi and other debottlenecks will be offset by conversions to UKP & fluff

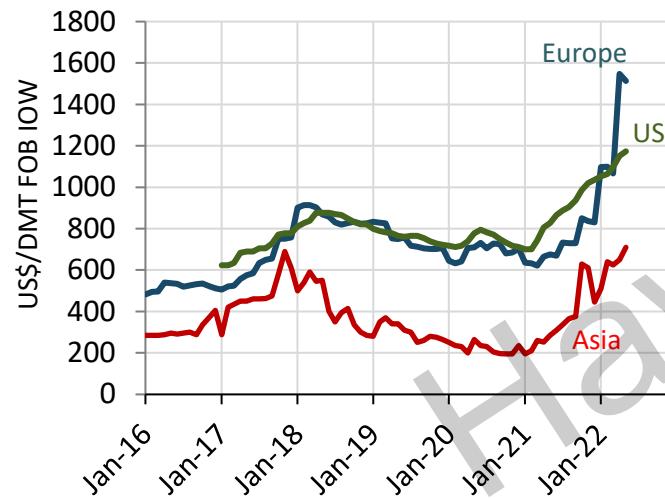
➤ Impact from halt of Russian birch trade to Finland still to be assessed... less birch, more NSBK, but how much?

Cost inflation



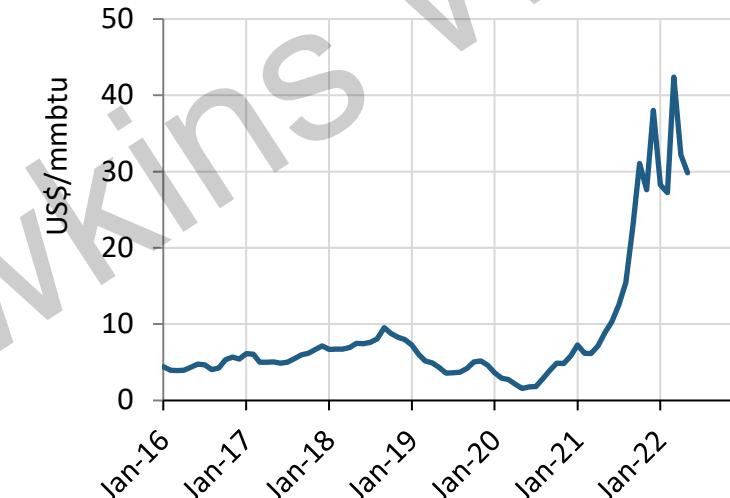
- Pulp and fine paper prices are at historical highs and still rising... Russian conflict is fuelling the fire, but these trends started over 12 months ago
- Some inflation is temporary, but much is structural (carbon, climate change, labour market, aging asset base, China, Russia... globalisation in pauses or reverse)
- Mills are closing even as pulp prices hit historical highs

Caustic



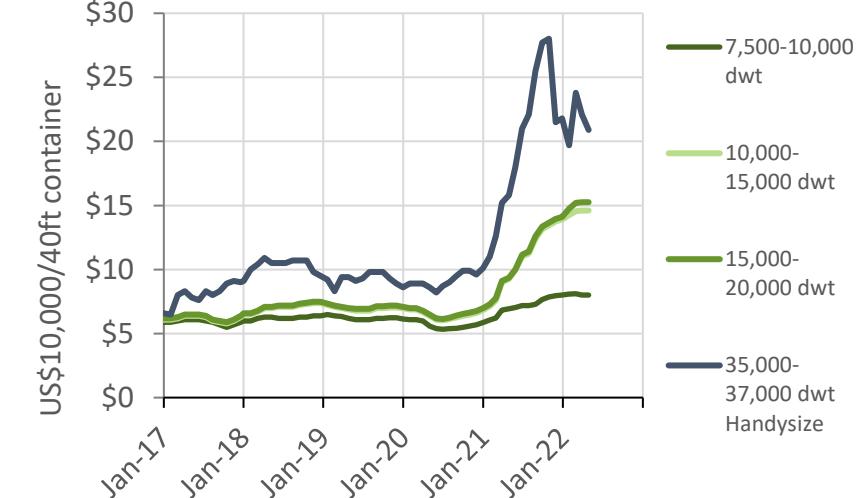
Source: IHS Markit

Natural Gas (Europe)



Source: WB

Logistics – bulk rates

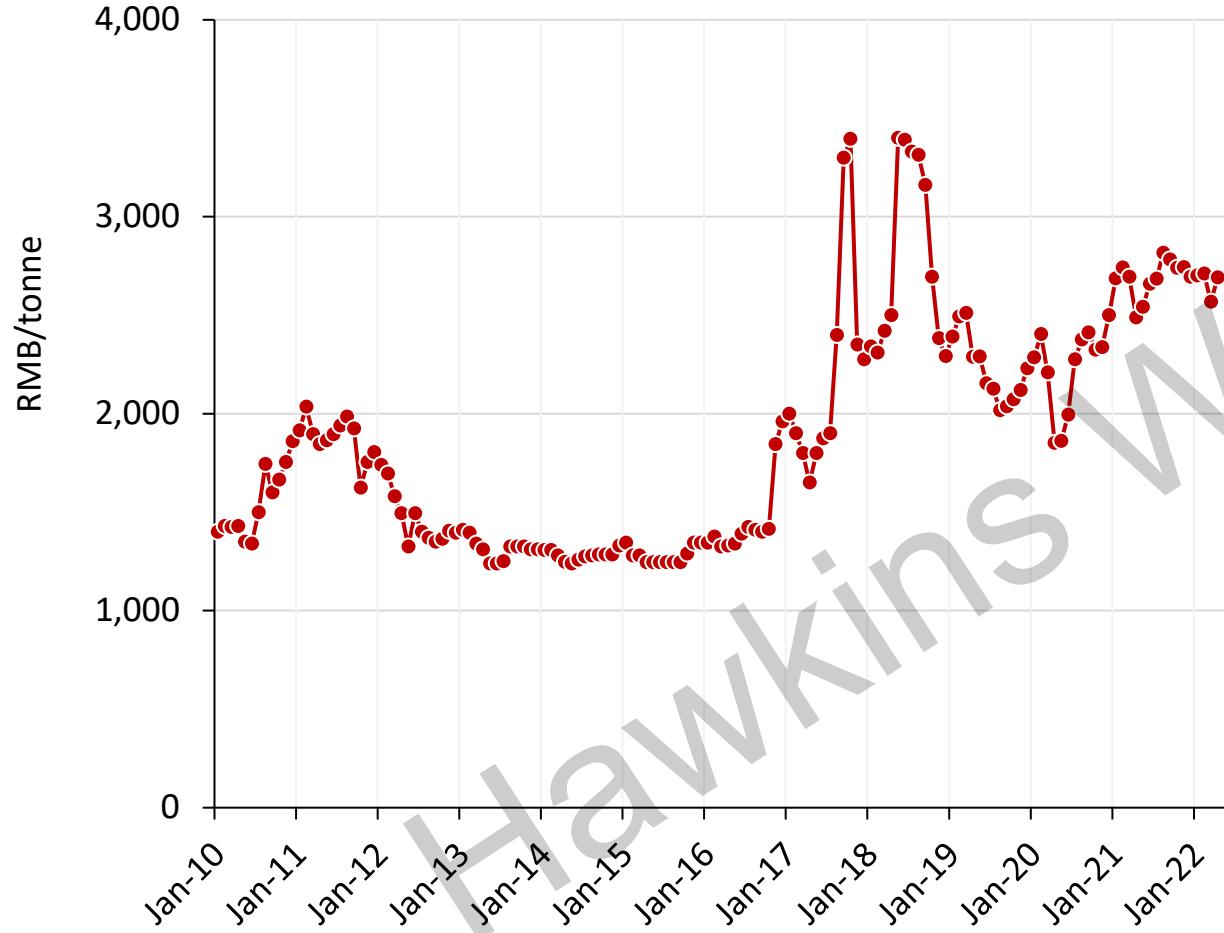


Source: Drewry

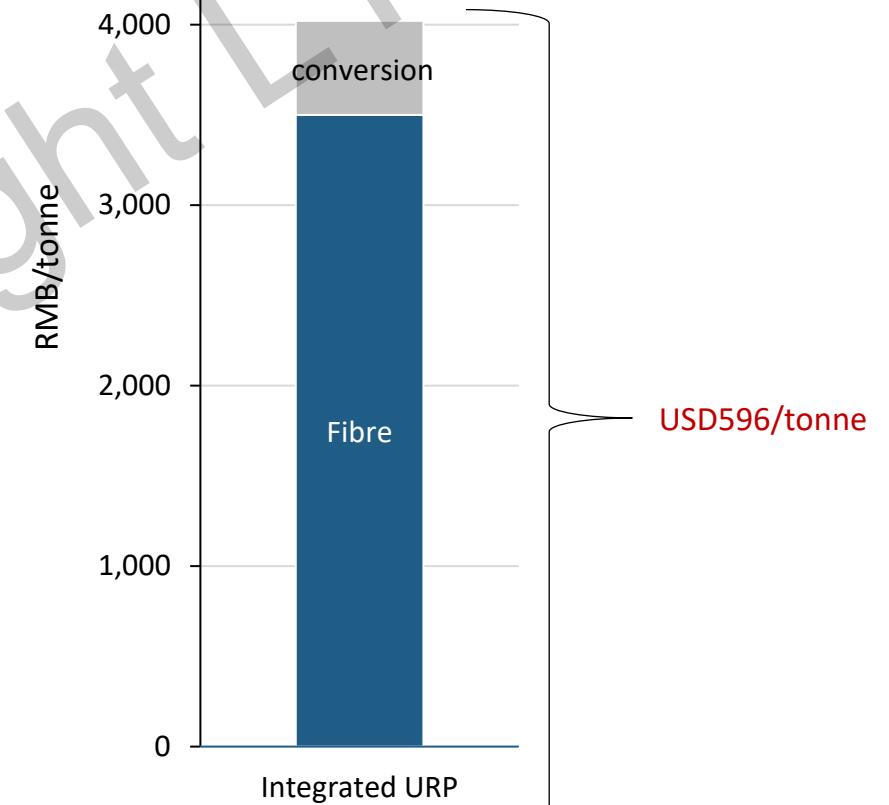
Chinese URP production costs



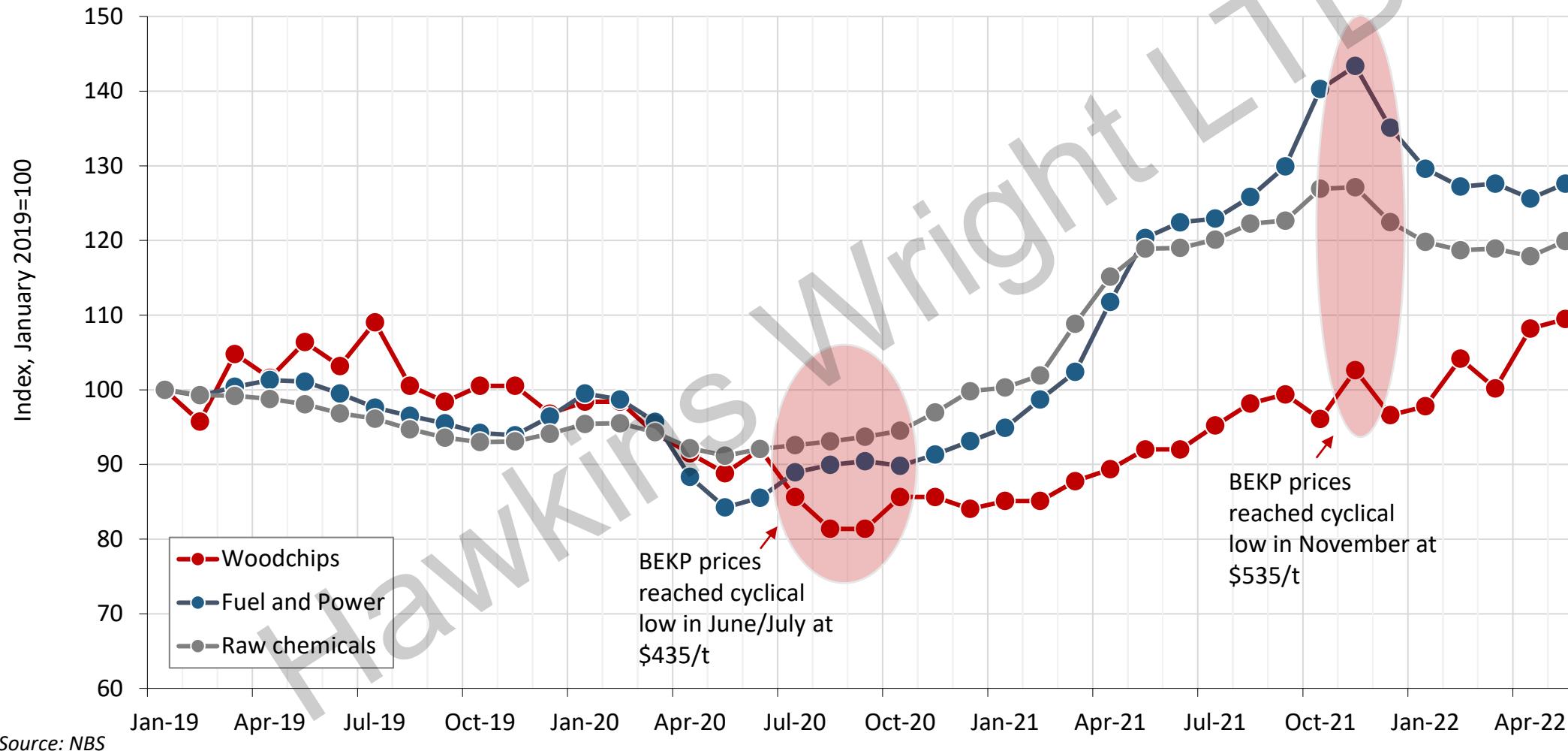
OCC price, China domestic market



Production costs of recycling Chinese OCC



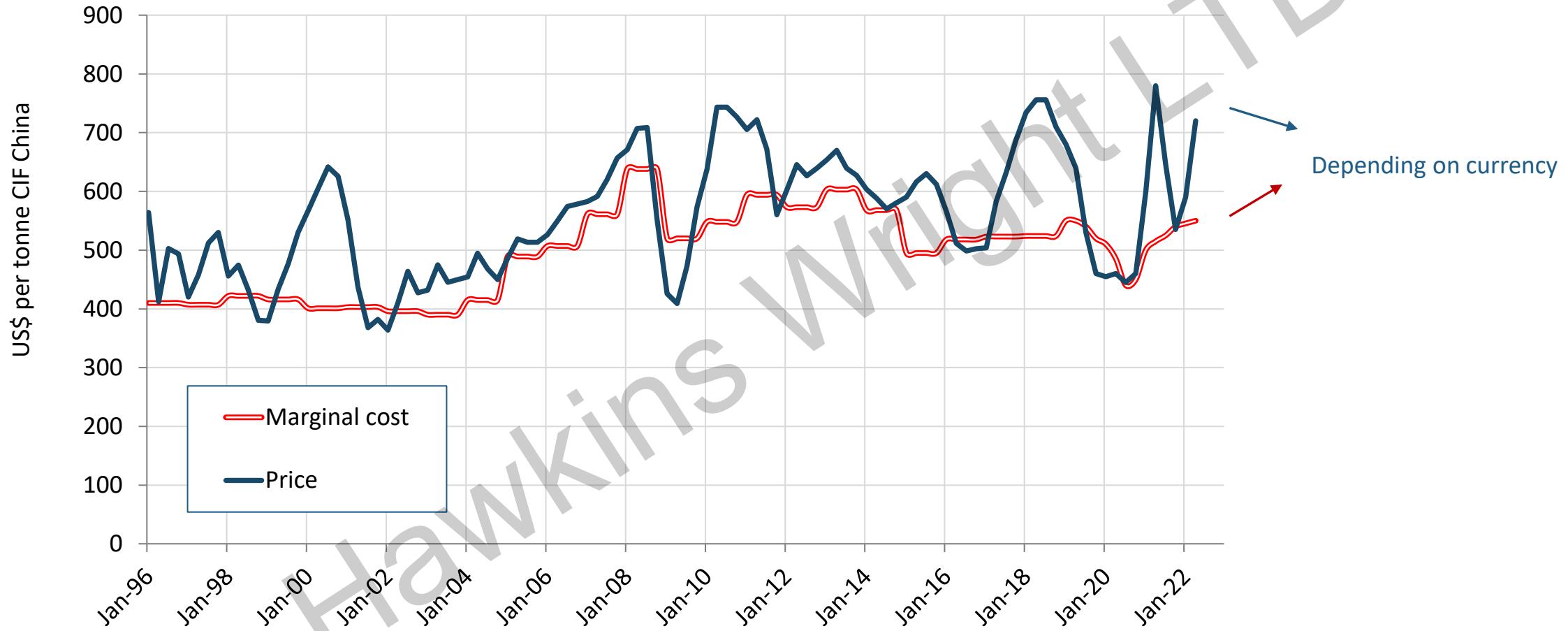
Cost inflation (prices as an index) China market for hardwood chips, chemicals and fuel & power



BHKP marginal cost of production vs. BHKP price



nominal (average by quarter)



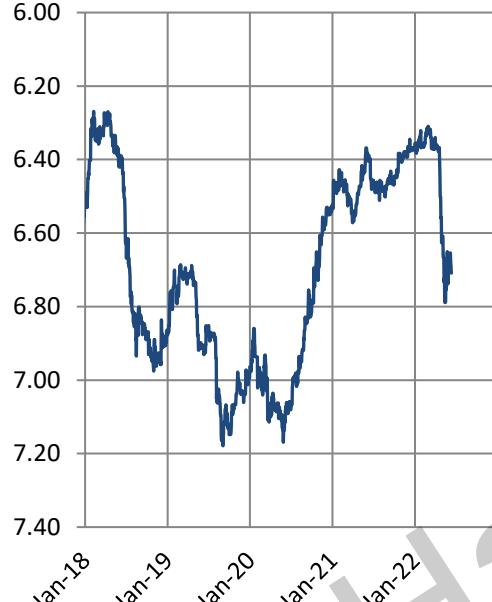
Source: Hawkins Wright Outlook for market pulp, April 2022

As ever, much will depend on price...

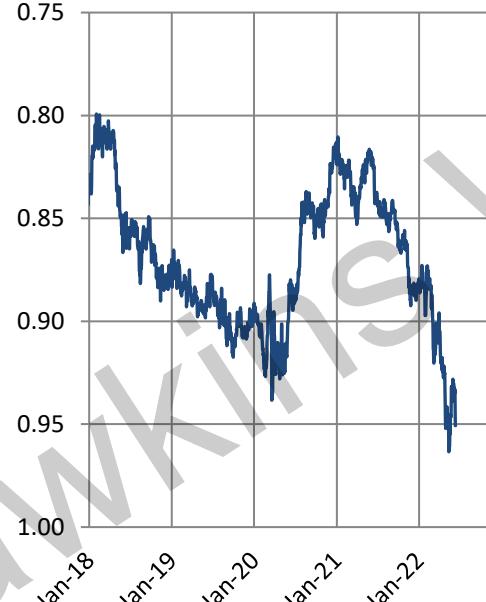


Beware the strengthening US dollar!

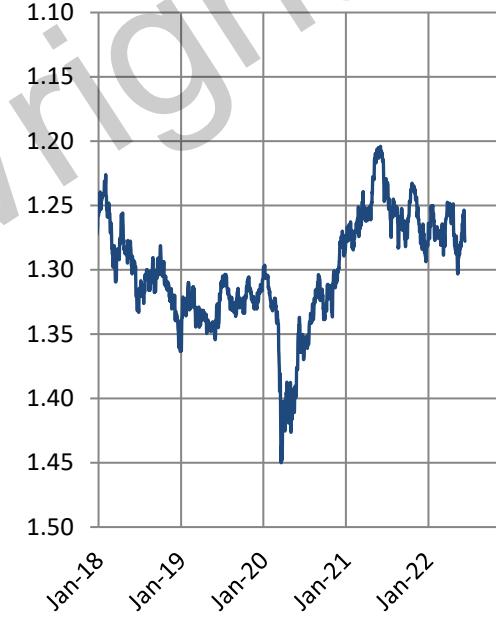
China
Exchange rate: RMB/USD



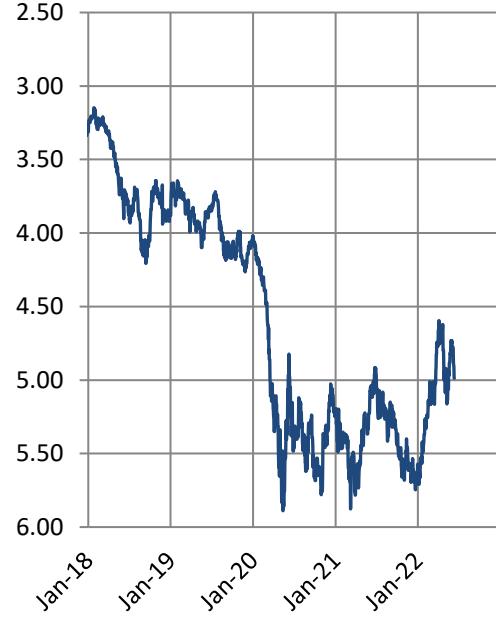
Eurozone
Exchange rate: EUR/USD



Canada
Exchange rate: CAD/USD



Brazil
Exchange rate: BRL/USD



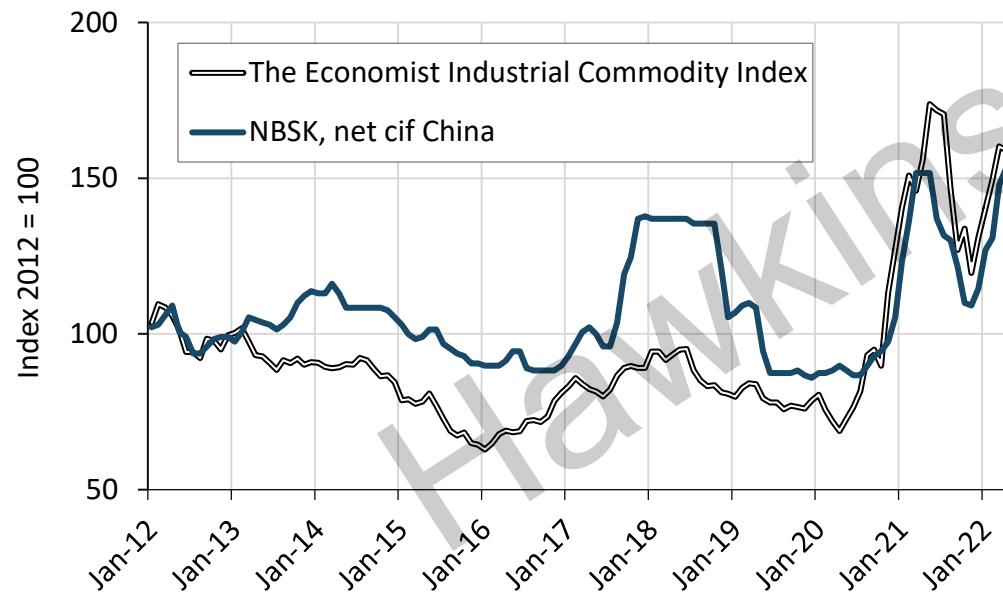
Source: Google Finance, Hawkins Wright

Big questions...mostly macro in nature...



- When will supply chains normalise? This is not just about containers, and procurement strategies will change permanently
- Is recession inevitable? If so when & how big? Stagflation?
- How will China's covid strategy evolve? How will it tackle debt? Something's got to give...
- How long will the Russian invasion continue and what will be the long term legacy?

Economist Industrial commodity index & NBSK (cif China US\$)



World Bank non-energy commodity index & NBSK (cif Europe net euro)

