



AFVP
Divonne-les-Bains
Juin 2018

*Pierre Bach
Hawkins Wright Ltd
pierre.bach@hawkinswright.com*

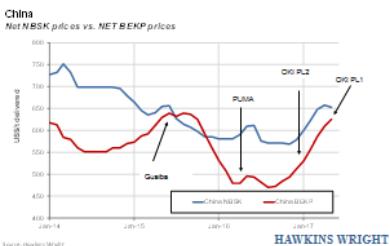
Vers une nouvelle donne pour les marchés de la pâte?

- La “nouvelle donne” en Chine?
- Les restrictions d’importations de RCF – quelles conséquences?
- Incertitude à court-terme: marges des papetiers sous pression
- Inflation à long-terme?

L'année dernière...

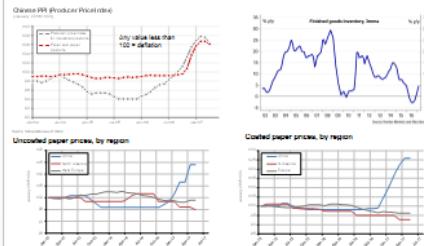


...With little warning of the imminent rally to come



HAWKINS WRIGHT

China buying cycle is a macro-economic phenomenon

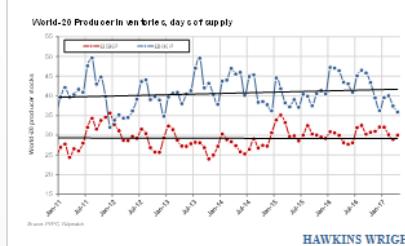


Chinese demand boomed from October to March



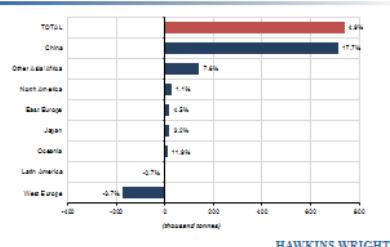
HAWKINS WRIGHT

Meanwhile, pulp supply remains very tight...



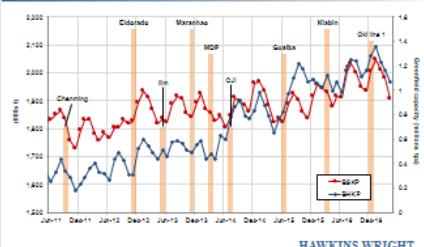
HAWKINS WRIGHT

W-20 BCP demand growth, 2017 v 2016
YTD, thousand tonnes and y-o-y%

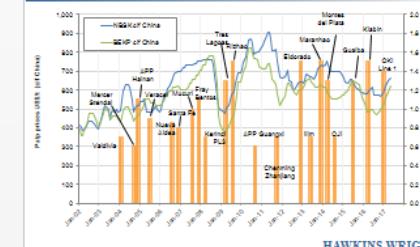


HAWKINS WRIGHT

BUT... new capacity does not mean...
More production!

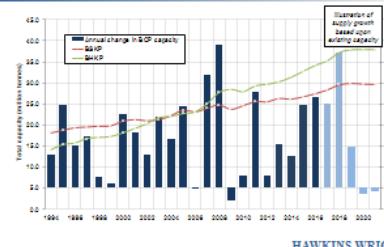


...new capacity does not mean...
Lower prices!



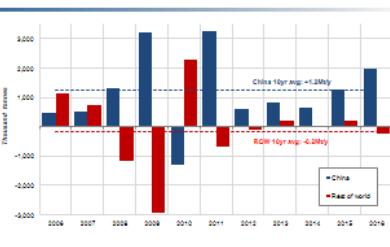
HAWKINS WRIGHT

Market pulp capacity growth
annual and cumulative



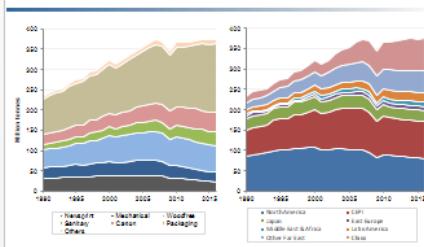
HAWKINS WRIGHT

Year-on-year growth in market pulp demand
China vs ROW



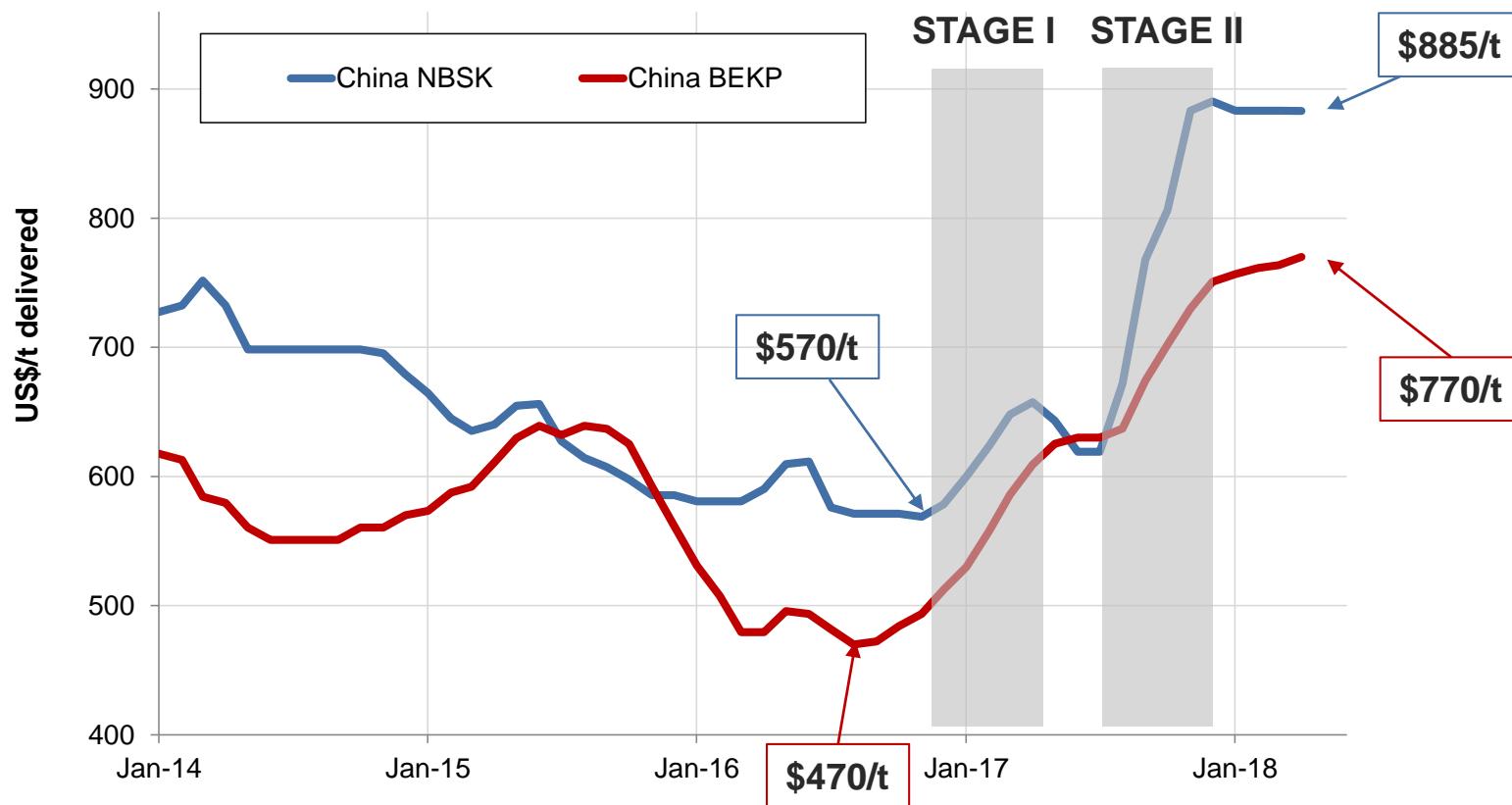
HAWKINS WRIGHT

Global P&B production
by region and by sector



HAWKINS WRIGHT

Prix Net BEKP et NBSK, CIF China (US\$/t)



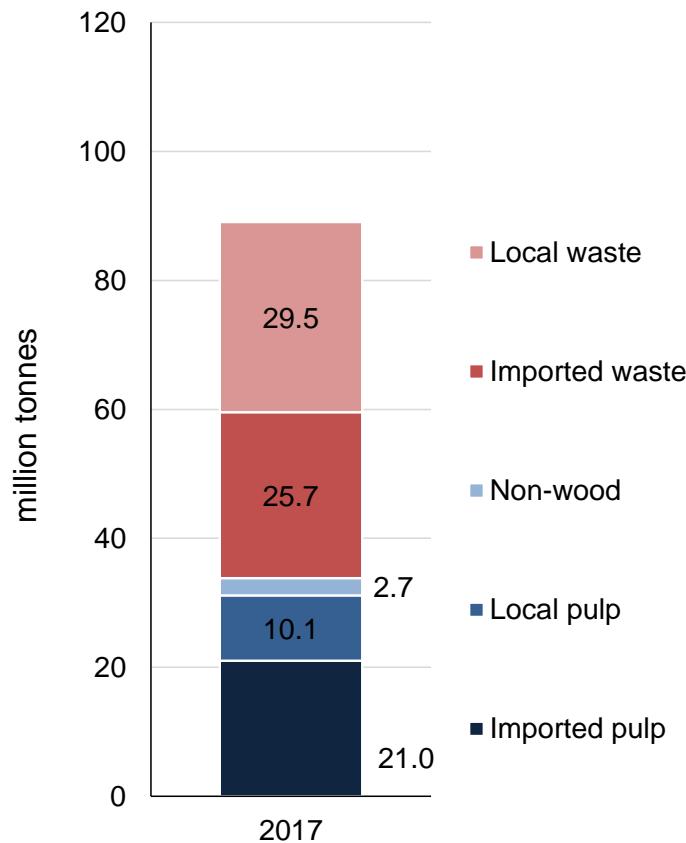
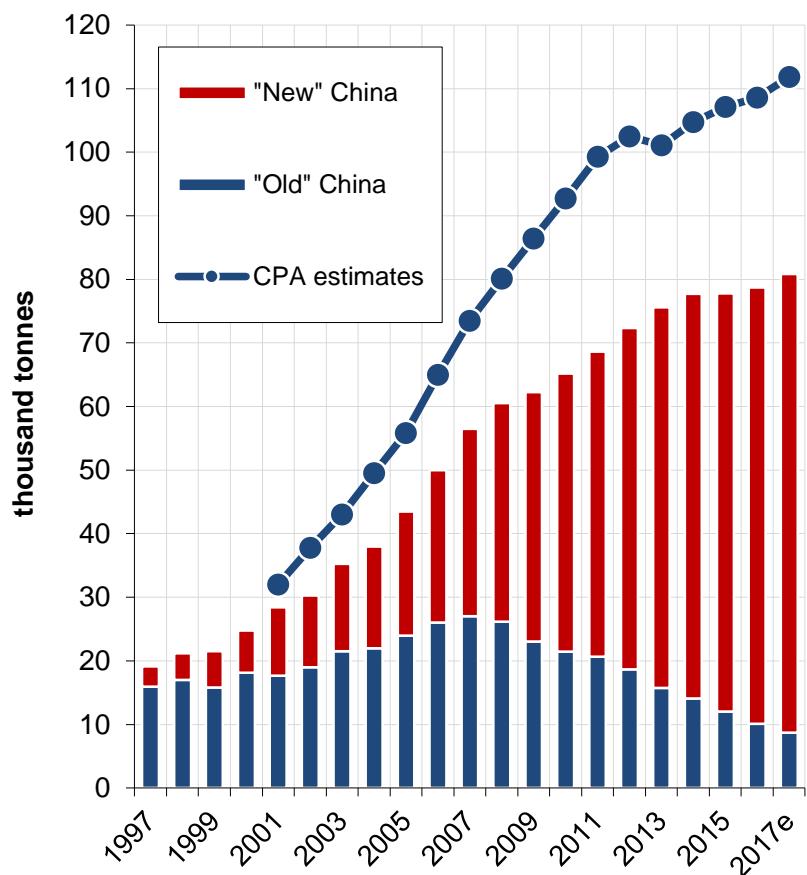
- Strong pulp price inflation since Q4 2016, defying the consensus view at the time
- Stage I: delayed OKI volumes & strong demand growth in China
- Stage II: ~1.5Mt's worth of unforeseen outages & Chinese RCF import restrictions
- Flat BSKP prices since December 2017, only minor upticks in BHKP...

HAWKINS WRIGHT

La “nouvelle donne” en Chine?



Production Papier/Carton en Chine ... et consommation de fibre

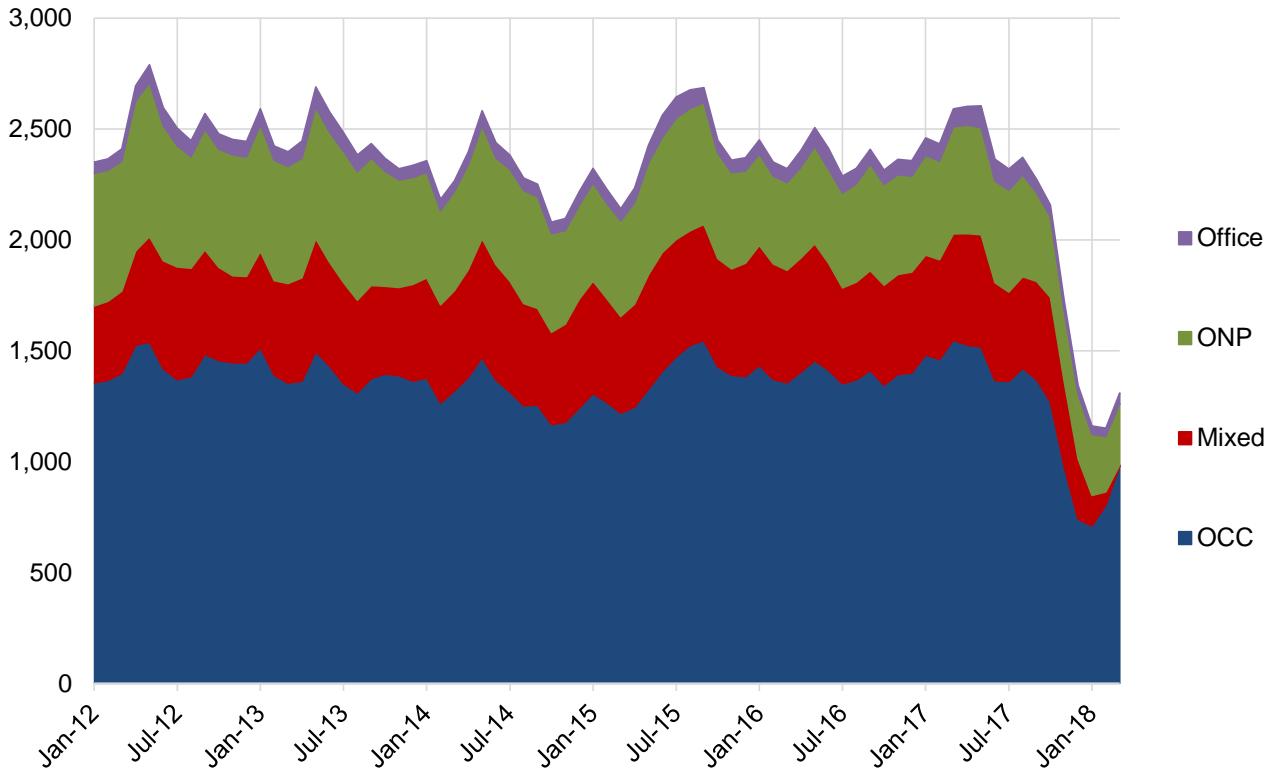


Source: Defining the Chinese market for pulp, paper & board,
(Hawkins Wright)

HAWKINS WRIGHT

Importation Chinoise de vieux papier (RCF)

(en milliers de tonnes, 3mma)



Source: China customs

- Wastepaper imports totalled 14.9Mt in H117, and 10.8Mt in H217...now 3.9Mt in Q118
- On trend for 17-20Mt this year? Potential 10Mt fibre deficit?
- 9.5Mt's worth of import licences issued thus far this year

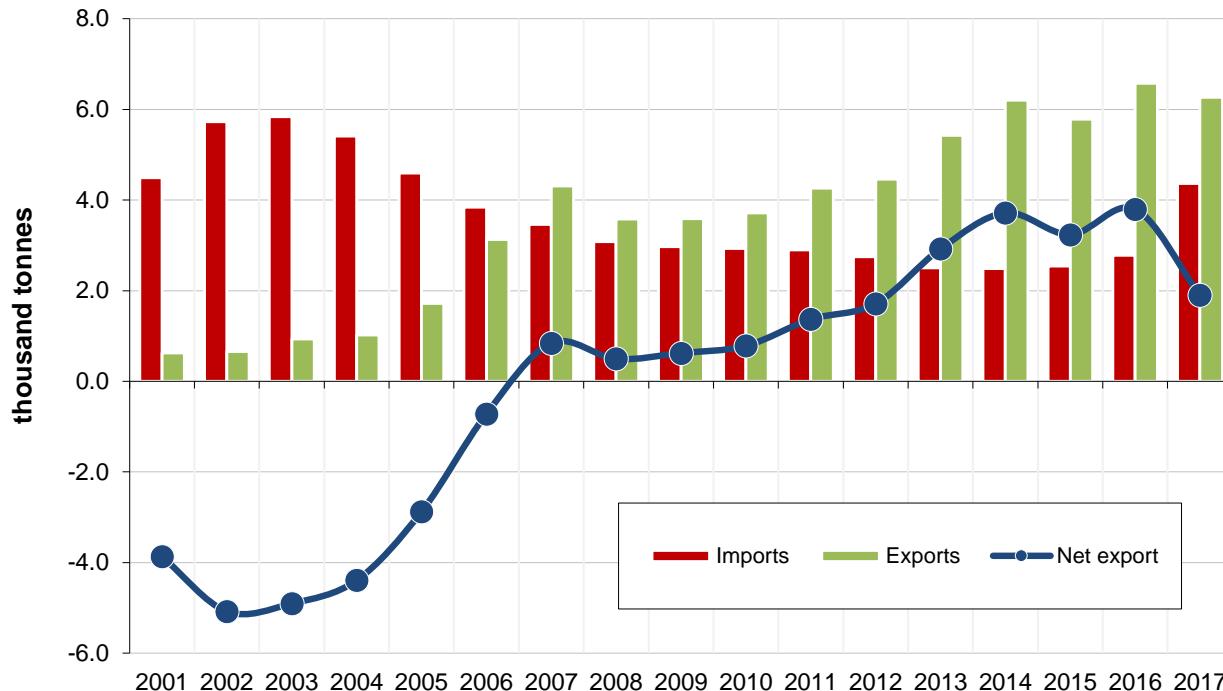
HAWKINS WRIGHT



Conséquences multiples

- Local RCF collection will accelerate
- Further consolidation in Chinese paper industry – New China v Old China
- **Lower production of P&B**
- **Trade rebalancing**

China's trade balance (unconverted P&B)

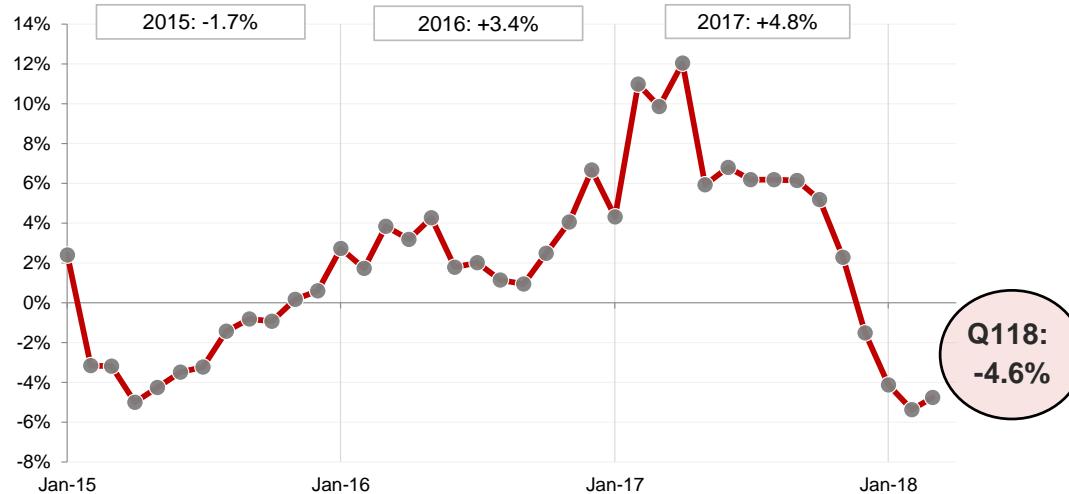


Source: Chinese customs

HAWKINS WRIGHT

Chinese output of machine made paper and board

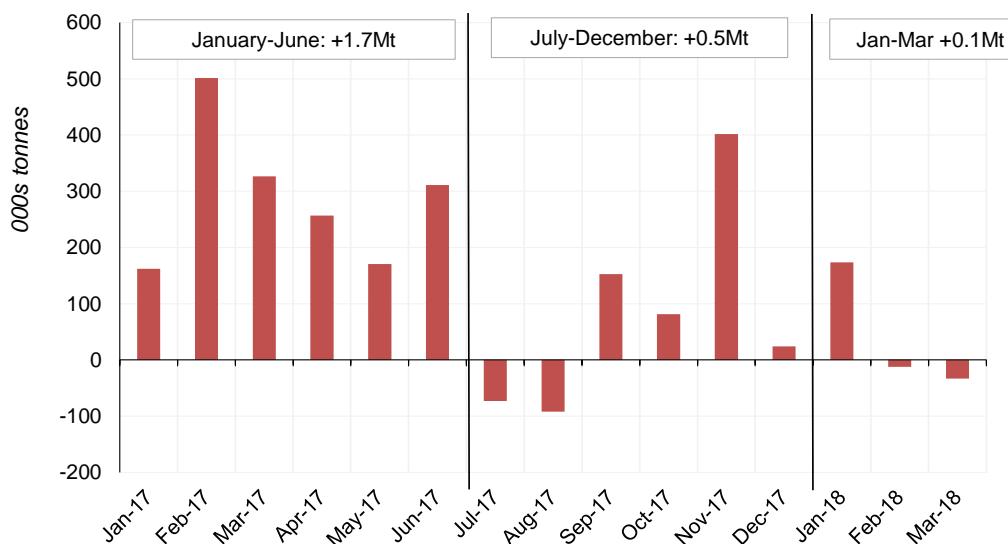
Y-o-y % change (3 month moving average)



Source: National Bureau of Stats

Chinese imports of BCP by month, 2017-present

(Y-o-y change in 000s tonnes)



Source: Chinese customs data

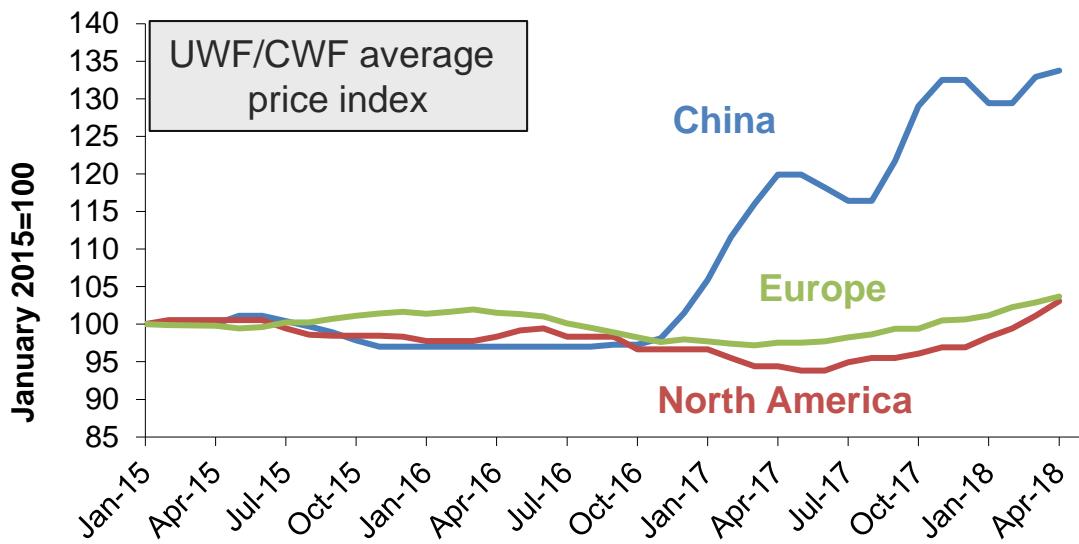
Le marché chinois



- Chinese pulp prices peaked six months ago
 - ROW just catching up this month
- Paper curtailment in packaging has caused BCTMP prices to fall since March
- Fine paper prices took a hit in May, and producers are now taking downtime...
- No growth in pulp imports since November, despite the lack of recovered fibre

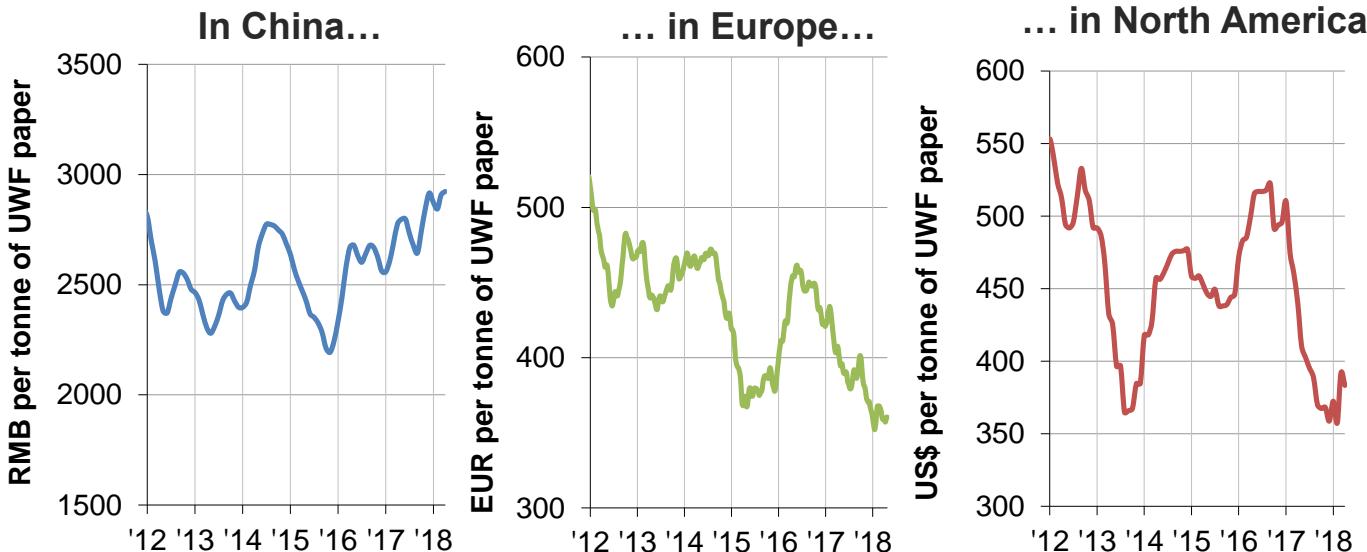
HAWKINS WRIGHT

Pression sur les marges des papetiers, vers une convergence des prix?



- As China repatriates their exports domestically, prices elsewhere are starting to rise
- In North America and Europe, prices only gained momentum in Q2 this year, and gains remain modest so far
- Margins have deteriorated everywhere except in China, reaching historical lows in Europe & North America

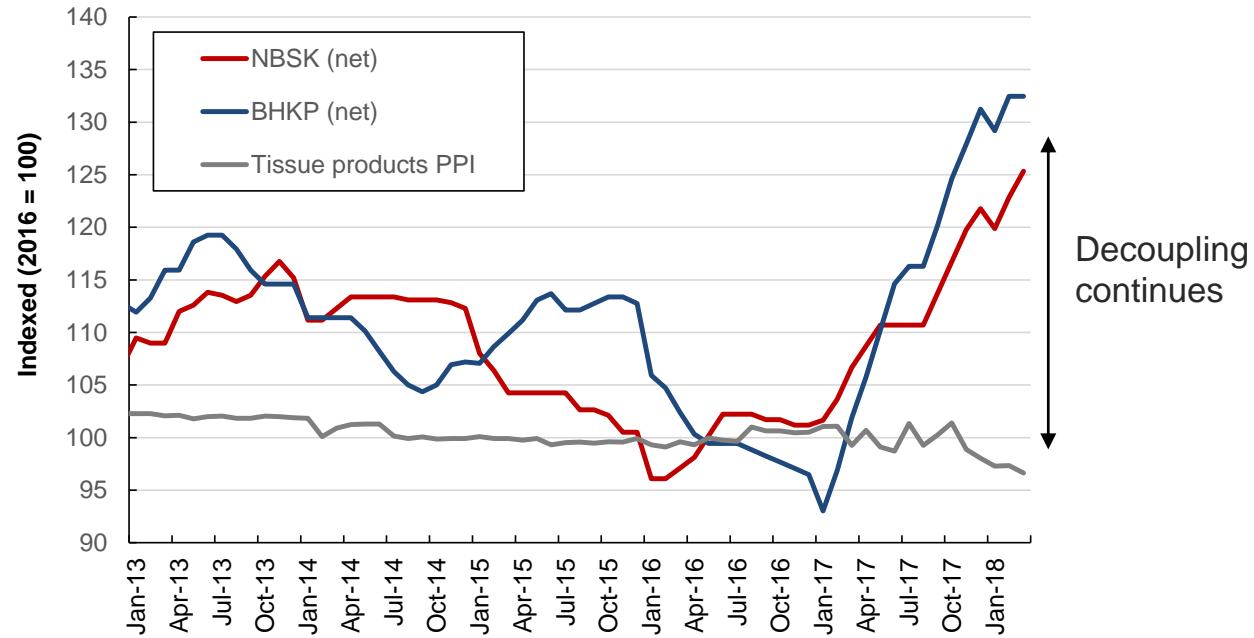
Papermakers'
converting
margins:





Situation critique notamment pour le secteur tissu

US tissue price index vs net pulp prices



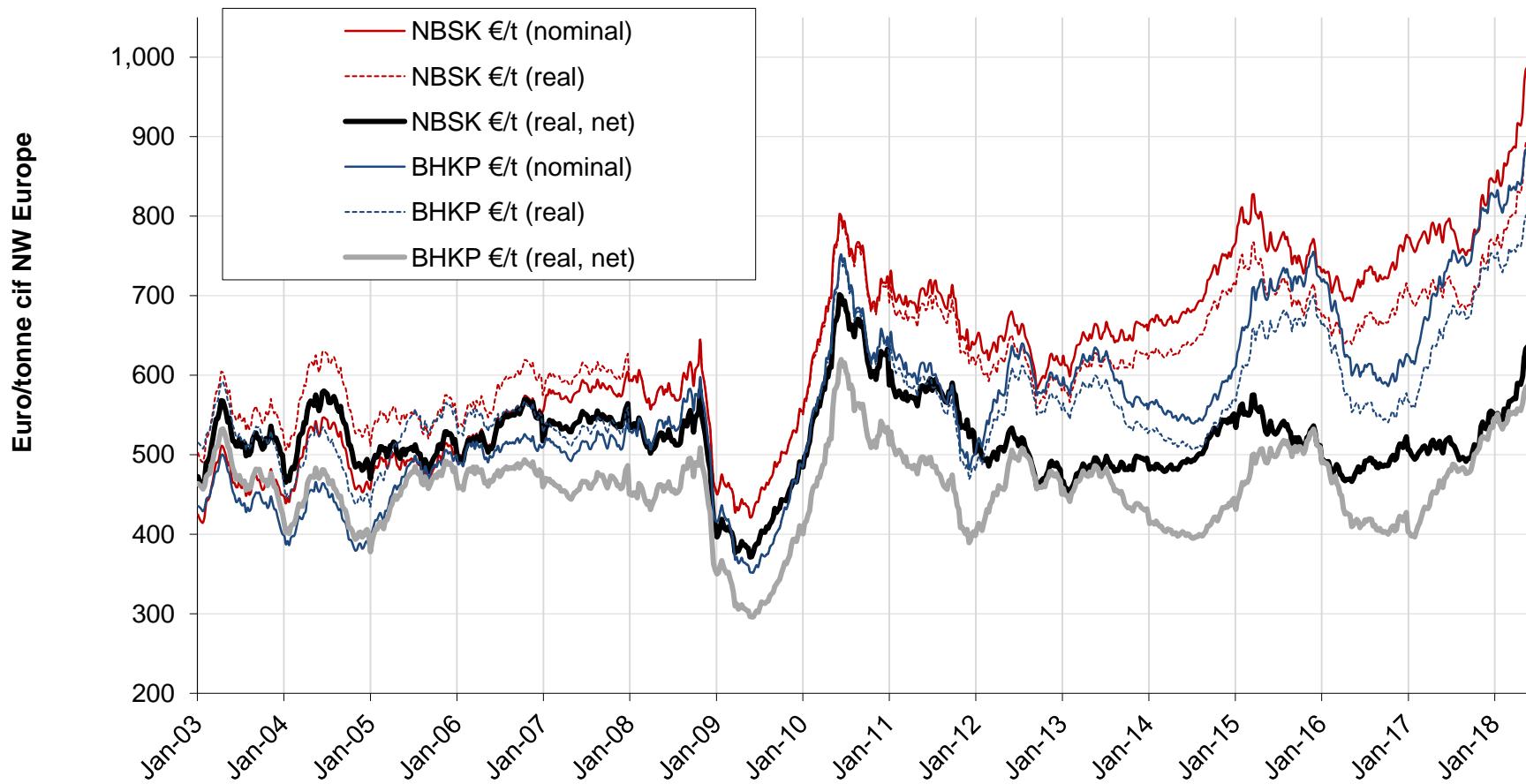
Source: Hawkins Wright, US bureau of Labor stats

- Tissue & fluff sectors now account for 47% of kraft pulp demand, compared to 36% in 2010

Les prix en Europe: le nominal vs le réel et le net

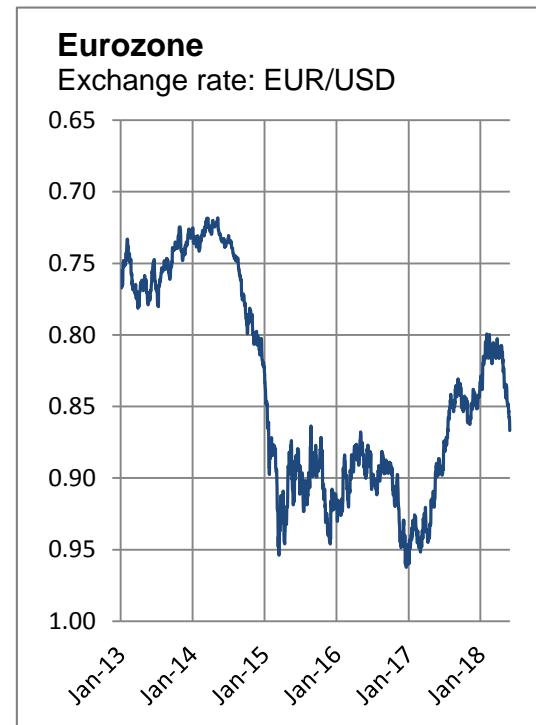
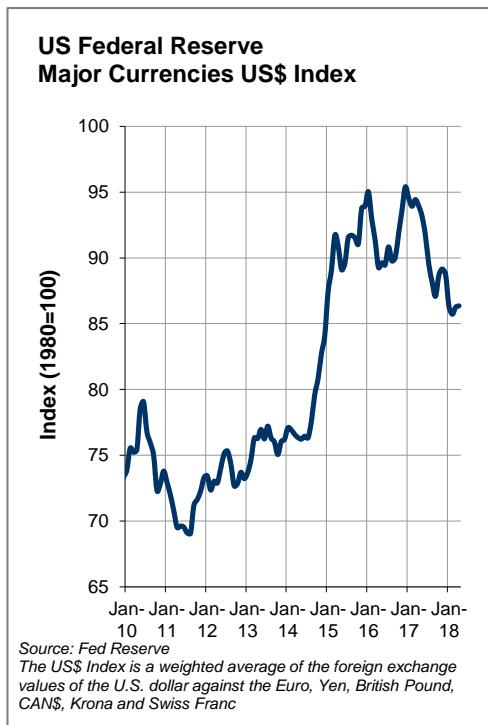


PIX indices for NBSK and BHKP, in € - nominal v real prices



HAWKINS WRIGHT

Mais la macro a son importance...



Source: Federal Reserve, Google Finance, Hawkins Wright

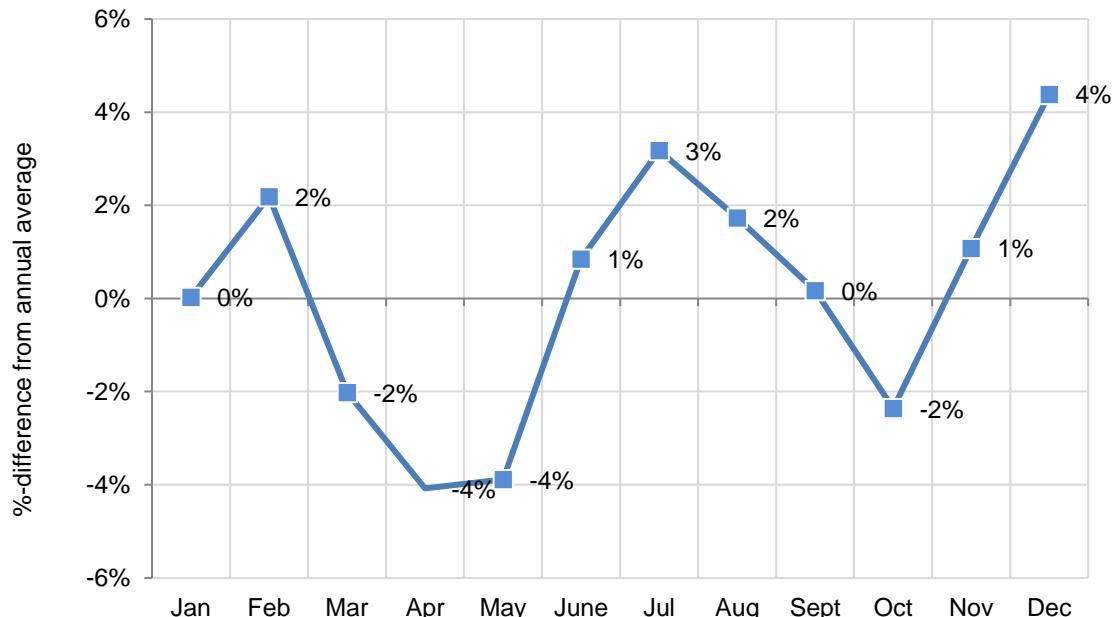
- US\$ weakness facilitating higher pulp prices
- Presents both upside and downside risks, especially given how supportive macro-economic tailwinds have been through 2017...

HAWKINS WRIGHT

...ainsi que la saisonalité.



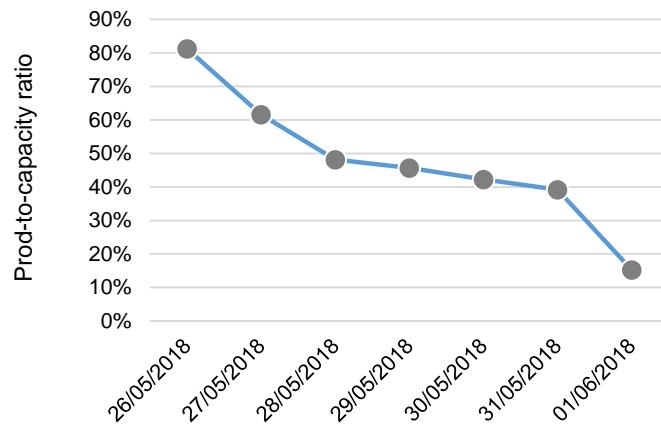
World-20 ten-year average supply, %difference from annual avg



Source: Hawkins Wright

- Seasonal weakness in supply supplemented by: Klabin, Scandinavia (pulpwood shortage), APP + others
- Supply to surge higher during June/July? Additional support from Chenming's new lines in Q3? SCA Ostrand?
- **Truckers' strike in Brazil to remove >0.3Mt of supply?**

Assumed OR for BEKP mills in Brazil (market pulp only)



HAWKINS WRIGHT

Incertitude sur le court-terme, mais pour le moyen/long-terme, la tendance reste inflationnaire



Court terme:

- + macro-economy, stocks, problèmes de production (météo, mécanique, grève...) inflation des prix du papier en Chine...
- cyclicalité, pression sur les marges, nouvelle capacités, coûts de production bas, dollar US en hausse?...

Long terme:

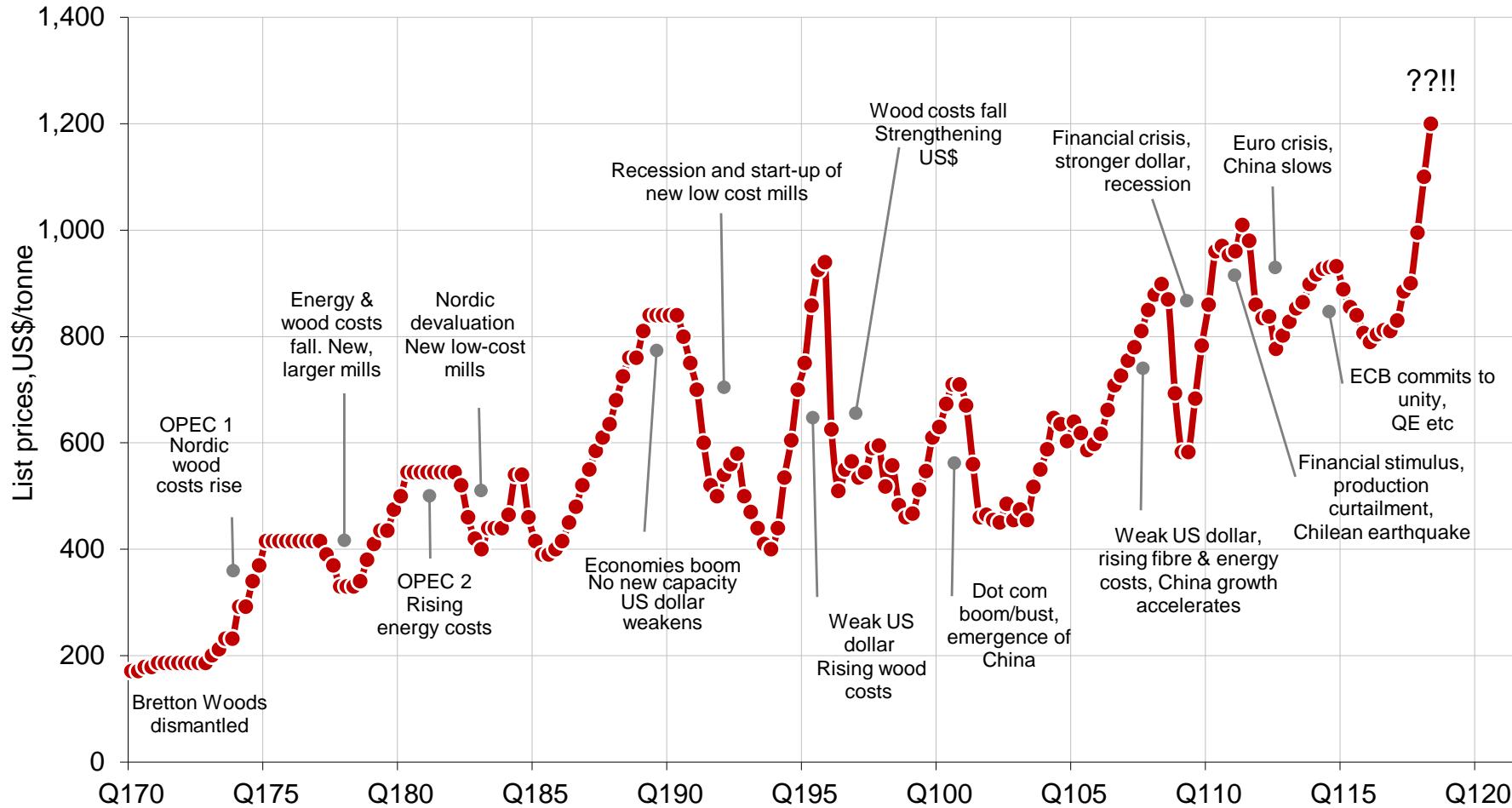
- Aucune nouvelle capacité confirmée au-delà de 2018
- Consolidation (Eldorado/PE, Fibria/Suzano, Lwarcel/APRIL)
- Manque de fibres en Asie, et ailleurs?
- “Peak RCF”, & la guerre contre le plastic
- “Peak cotton” & le boom viscose

La majorité des risques déflationnaires sont en dehors de notre contrôle (e.g. économie Chinoise, tensions géopolitiques, niveau de la dette...)

- Le cycle inflationnaire Chinois ne se répétera pas!

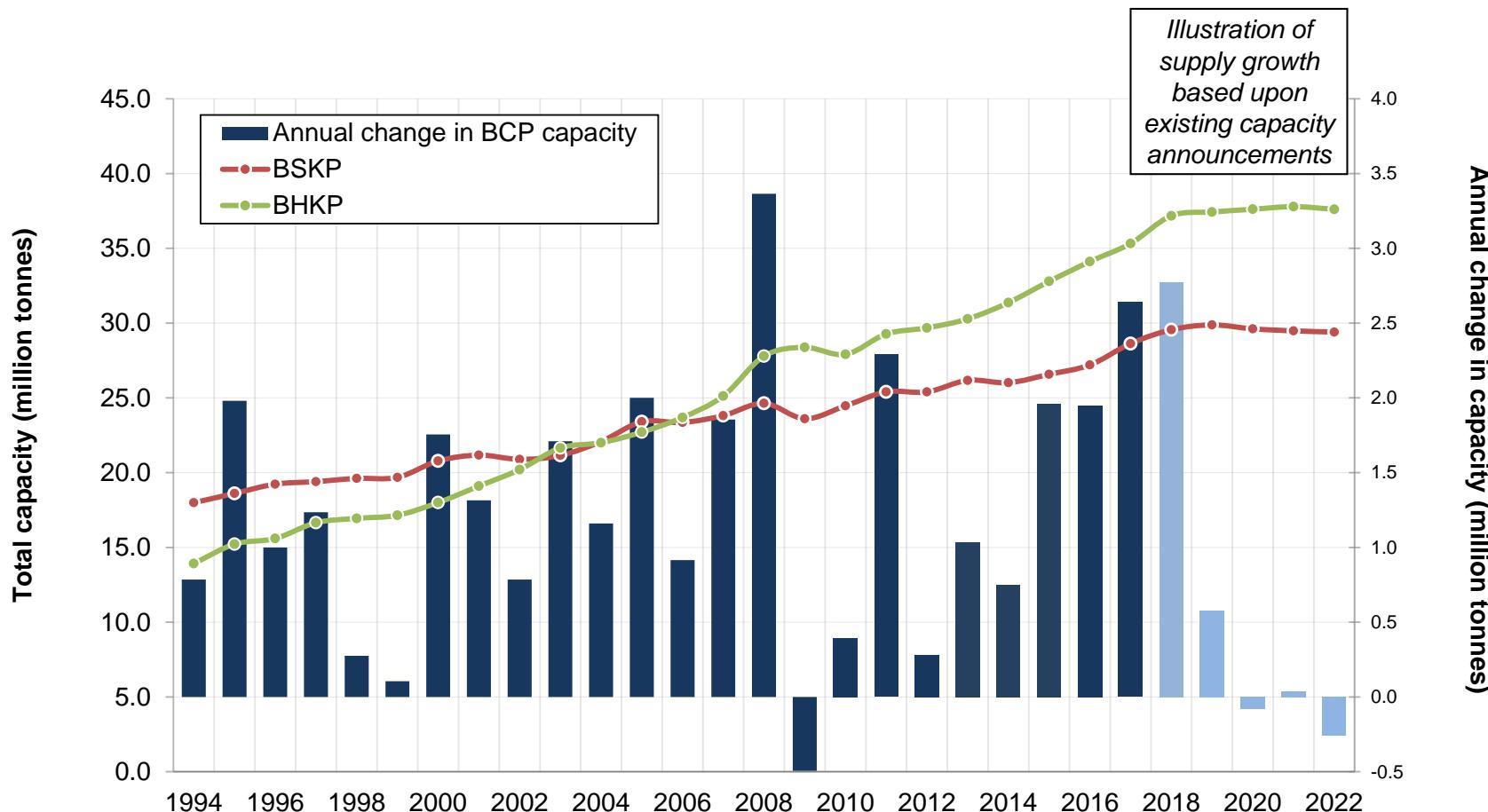
Quarterly NBSK prices

cif Europe, nominal



HAWKINS WRIGHT

Aucune nouvelle capacité au-delà de 2018



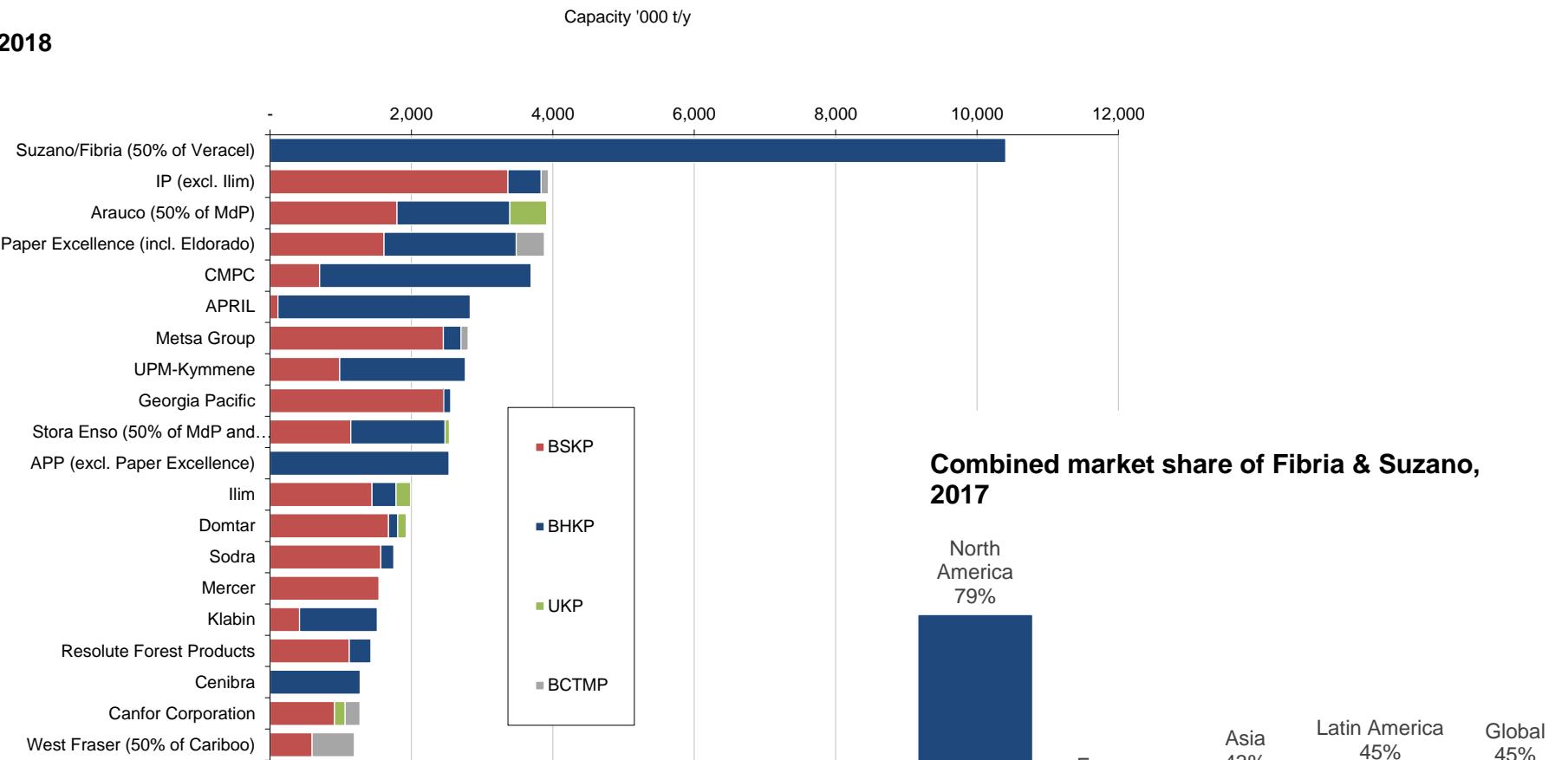
Source: Hawkins Wright

HAWKINS WRIGHT



Consolidation

2018



NewCo (Suzano & Fibria). 2018

16% of BCP mkt

28% of BHKP mkt

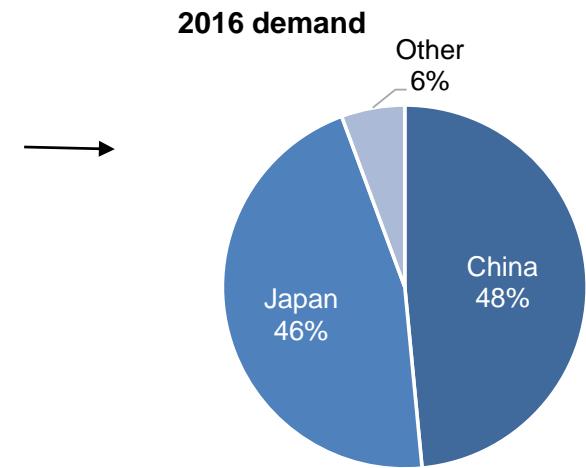
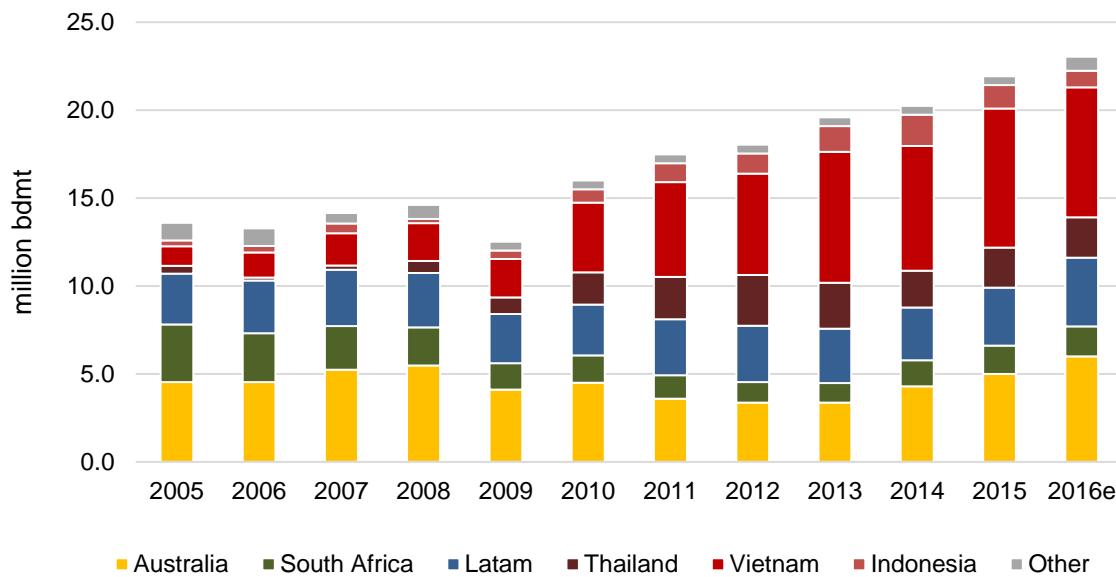
42% of BEKP mkt



Manque de fibre en Asie... et ailleurs?

South East Asian woodchip supply

By country of origin, 2005-2016



Source: Hawkins Wright

Major supply trends:

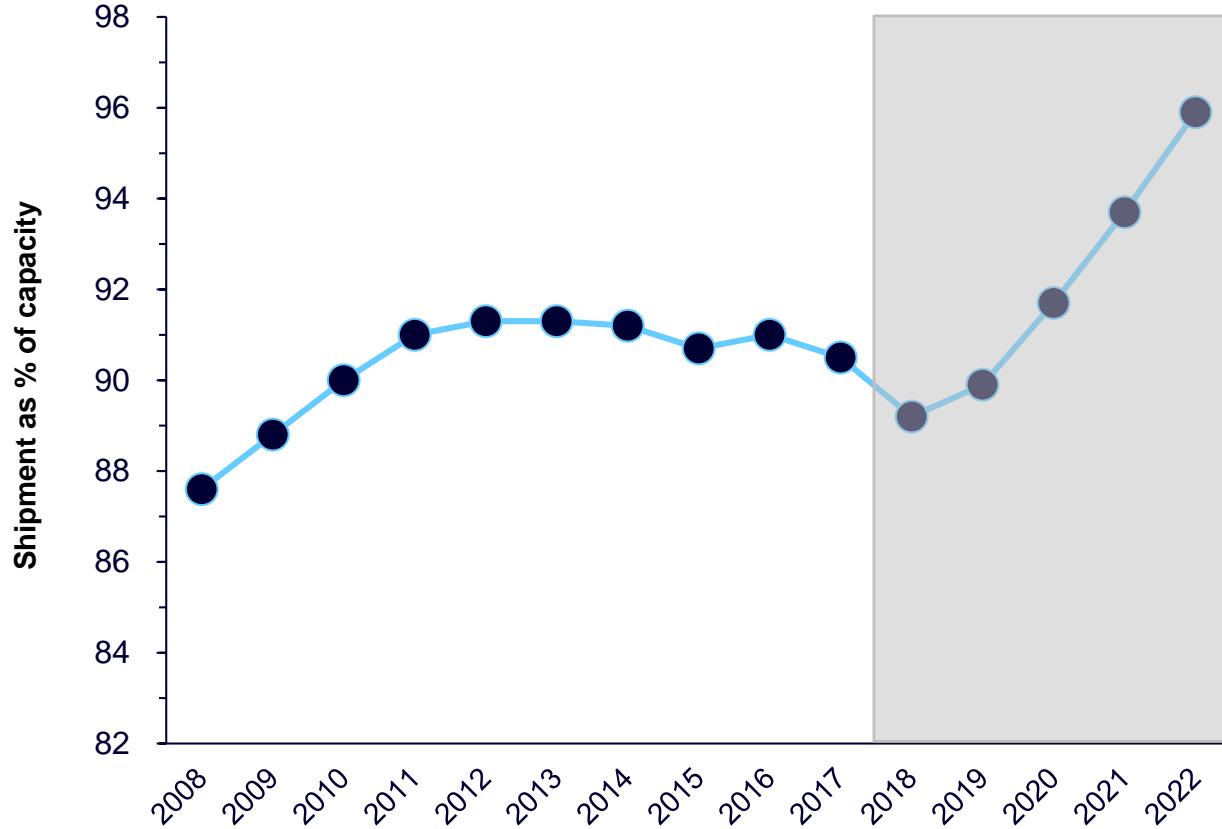
Vietnam & Thailand: likely to remain stable, at best

Australia: forecast to decline by as much as 30% post 2020 as substantial land areas returned to agriculture

Latam: new pulp mills in Uruguay and Chile will restrict export availability

HAWKINS WRIGHT

Equilibre offre/demande théorique toutes pâtes confondues, 2008-2022



- This is first time in more than 15 years where investment in new capacity appears slower than “trend” demand
- BUT this is NOT a forecast! Price mechanism always influences supply and demand to restore balance.

Source: Hawkins Wright

Includes all chemical pulps (BCP, UKP and dissolving wood pulp)

HAWKINS WRIGHT