

# Fastmarkets RISI Pulp & Paper Market Outlook

Switzerland

June 2023

**Alejandro Mata**

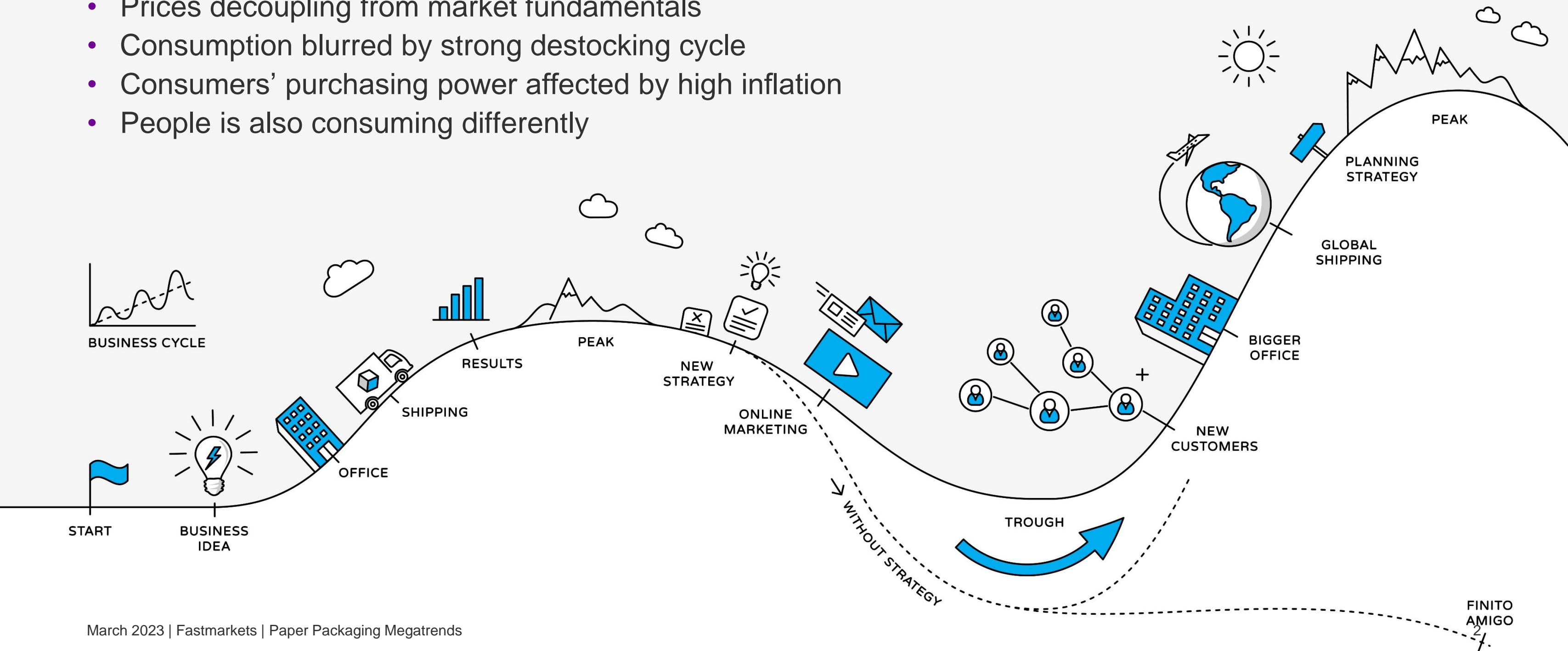
Director, Europe Packaging and Graphic Paper

# Are we riding the downcycle?

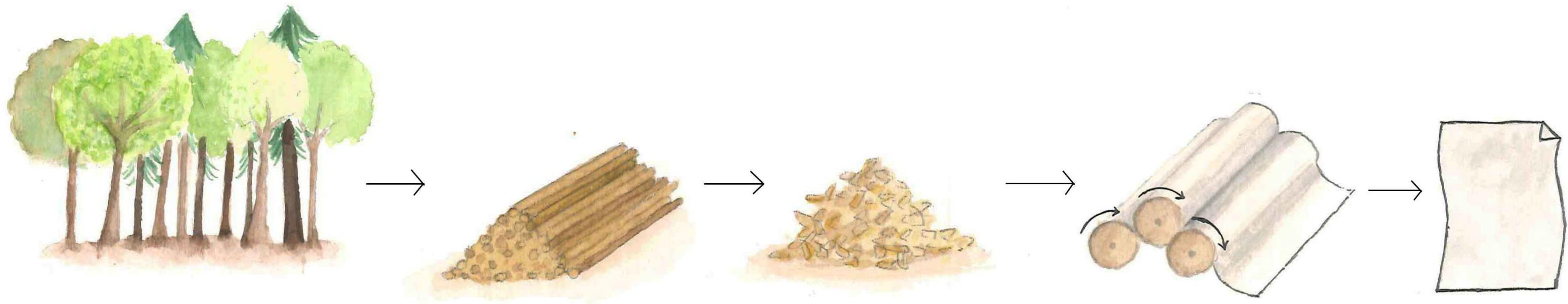


## Swings in the market have been unprecedentedly strong

- Prices decoupling from market fundamentals
- Consumption blurred by strong destocking cycle
- Consumers' purchasing power affected by high inflation
- People is also consuming differently



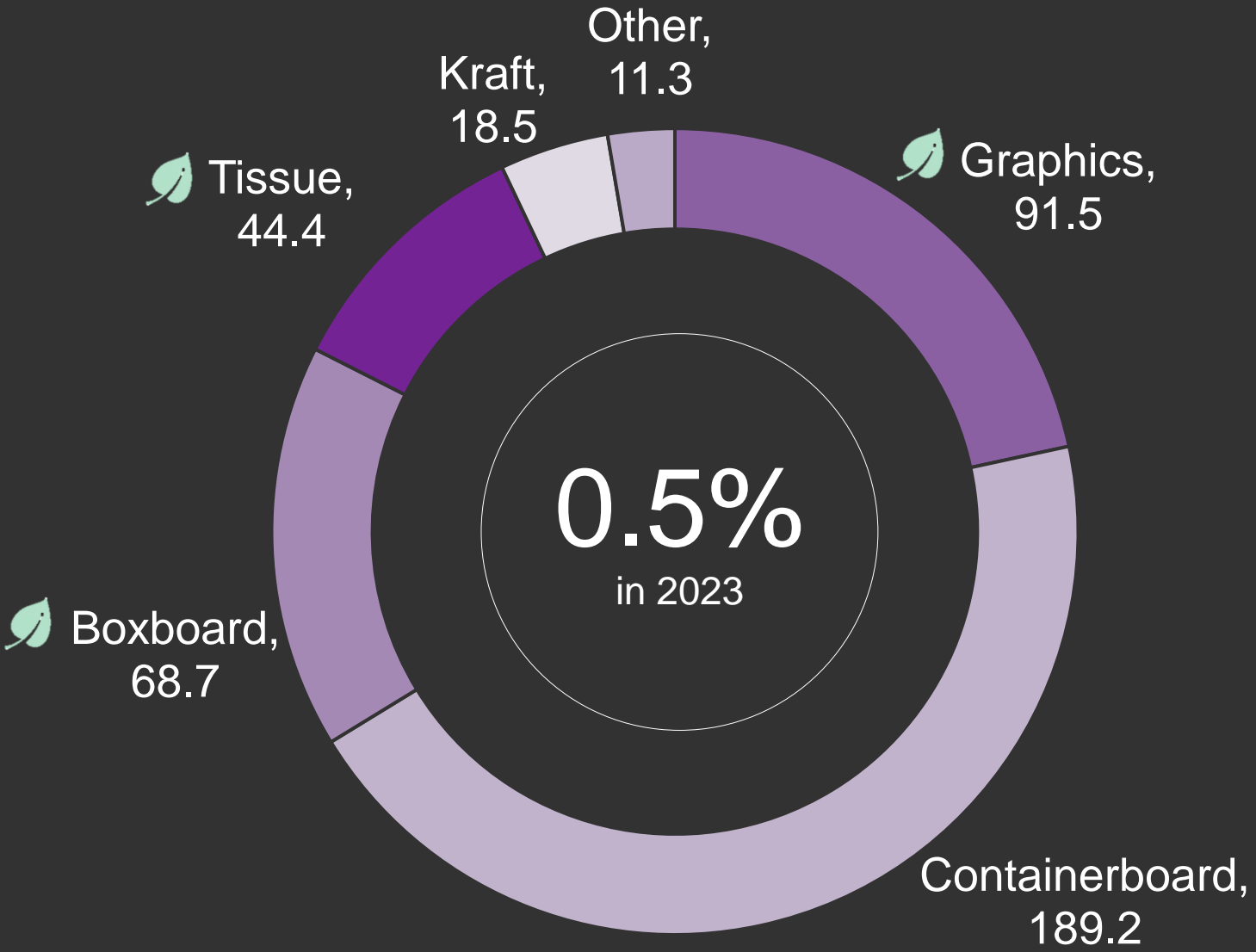
# This is not only a pulp story...



*Although pulp market fundamentals matter a lot, consumption (and production) of paper and board also defines the future of pulp markets*

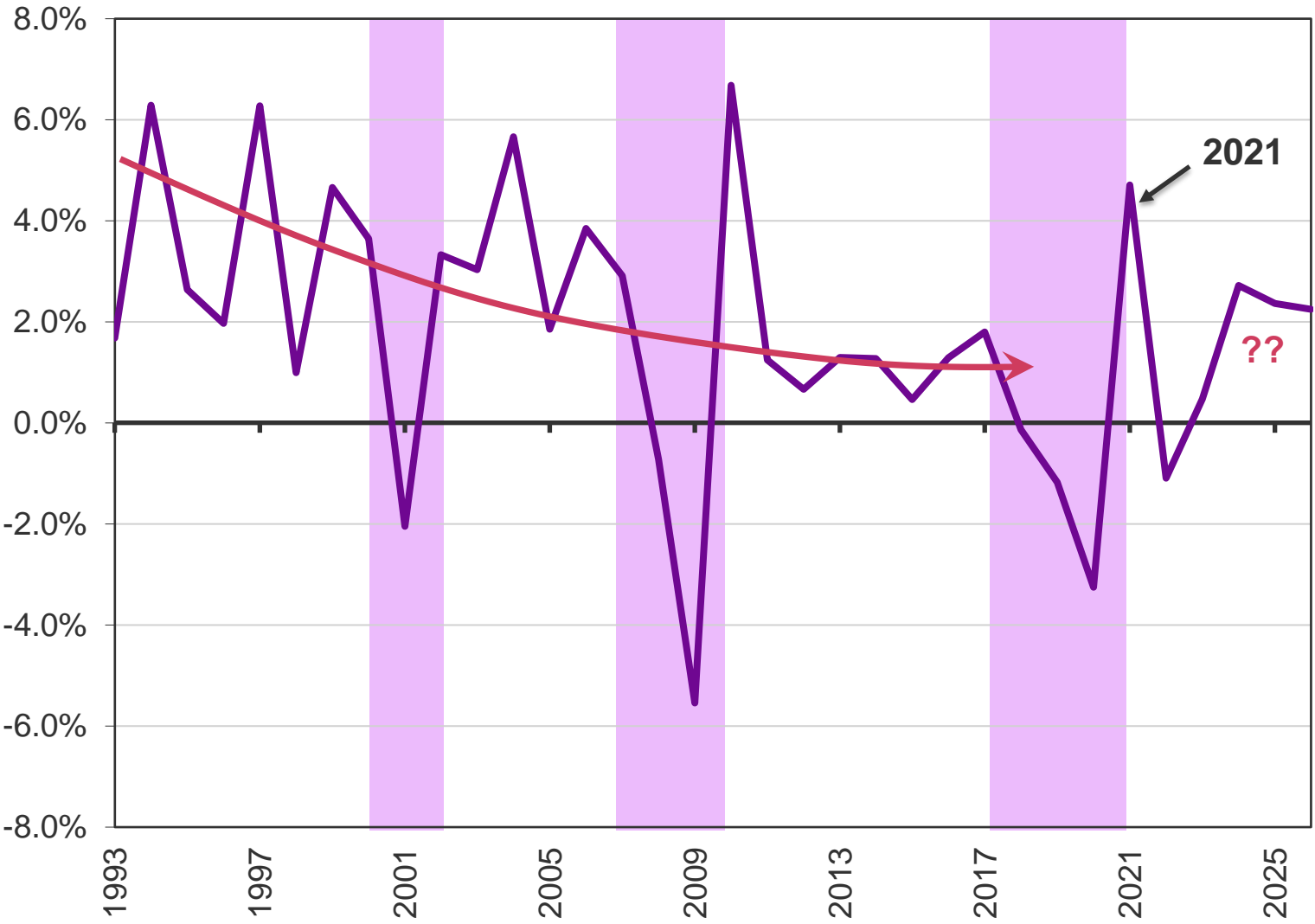
# Global paper & board

423.8 million tonnes in 2022, down 1.1% from 2021

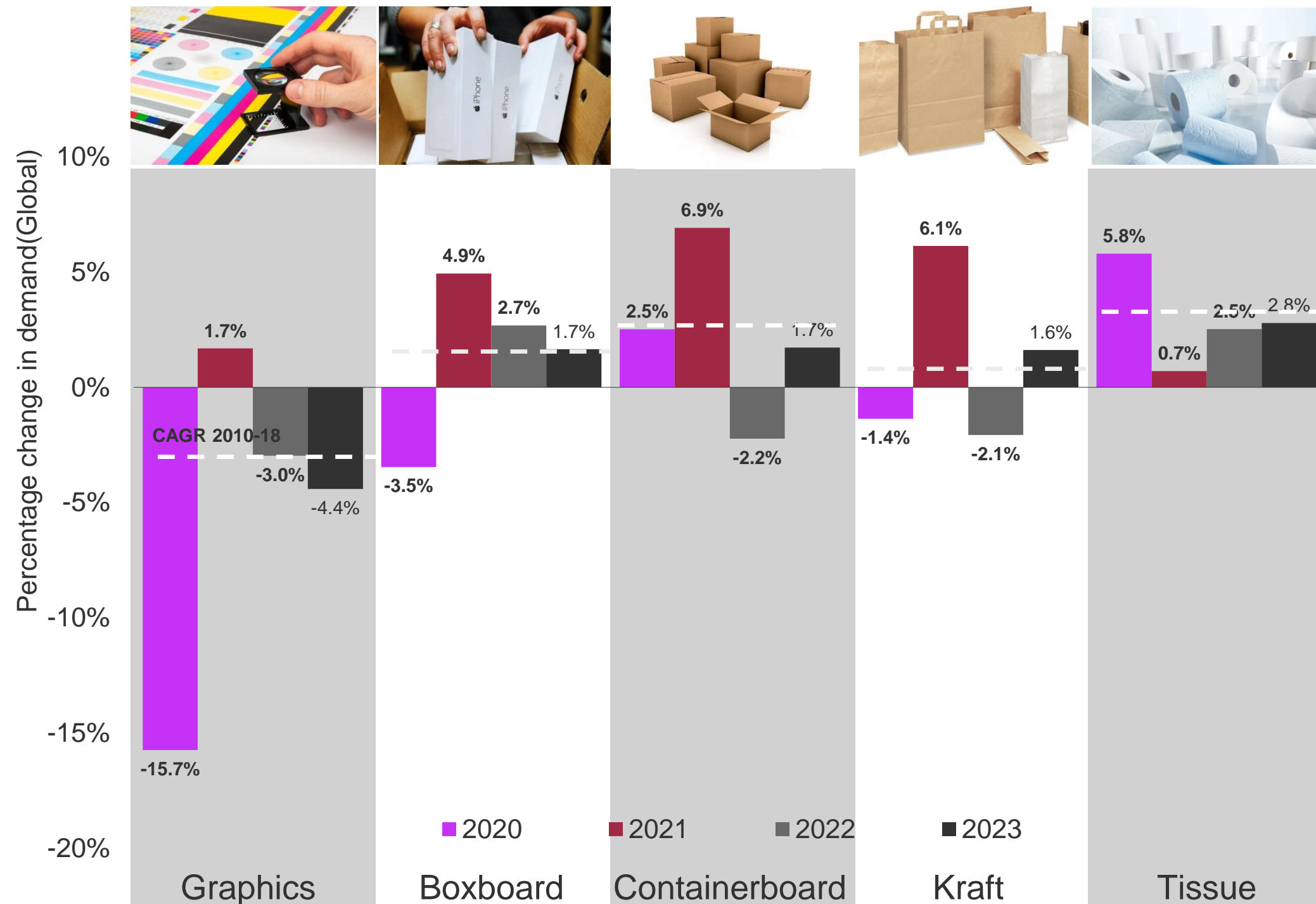


The 4.7% growth posted in 2021 was above normal for the past 10 years, but not unusual after a crisis period

Forecast growth for 2023-26 increasingly at risk



# Evolution of each segment



**Graphics** returning to structural decline after 2021 rebound; pace of decline accelerating

**Containerboard** struggling to return to pre-pandemic average growth

**Other packaging** also showing strong signs of slowdown

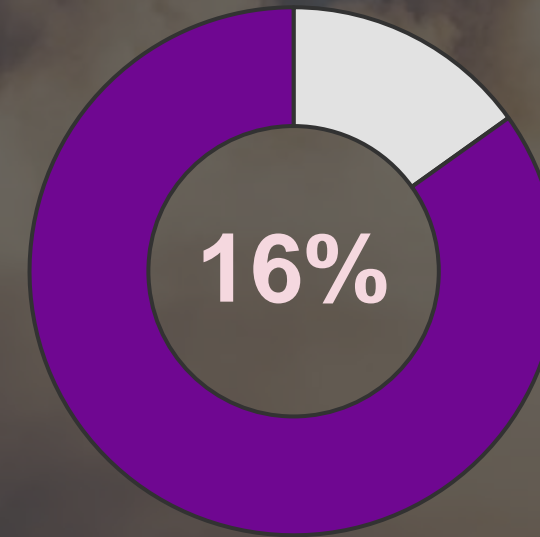
**Tissue** recorded strong consumption in 2020, but destocking brought growth down in 2021; returning to normal growth from 2022



# COVID-19

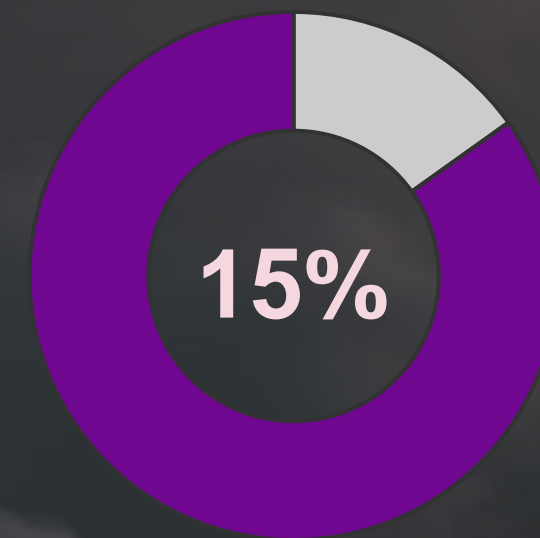
# EU energy crunch

2023 | Fastmarkets | Global Graphics Outlook



## Boxboard

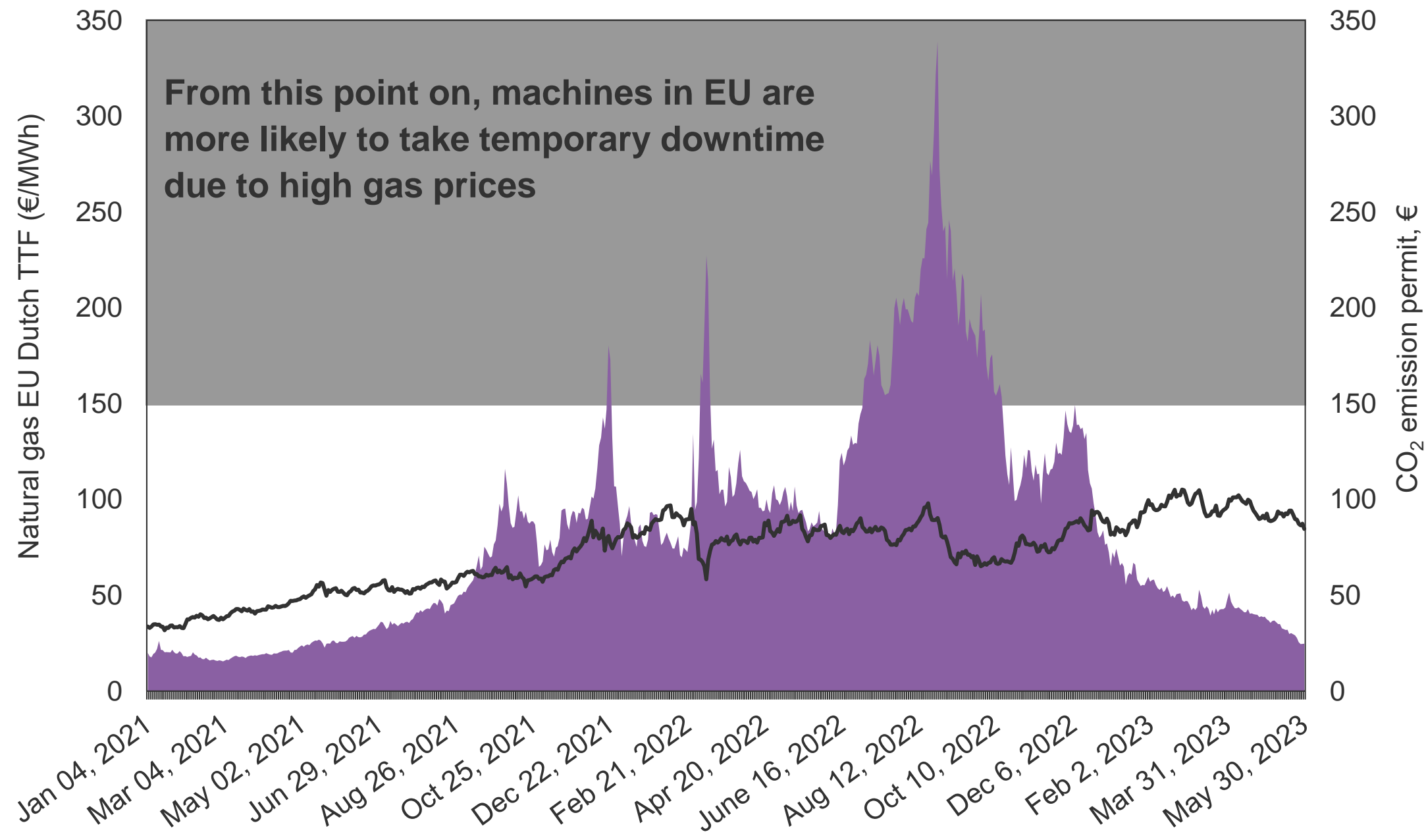
1.8 million tonnes of production at risk  
Mostly on recycled side



## Graphics

4.1 million tonnes of production at risk  
Mostly on non-integrated mills

# EU energy prices decreasing



Trading Economics

Current gas prices have decreased to around €25 per megawatt hour (MWh). Price hike at the end of August was more than 19 times higher than the long-term average prior to 2021.

Dutch TTF natural gas futures suggest that prices would remain around €35-50 per MWh this year and next, after which they would start to slowly decline

Number of emission allowance reductions will speed up in EU from 2024.



*Panic buying and fear of supply shortages drove consumers and companies to keep high stocks*



*inventories*

3Q 20    4Q 20    1Q 21    2Q 21    3Q 21    4Q 21    1Q 22    2Q 22    3Q 22    4Q 22    1Q 23



*Sudden demand  
weakness keeping  
inventories high*

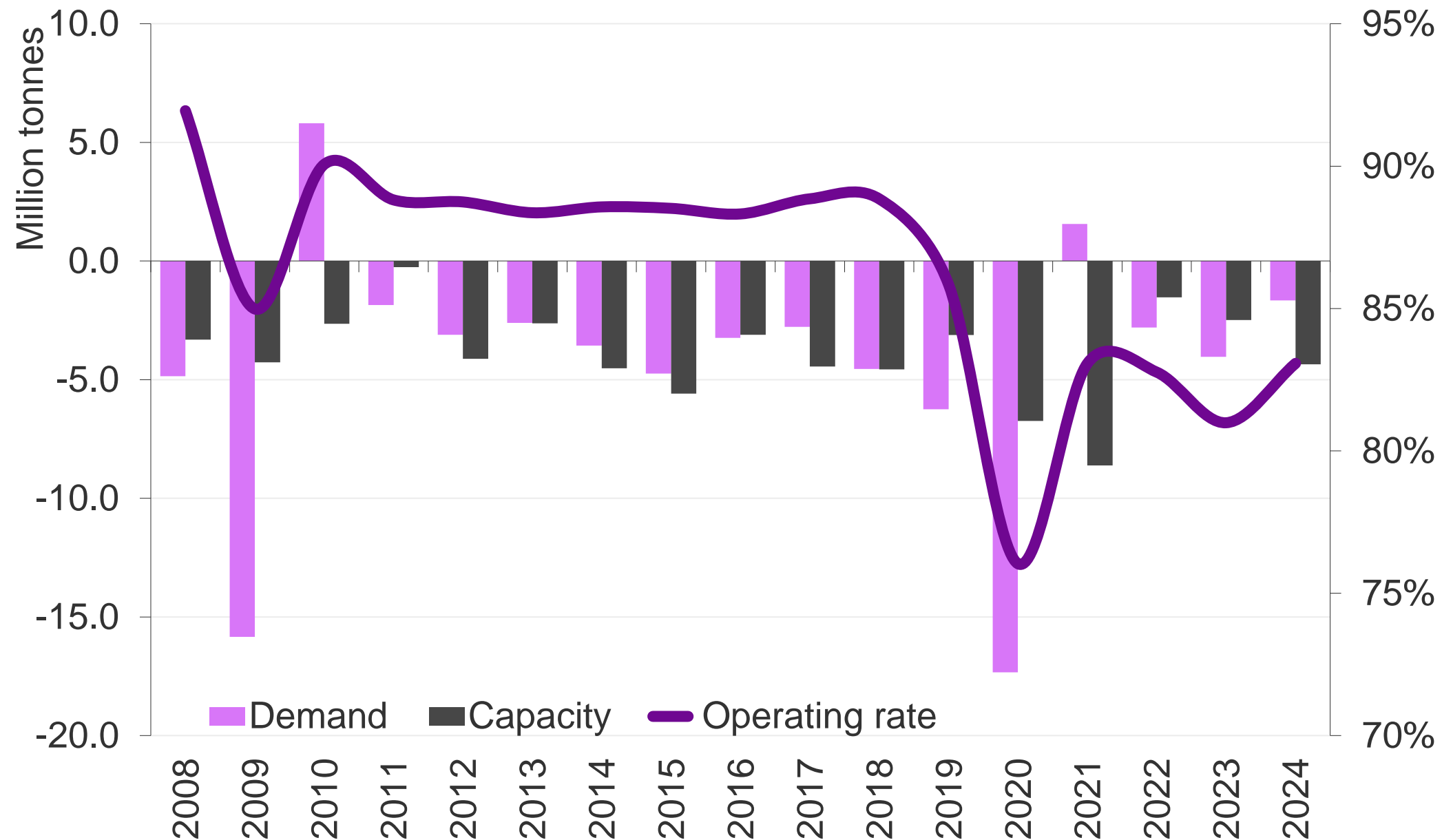




# Graphics

# Operating rates normalizing below pre-pandemic average

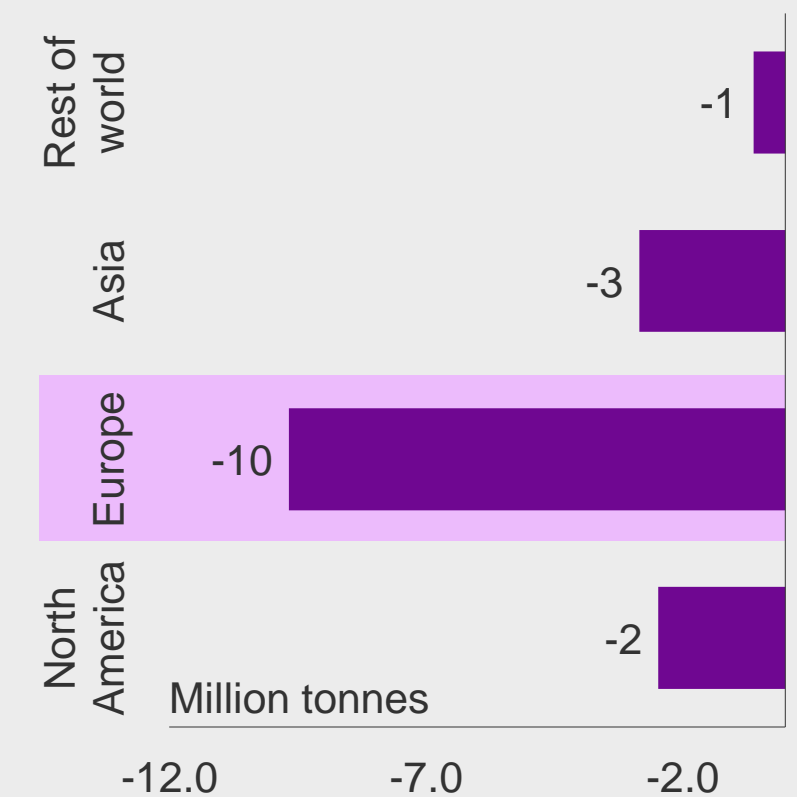
## Global graphic demand and capacity changes



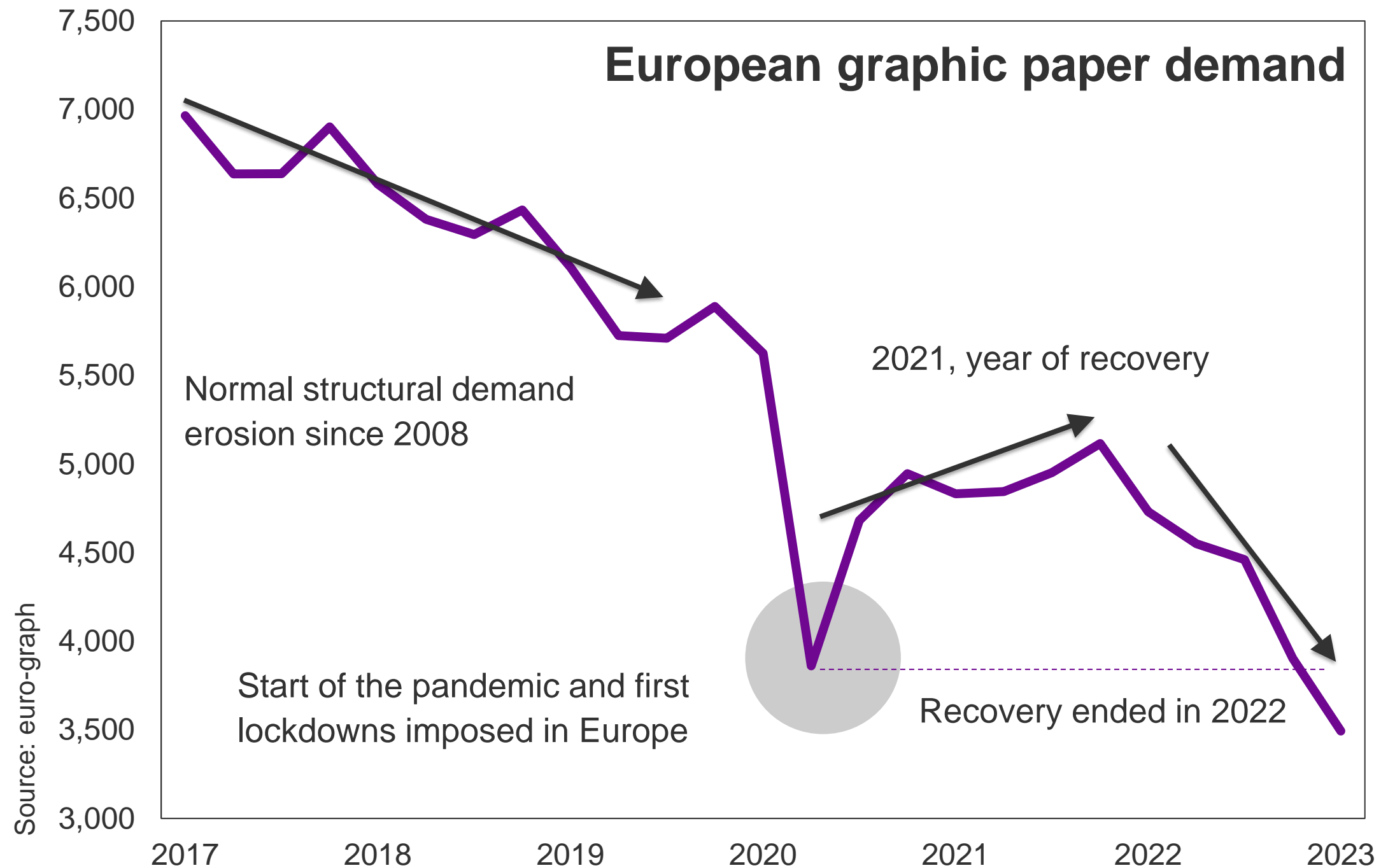
## Global market balances

Capacity reductions picked up in 2020-21. However, actions have been insufficient.

## Capacity changes, 2023-27



# Graphic demand in Europe collapsed



## Recovery in 2021

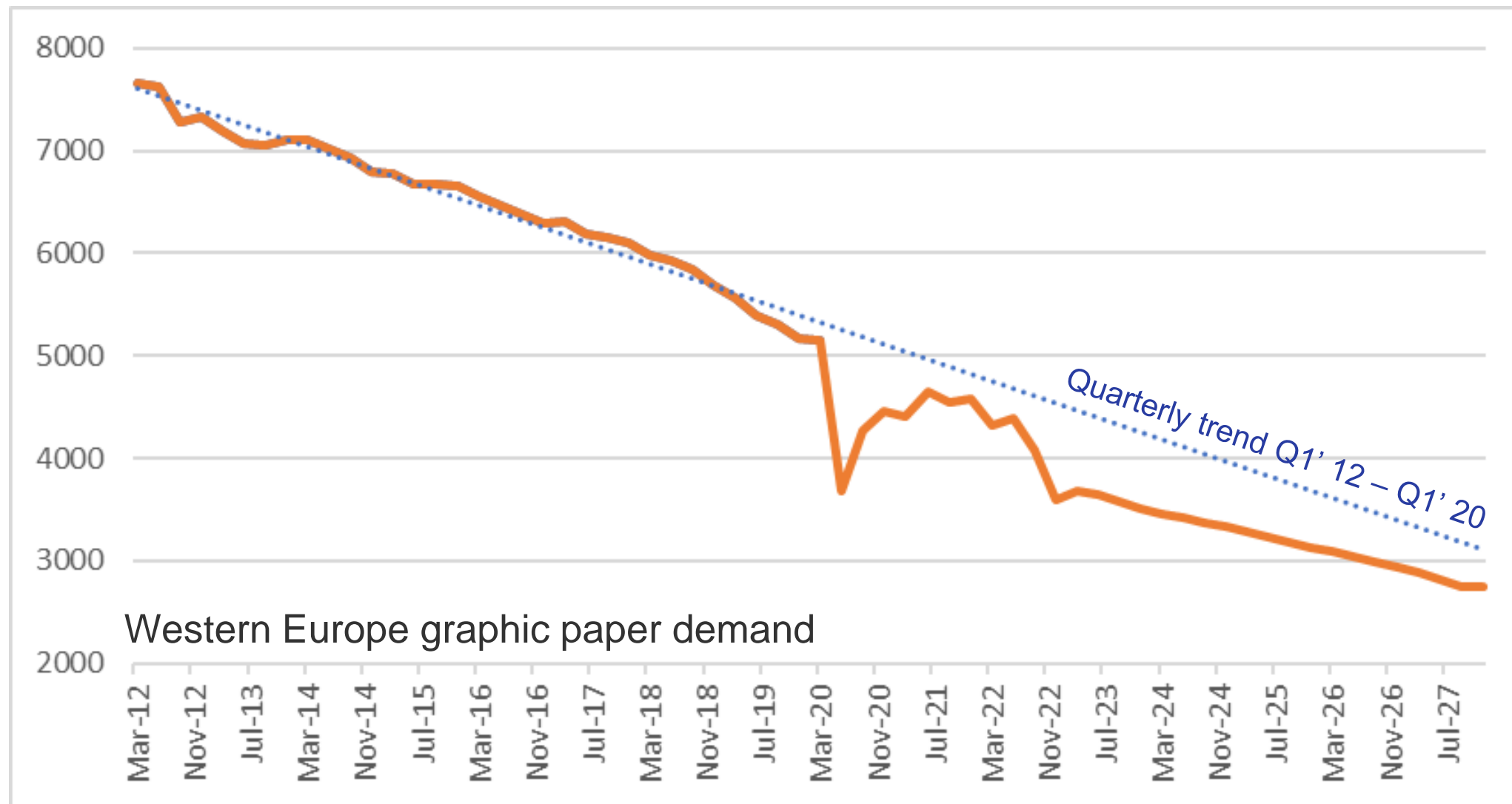
- Reactivation of certain segments of the economy
- Better economic growth (stimulus)
- Paper buyers experienced paper supply shortages, leading to building of inventories

## However

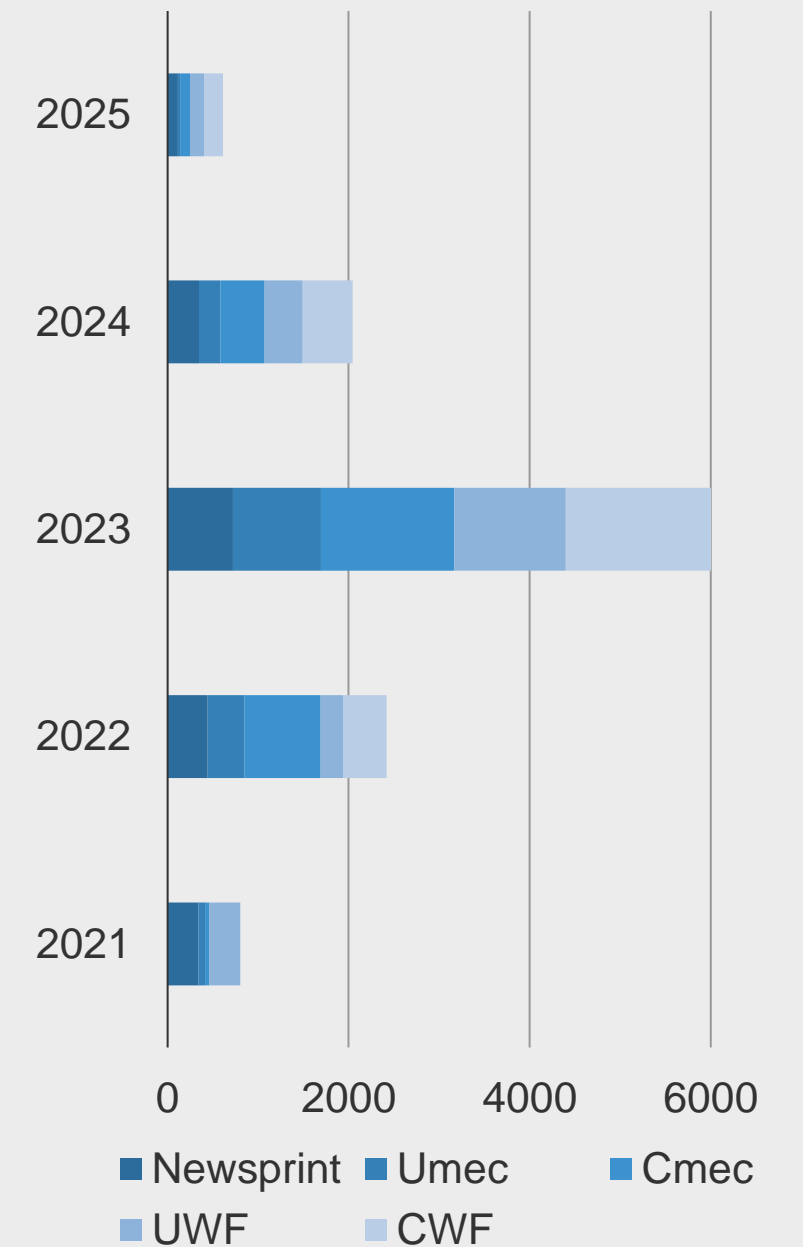
- High inflation affected consumers' purchasing power
- Buyers caught up due to deceleration in demand, but sitting on high inventories
- High paper prices also behind demand destruction in 2H22

# More than 2 million additional demand losses between 2021-23

We assume at least half of these losses are related to pure destocking.. And we should not be expecting a meaningful recovery



Overcapacity (thousand tonnes)



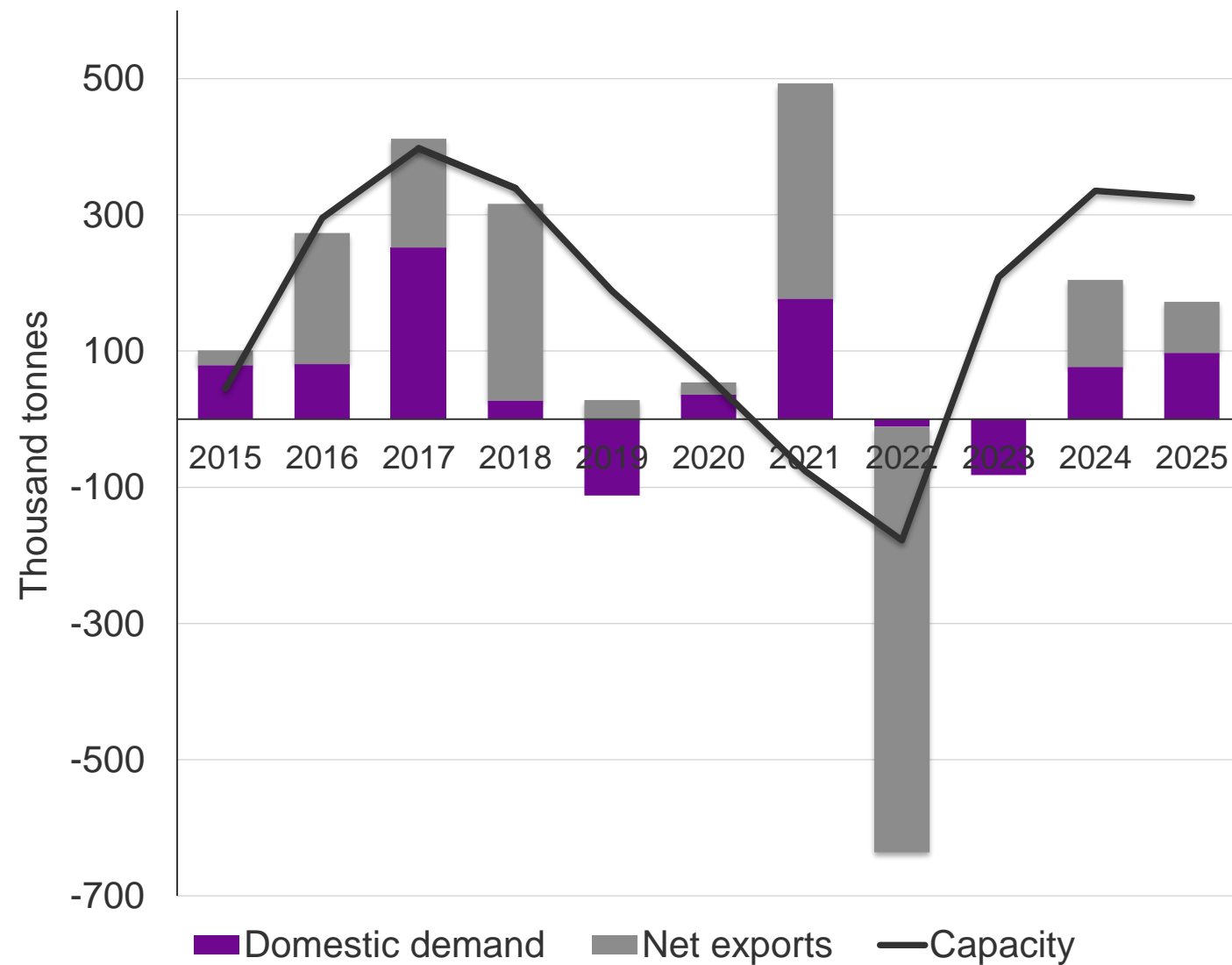


# Boxboard

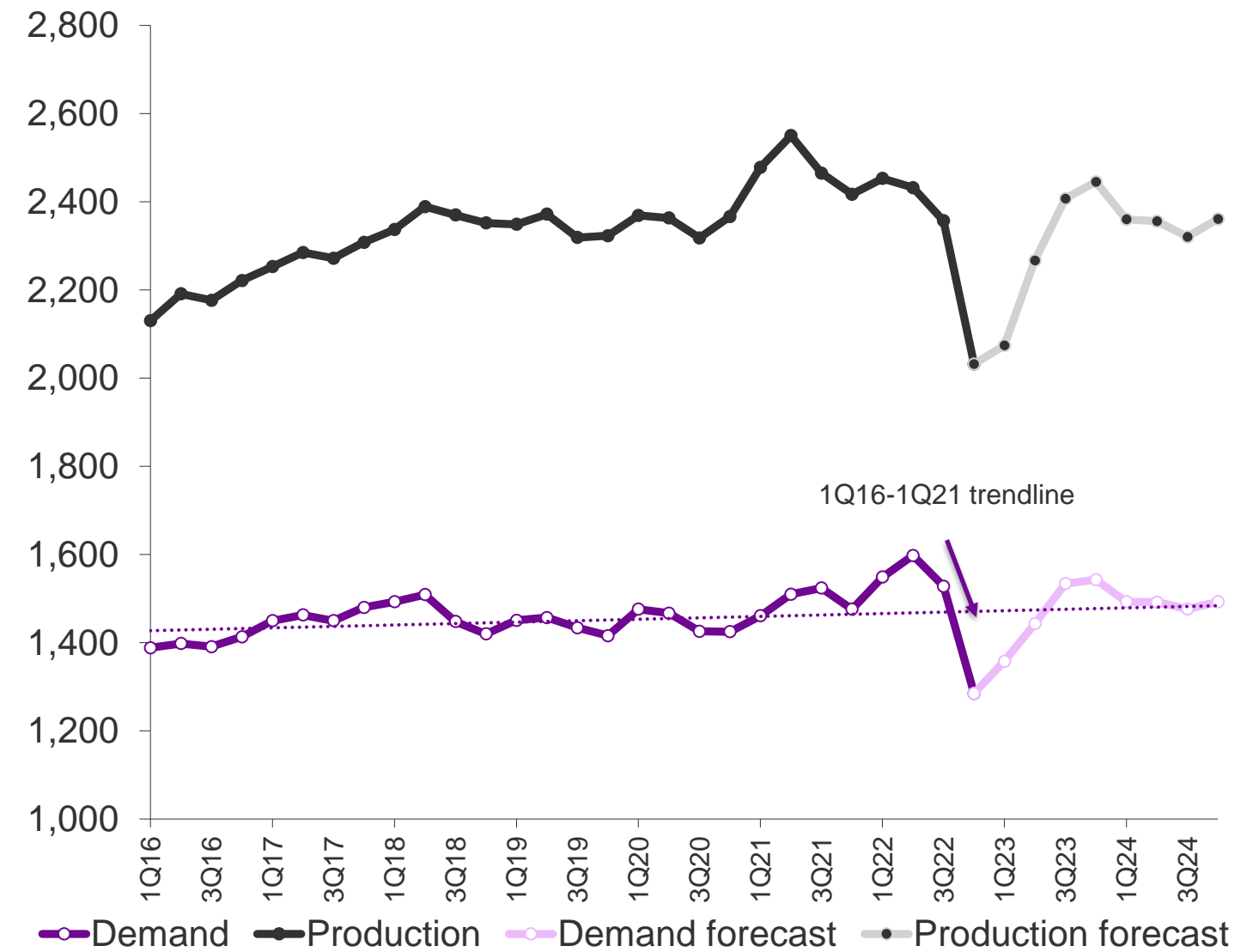
# Boxboard demand weakened at the end of 2022



Year-over-year change in growth in Western Europe, thousand tonnes



Demand and production in Western European, quarterly, thousand tonnes





*But  
also*



## Consumers buying differently



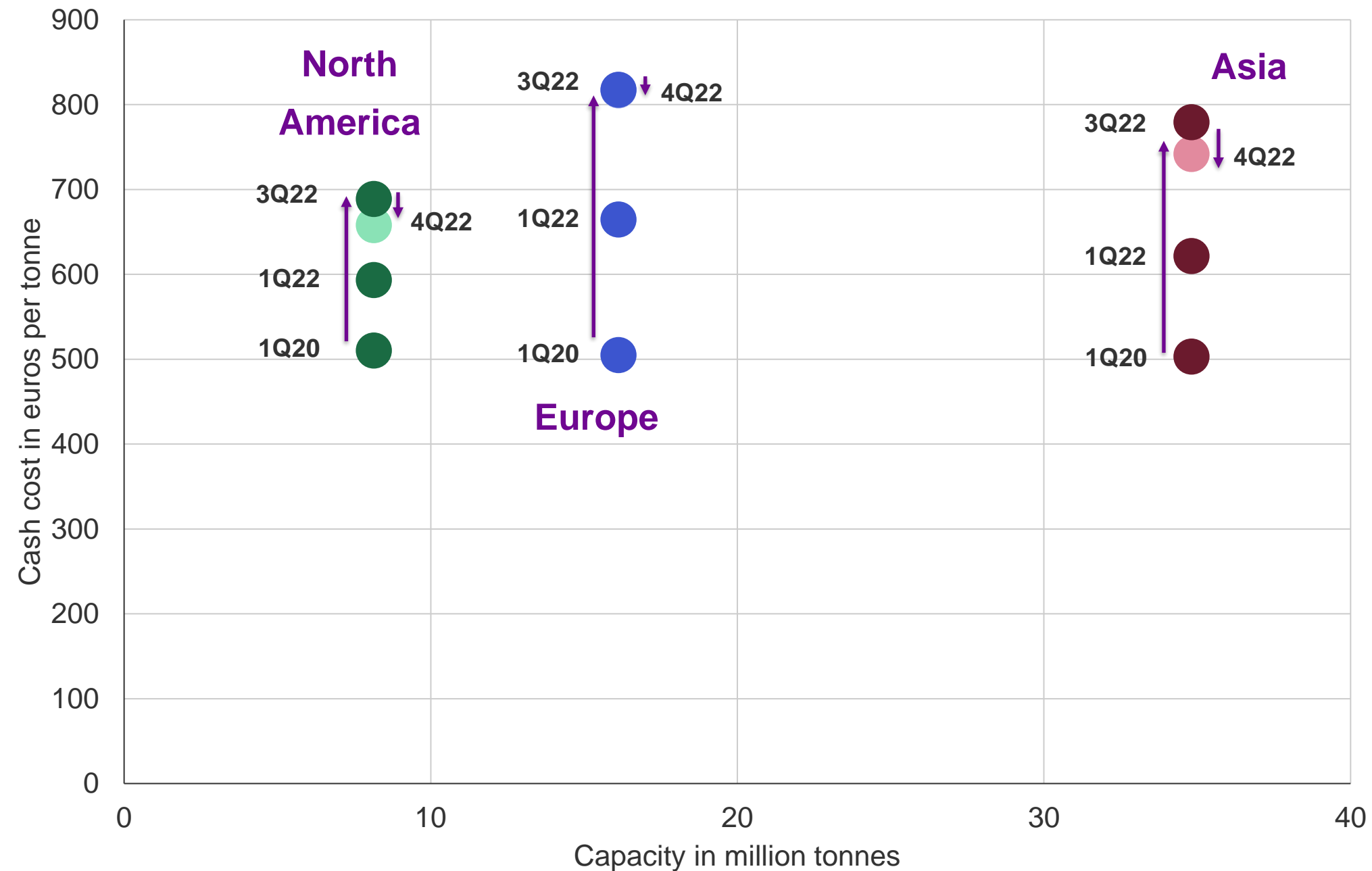
Capacity reductions picked up in 2020-21. However, actions have been insufficient.



# Persistent cost inflation for virgin cartonboard



## Global virgin cartonboard market



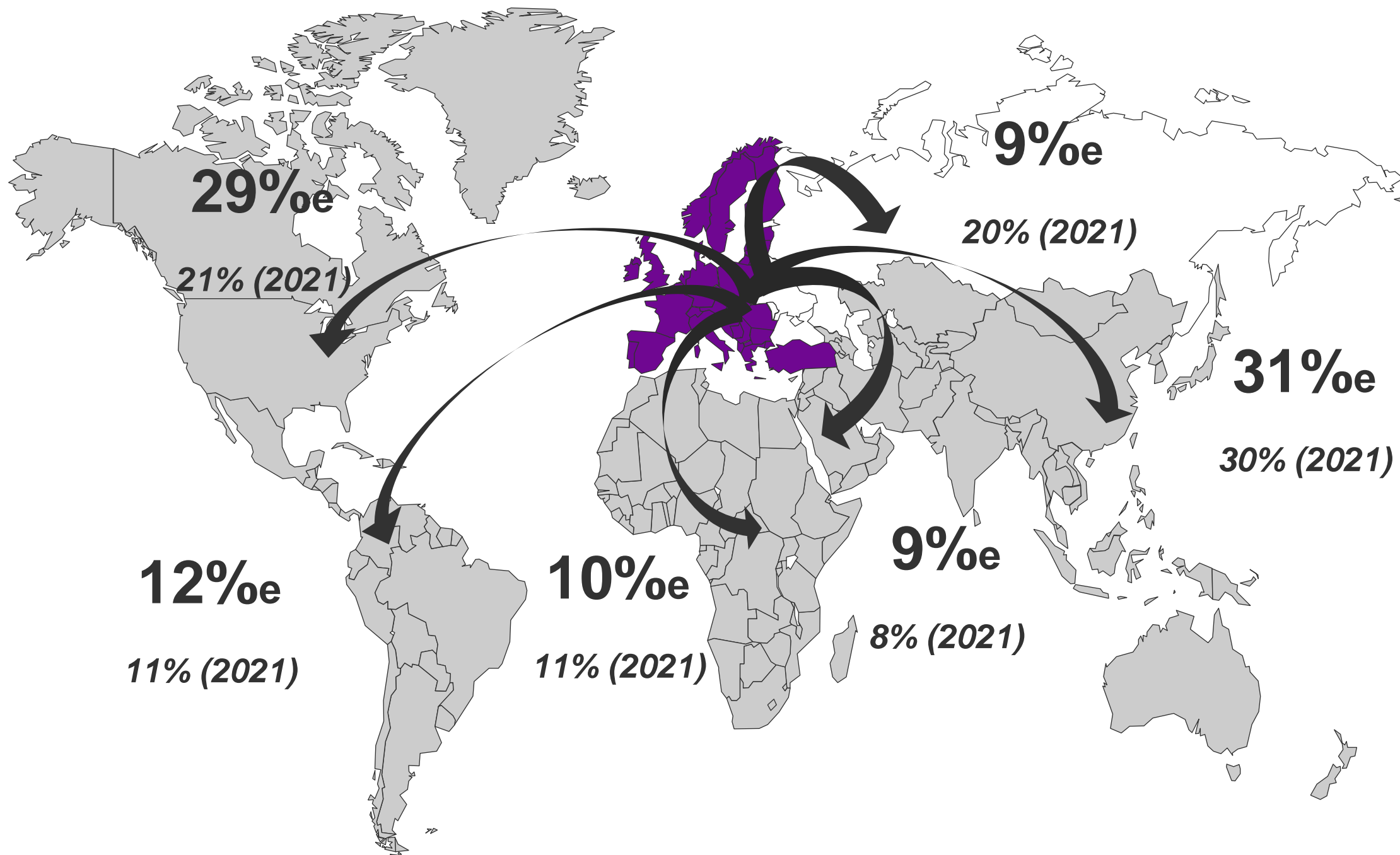
European cash costs increased over 60% between 1Q20 and 3Q22, and the region went from being one of the lowest cost producers to one of the highest

Early Q4\* includes changes in OCC and currencies

Cost inflation in other regions:

Region	Cost inflation 1Q20 vs 2Q22, 3Q22, 4Q22
Europe	44%, 62%, 62%*
North America	25%, 35%, 29%*
Asia	43%, 55%, 47%*
Rest of world	43%, 50%, 46%*

# European boxboard exports

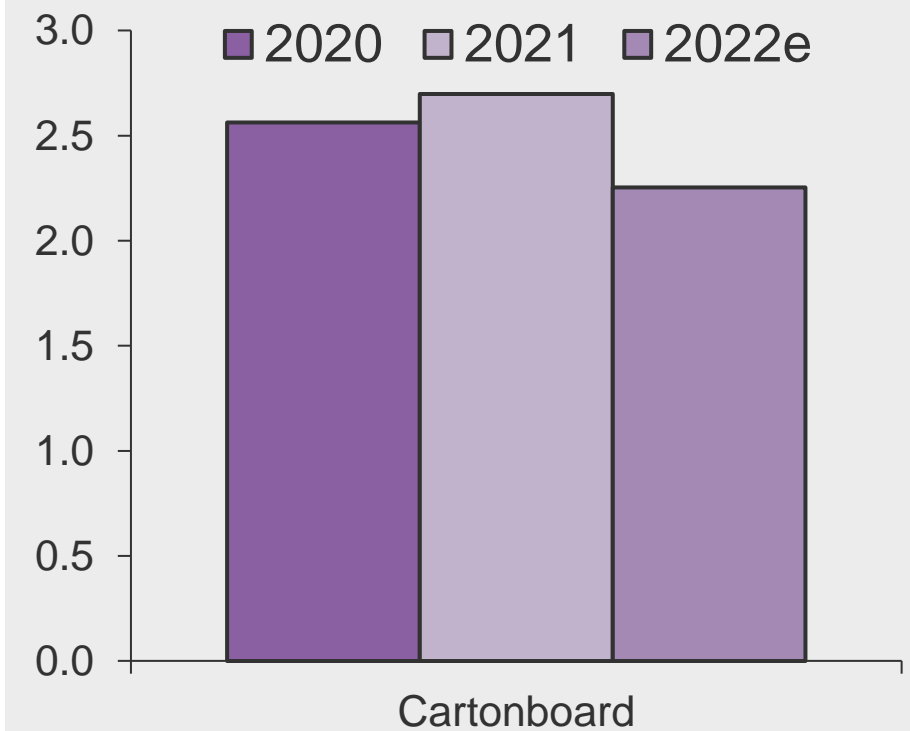


Fastmarkets, S&P Global



## Europe is a major exporter

European cartonboard exports decreased an estimated 17% in 2022 from 2021



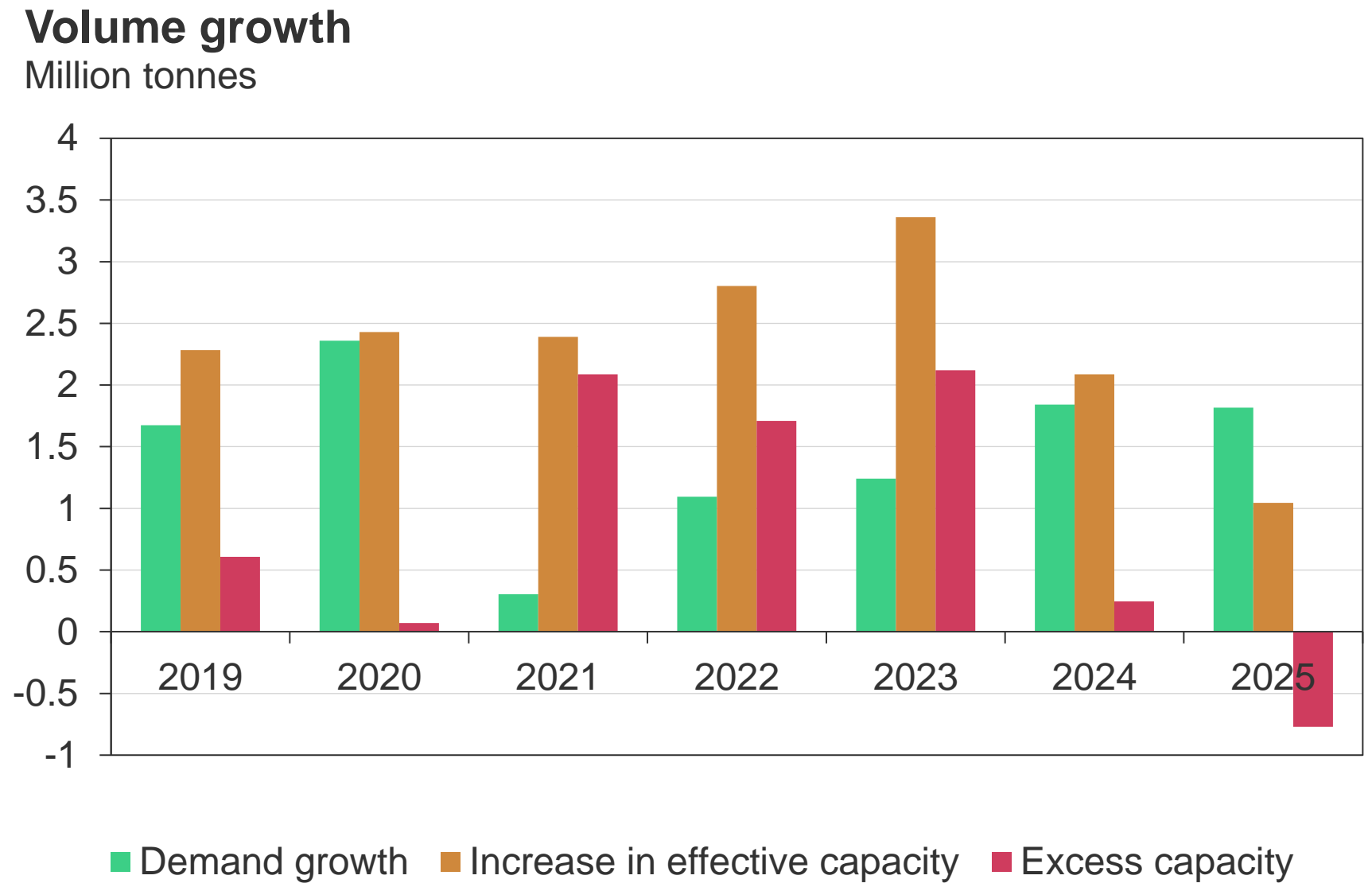


# Tissue



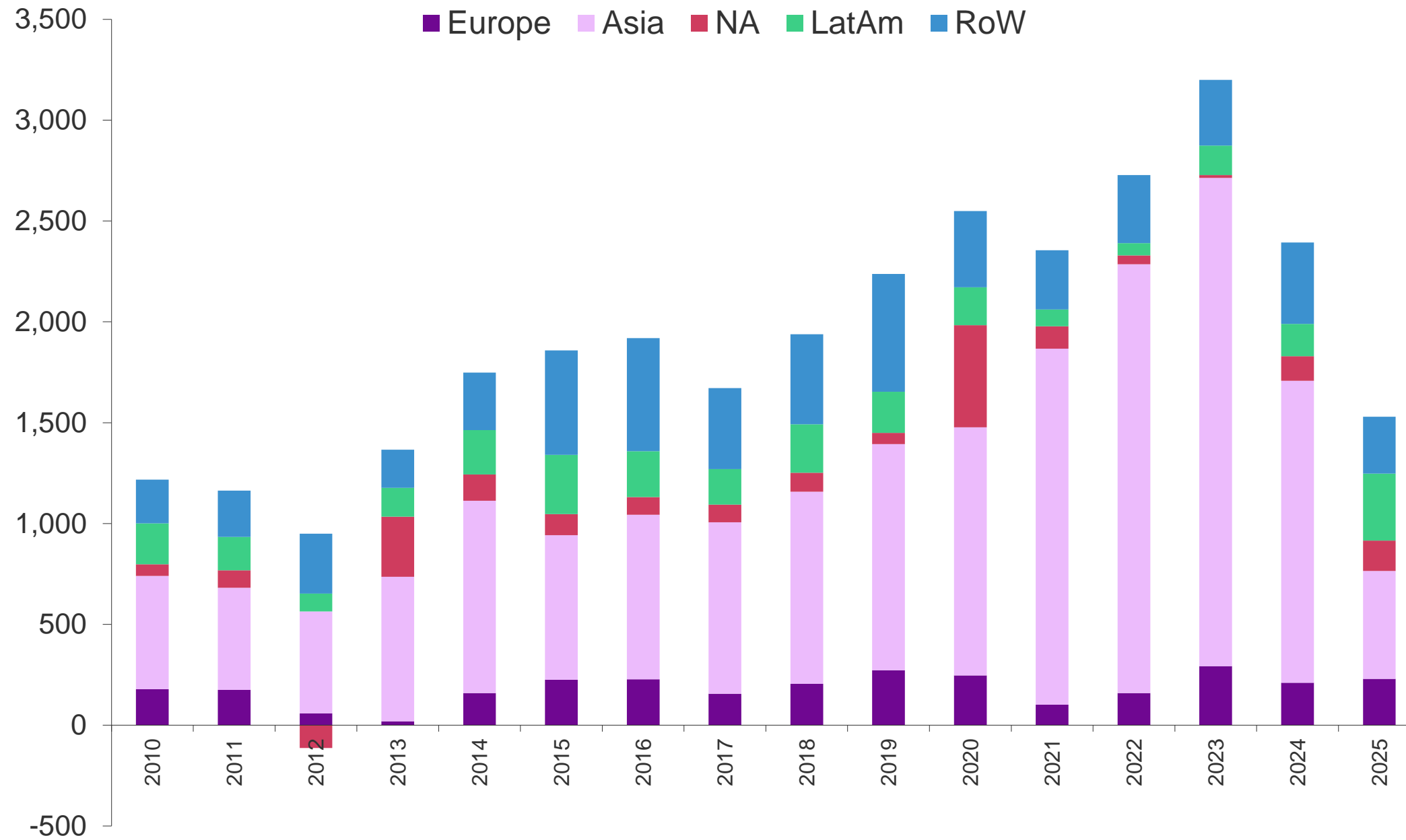
# Expected growth in global tissue consumption and effective capacity\* until 2025

- Tissue capacity has grown more than global consumption in recent years, and so global tissue capacity utilization has continued deteriorate. Only in the pandemic year 2020 capacity and demand increases were almost equal as global demand boomed.
- In 2021 the global demand/supply balance worsened substantially as consumption volume grew only moderately and new expansion investments continued.
- In 2022 capacity grew by 1.7 million tonnes more than demand, and outlook for 2023 suggest the 2021 situation will repeat. No new capacity announcements would be needed in the next few years.



\*based on announced projects

# Most of the increased capacity occurring in Asia

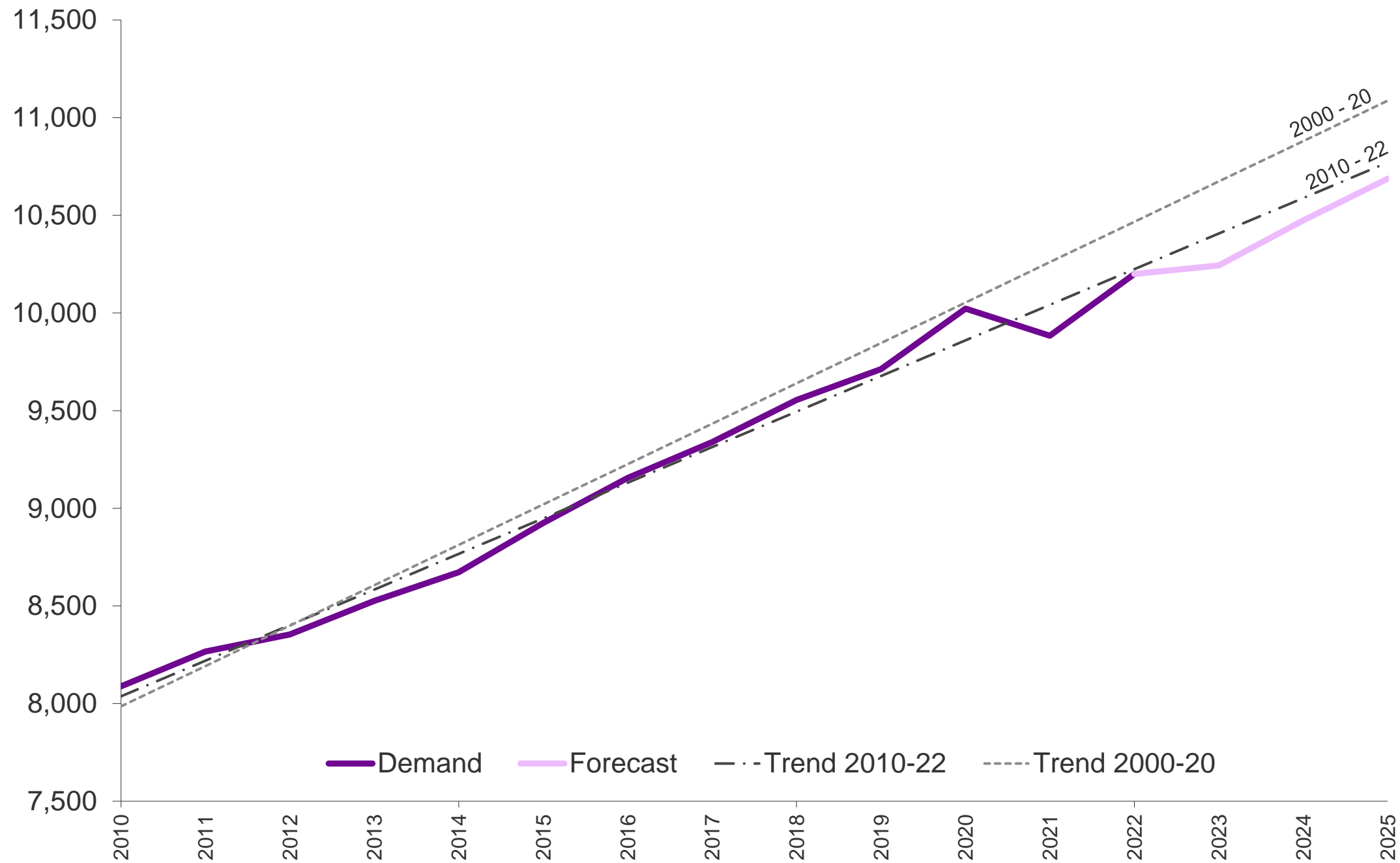


Asia accounts for up to 65% of total tissue capacity increases between 2020 and 2025

Although possibilities for Asian producers to “offload” some of the excess production to other regions, Asia (and China in particular) will suffer the most from market oversupply

Note: capacity increases include organic growth.

# European tissue consumption growth slowed



European tissue consumption grew at about 3% per year until 2020

After the ups and downs experienced between 2020 and 2023, we expect tissue consumption to normalize at a 1.5% growth between 2023 and 2027

Tissue consumption growth catching up with 2010-22 trend, but it will take a while to reach that level

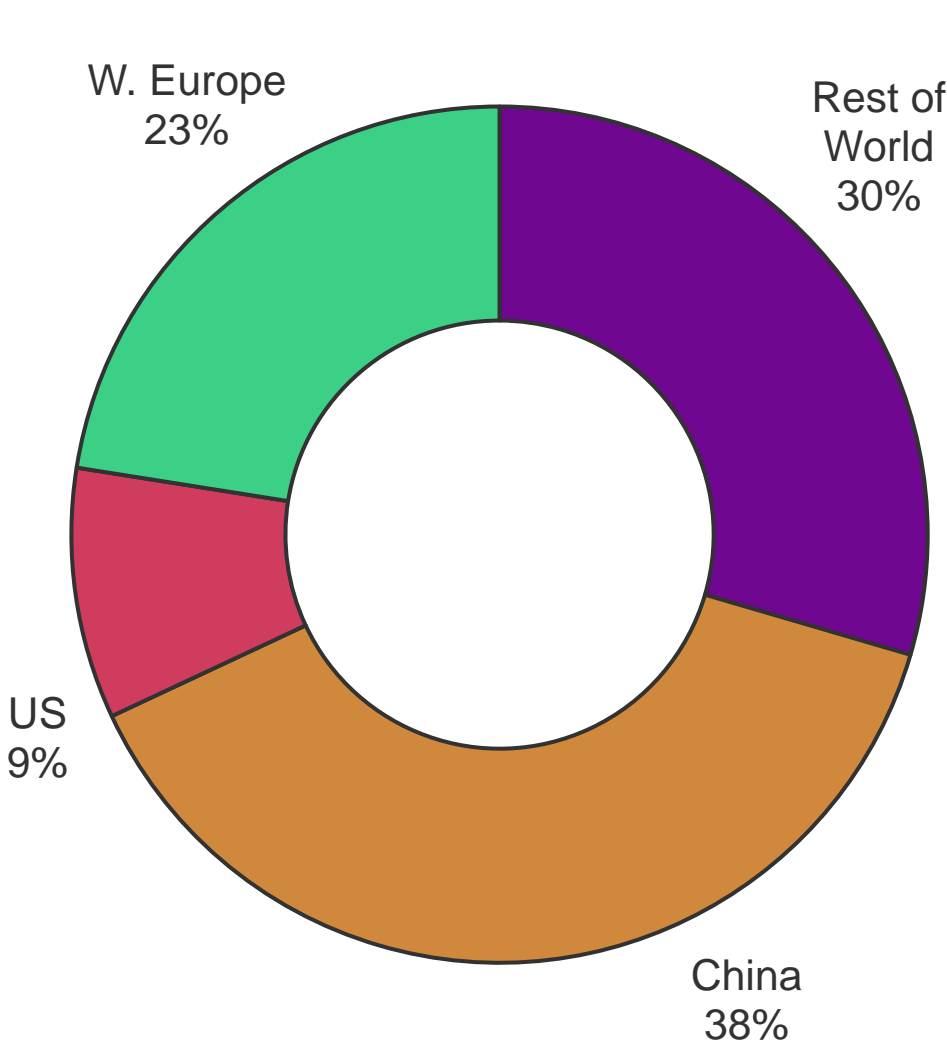


# Market pulp

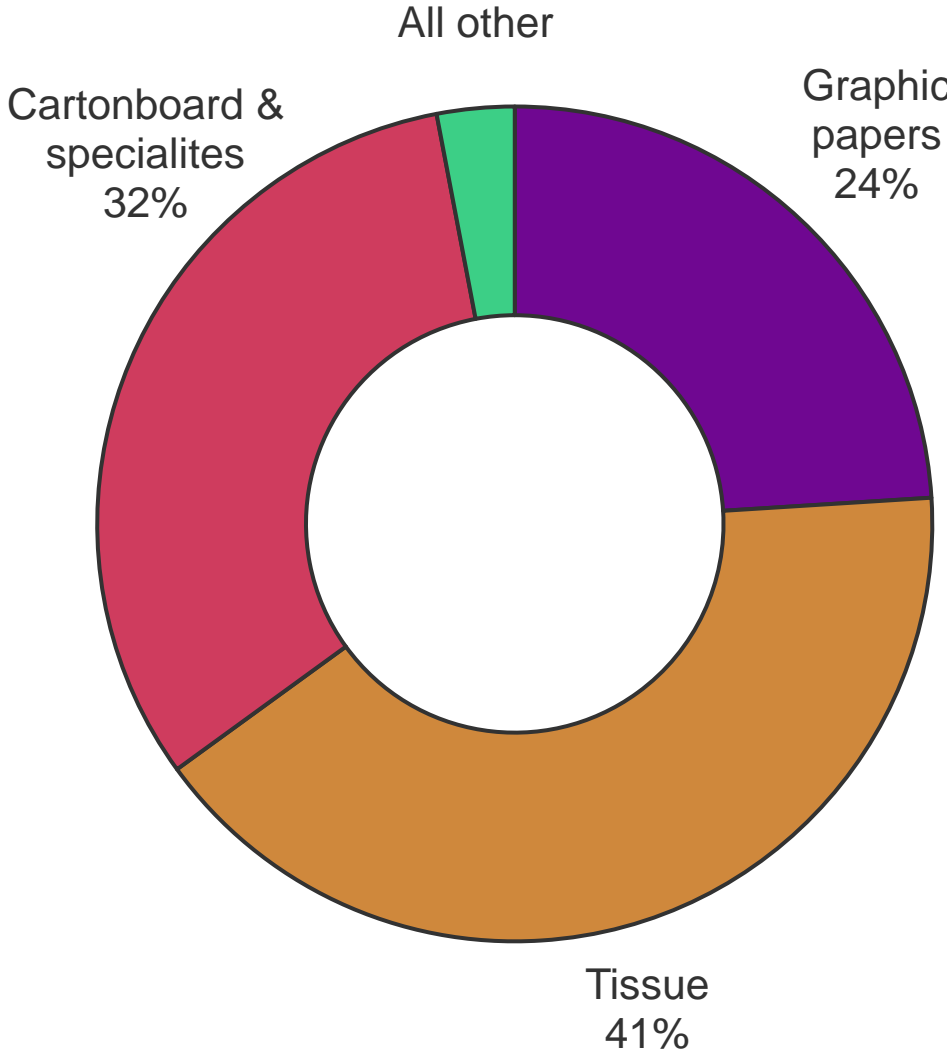


# Leading up to the current bull market, demand for market pulp was relatively strong

Regional share of market pulp demand, 2021



End-use share of market pulp demand, 2021



## Demand drivers

- Chinese economy is slowing due to acute challenges, various policies and structural shifts.
- Recovery in developed economies has run its course, and now inflation and the war in Ukraine are adding downside risks.
- Demand has recovered from the depths of the recession, but uncertainty around structural changes to consumer behavior remain.
- Demand for tissue is back on trend, the secular decline in graphic papers has reappeared, and cartonboard is supported by e-commerce and bans on single-use plastics.
- There is potential for demand destruction from steadily increasing product prices, weak demand in China due to lockdowns and lower consumption as inflation spirals upward.



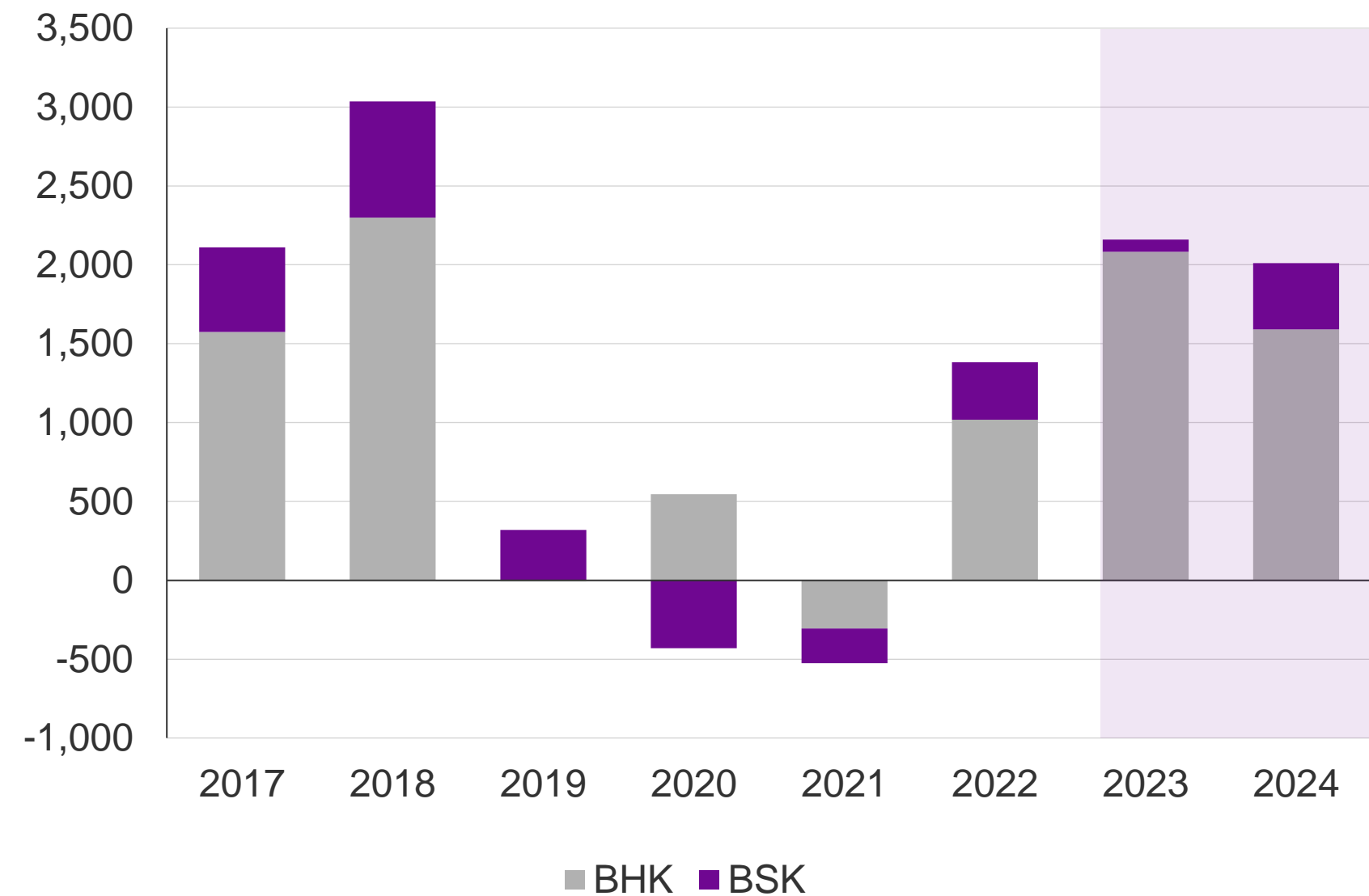
# The next wave of market pulp capacity expansion has arrived



## THREE MAJOR PROJECTS RAMPING UP OVER THE NEXT THREE QUARTERS

- Lack of planned projects, continued conversions to specialty grades and forward integration resulted in **limited capacity gains in 2019-21**.
- **Arauco MAPA** (1.56 million tonnes BEK) started ramping up in March, while the **UPM Paso de los Toros** mill (2.1 million tonnes BEK) started up in April, plans steep startup curve by 4Q23.
- The **Metsä Fiber Kemi** brownfield expansion in Finland will bring new supply of mostly NBSK with a net gain of 880,000 tonnes starting up in 3Q23.
- In Brazil, the **CMPC Guaíba** mill will expand its capacity by 350,000 tonnes of BEK by 4Q23, while the **Suzano Cerrado** greenfield mill will start up its 2.55-million-tonne BEK project in 2H24.

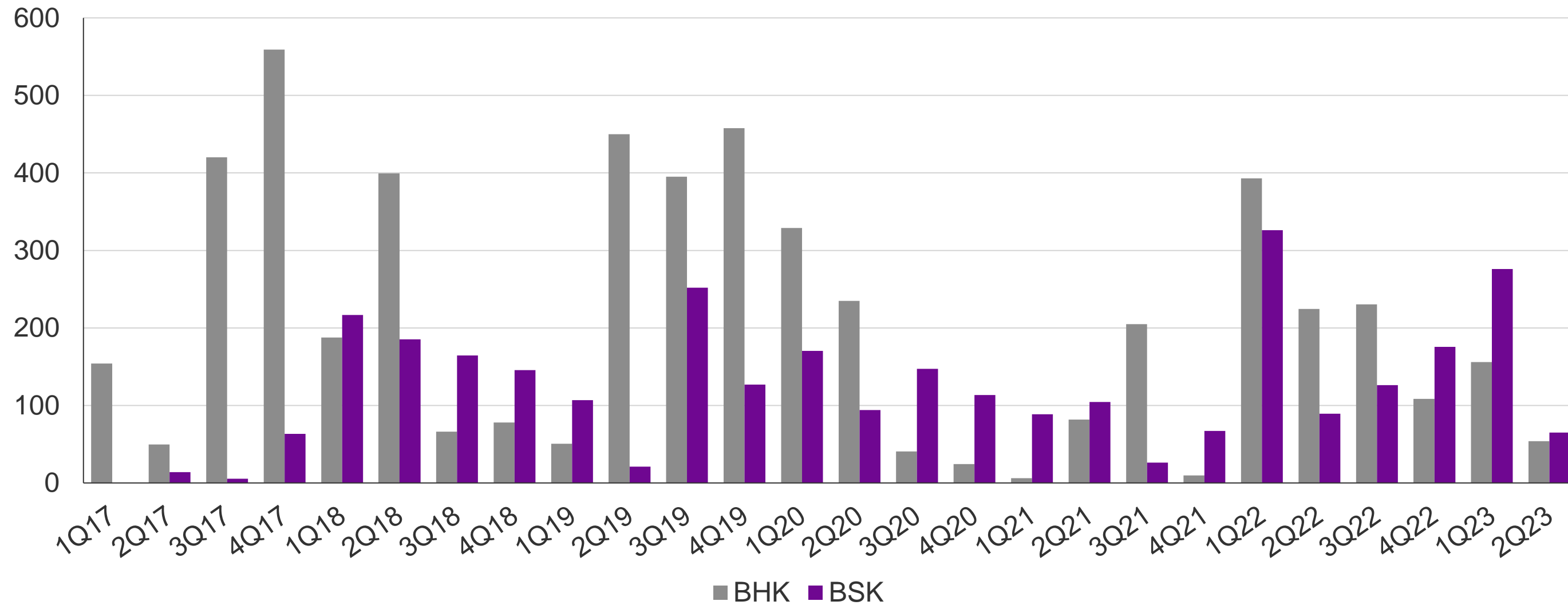
Incremental market pulp capacity expansion  
Thousand tonnes



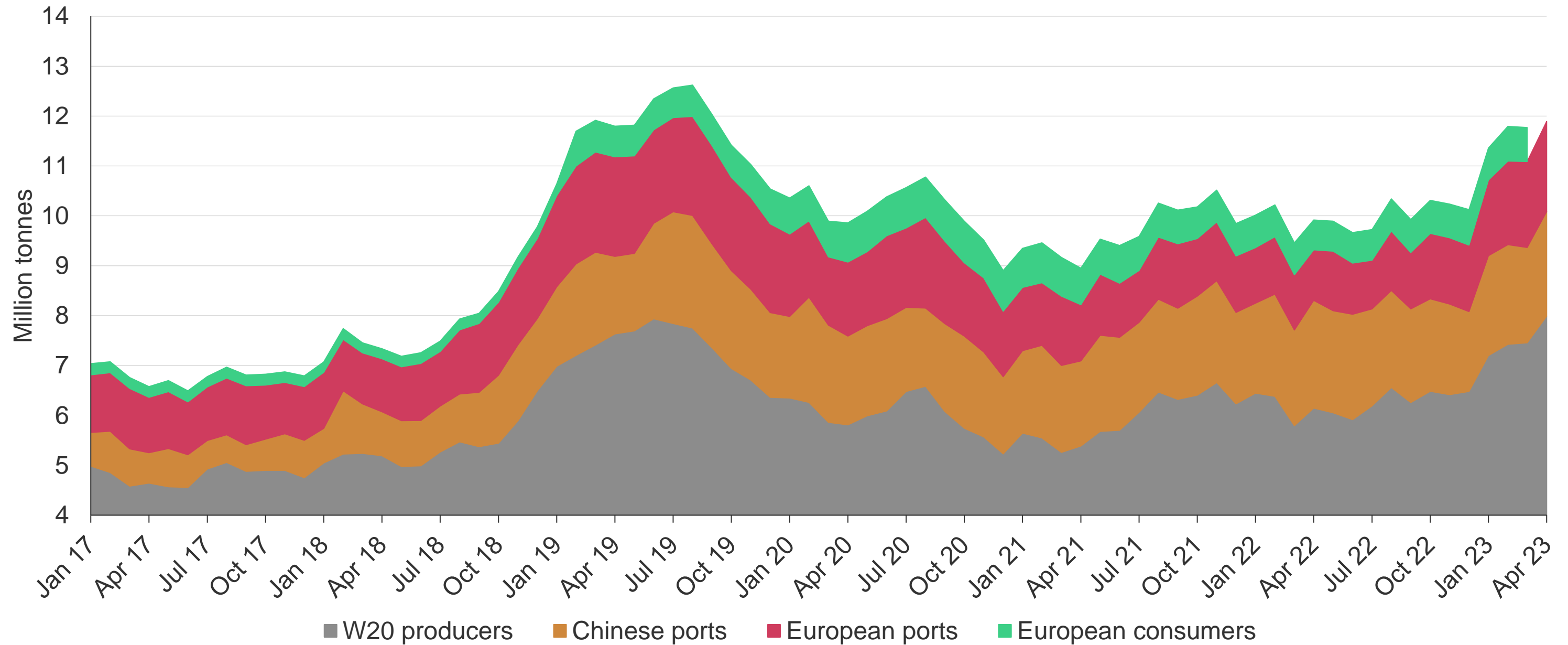
# Unexpected downtime (announced) slips in Q2



Unexpected downtime, thousand tonnes



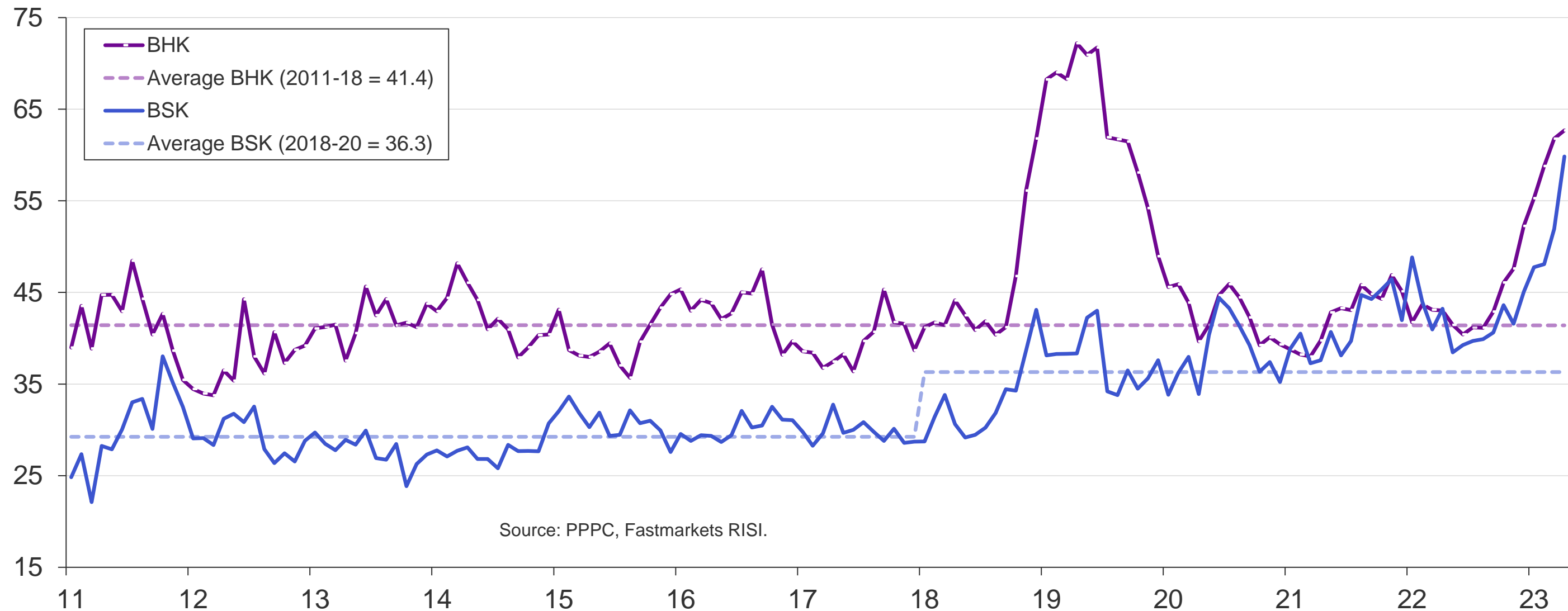
# Global pulp inventories exceed 12 million tonnes in April



# Days of Supply surge higher, BSK enters new territory

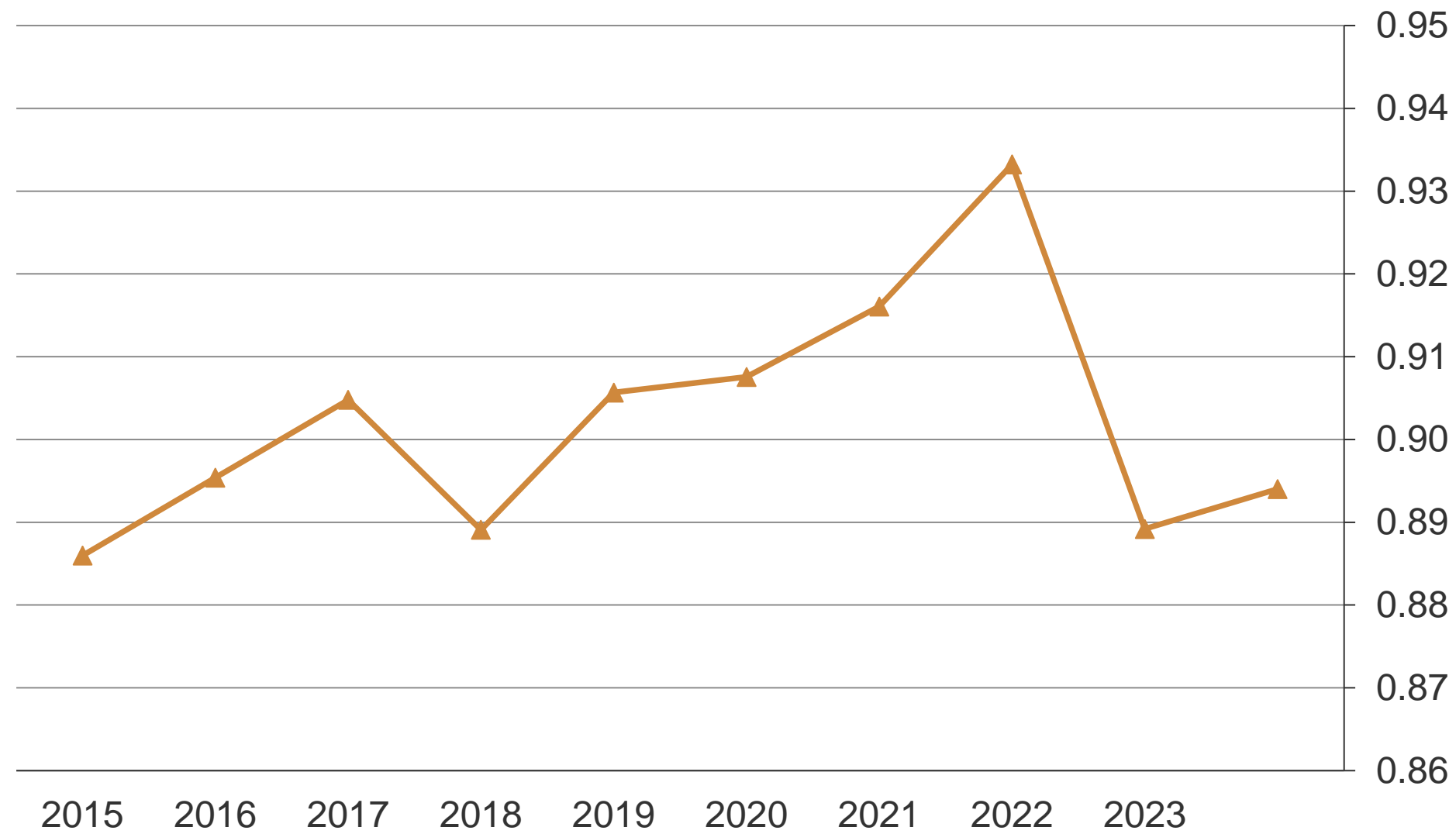


## Producer inventories, days of supply



Source: PPPC, Fastmarkets RISI.

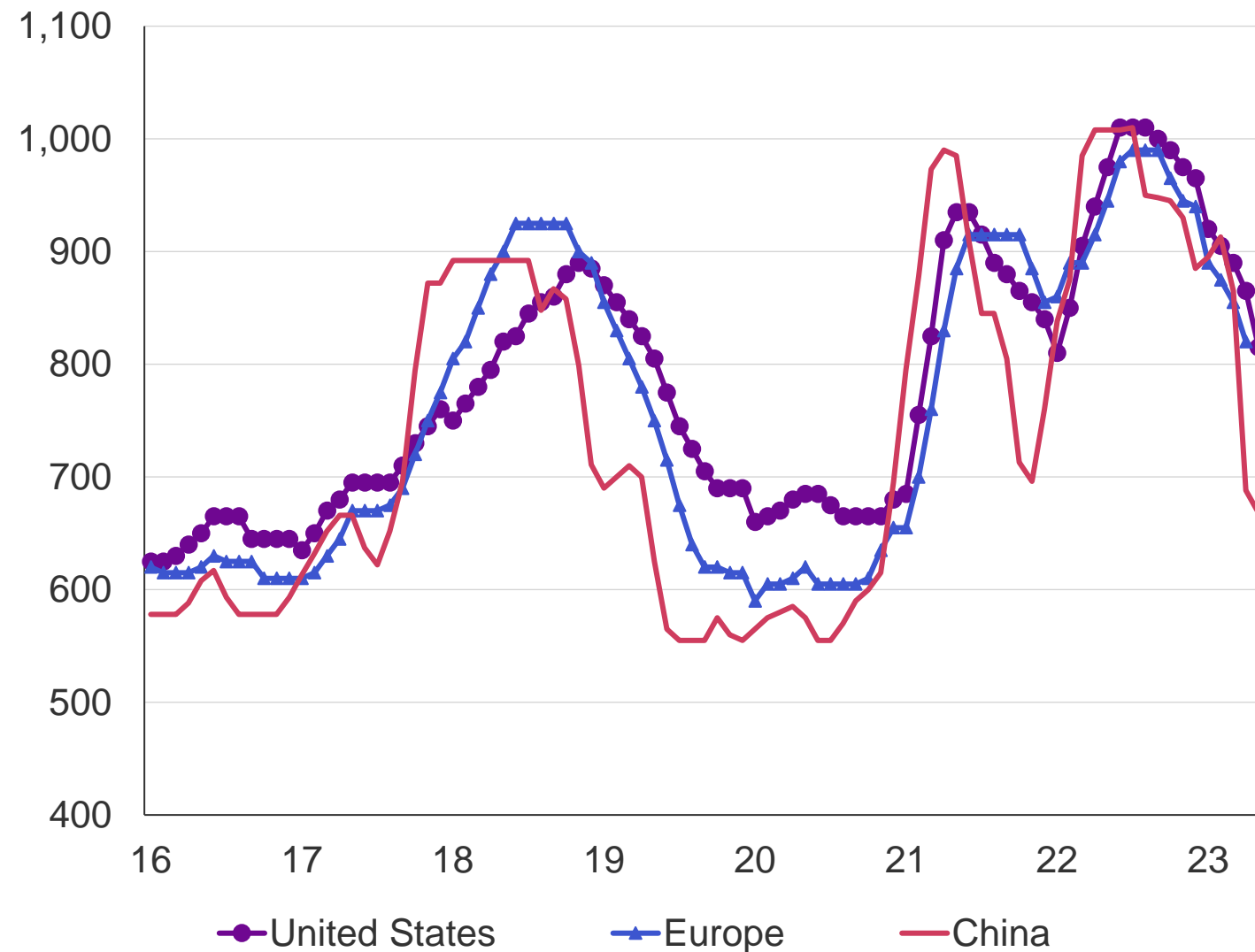
# World market pulp demand/supply ratio



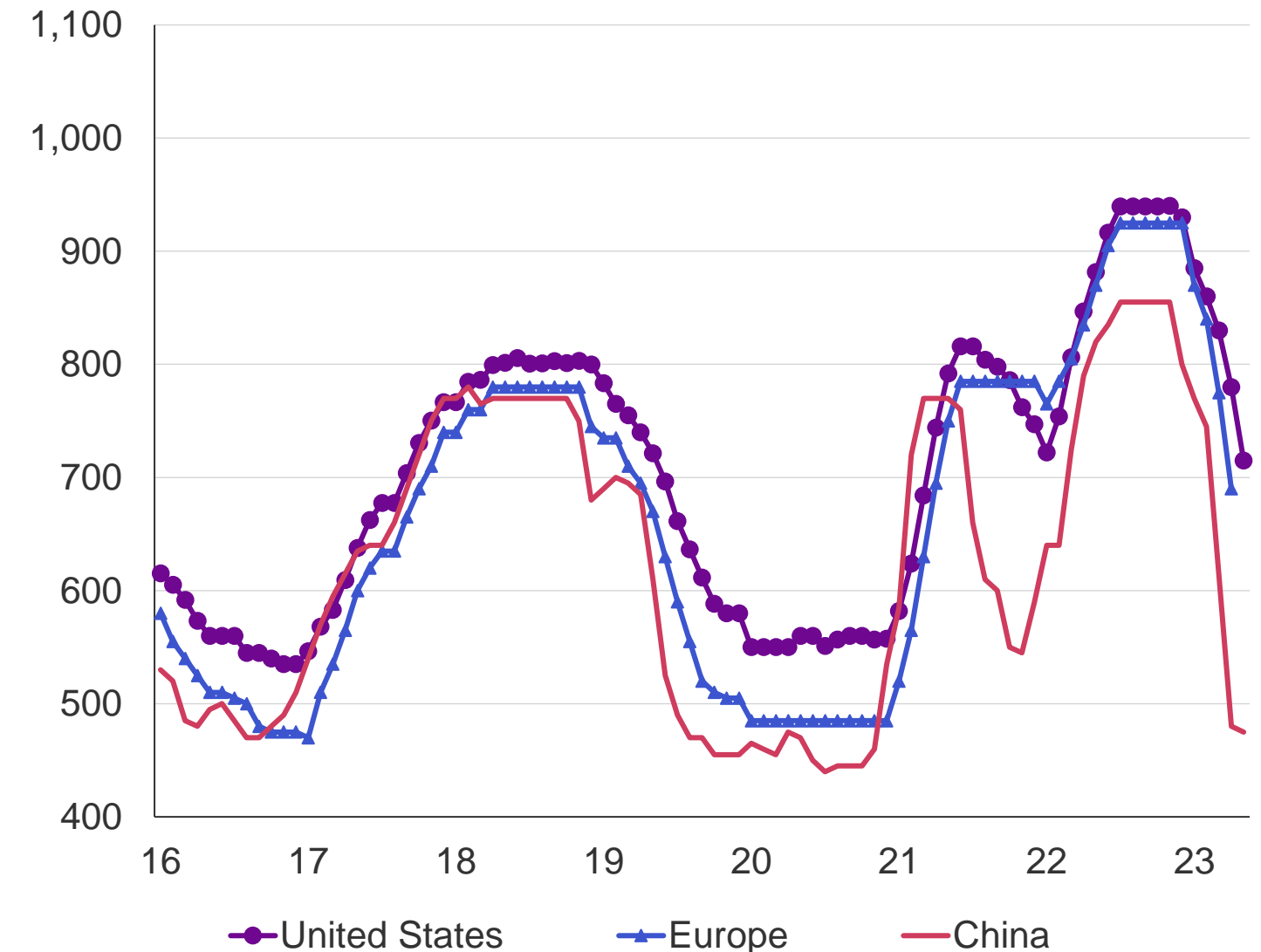
# Net prices in Europe and US feel drag from China collapse



**Net NBSK prices delivered to the United States, Europe and China**  
US dollars per tonne



**Net BEK prices delivered to the United States, Europe and China**  
US dollars per tonne





# Unprecedented ups and downs

Everyone's got a  
different story

## Thank you!