The pulp market has really been a mixed bag in recent months. Overall demand has been increasing, but growth varies widely worldwide. Pricing has similarly varied widely by grade and region. For example, softwood pricing has been steadier in North America although it has slipped a bit this year, while softwood spot prices in Asia fell considerably for several months before flattening out this past summer. Recently, however, prices began a more widespread slide in North America and overseas for both softwood and hardwood grades. The question is whether they continue to fall or whether it’s just a short term blip.

As noted, while demand for market pulp has continued to grow on a global basis, growth has varied widely by region, and it has been considerably stronger for hardwood than softwood. In 2014, market pulp world shipments grew 2% to 45.5 million tonnes. Shipments to N.A. fell 0.2% while shipments to Europe grew modestly, rising 0.7% to 14.3 million tonnes. Shipments to China posted a 2.5% gain to 10.7 million tons. Shipments to other regions rose 4.8% to 12.8 million tons. At the end of 2014, inventories stood at 34 days or supply for all grades.

This trend has continued into 2015, driven by growing world demand for both long and short fiber for use in tissue and printing and writing grades. Tissue has become one of the largest markets globally and has been a key factor sustaining market pulp demand growth in emerging markets such as China. Printing and writing demand has continued to contract in North America and Europe, but in other regions

Exchange Rates and Sluggish Demand Drive Dip In Pulp Prices

A sluggish global economy coupled with the continued strength of the U.S. dollar is contributing to the subdued short term outlook for and recent drop in pulp prices. However, while prices may remain weak into early 2016, limited capacity growth coupled with rising demand could set the stage for a rebound in prices next year.

By Harold M. Cody

Global chemical pulp demand is up 4% through the third quarter of 2015 with softwood shipments up 1% and hardwood up 7%.
these grades continue to grow. Global chemical pulp demand is up 4% through the third quarter of 2015 with softwood shipments up 1% and hardwood up 7%. Chinese demand is up 13%.

The concern going forward is the direction of a sluggish world economy and fears it could drag down pulp demand. After a slow start the US economy picked up a bit in the second quarter, giving the first half of the year a solid, but certainly not stellar, annualized growth rate of 2.3 percent — only slightly below the 2.4% rate in 2014. However, weakness continued in several sectors and the trade balance shifted to favor imports owing to the strength of the US dollar. The European economy appears to actually be in decent shape overall but there are worrisome concerns about the impact of a large surge of immigrants and continued problems in areas such as Greece.

Certainly, China is the biggest unknown. In both the first and second quarters, real GDP was up 7.0 percent from a year earlier — the slowest rate of growth since 2009 — which sent shivers through the global economy. In addition, industrial production has been rising at a low rate not seen since 2009. Exports have declined in part due to weak global demand, but also due to exchange rates as the dollar’s rise have sent the renminbi soaring against the euro and the Japanese yen.

As noted, prices have been weak particularly since mid-summer of this year. NBSK prices have fallen considerably in Asia where they are down from the $750 level posted early this year to $650 or lower recently, while North American NBSK list prices fell in early November for the first time in several months to the mid $950s range after riding at over $1,000 for most of 2014 and about $980 in the first half of the year. Hardwood has been a different story as prices improved in the first half of 2015 from low levels reached last fall before they dipped in most regions over the late summer and fall.

The weakness in price, however, isn’t solely demand or supply driven; rather it’s in part in response to a huge swing over the last year in exchange rates. The strong US dollar has become a key factor for all commodities including market pulp. Both the Euro and Canadian dollar and other currencies have fallen 20-25% from peak levels reached in early 2014 and this has made mills in Canada and other regions very competitive as pulp is priced in dollars. It’s also significantly raised local currency prices for pulp. However, some of this pressure may have eased, or at least hasn’t gotten any worse. After falling steadily for several months last year from a level of about 1.4 USD/Euro in early 2014, the Euro has stabilized in recent months at about 1.10. The Canadian dollar has remained very low at about $0.75 to $0.77 since July and has continued to lag year ago levels. Exchange rates have also changed the competitive landscape a bit by putting U.S. mills at a disadvantage.

CAPACITY-GROWTH

Capacity growth is another factor that’s been a concern, mainly for hardwood pulps, since softwood capacity is flat by comparison. Hardwood capacity is growing most notably for BEK in South America. In fact, in early 2015 there were fears this new capacity would undermine prices more significantly. As noted, hardwood prices did fall last year, but in early 2015 they recovered. The recent weakness has been modest and thus the capacity has apparently come onto the market more slowly than first envisioned, including CMPC’s 1.3 million tpy mill in Brazil that started up this past summer. In addition, Arauco is scheduled to bring 1.2 million tpy online in Brazil in the fourth quarter.

A key factor, however, recently helping to support prices somewhat, or at least avoid a larger slip, has been the shutdown of the huge APRIL hardwood mill in China due to a water shortage.

LOOKING-AHEAD

Looking forward, it appears that prices could continue to slip for the next few months. However, it appears that supply and demand could swing back to favor producers by sometime next year and possibly even continue into 2017. There is only limited softwood capacity scheduled to come online next year and overall market growth may be able to absorb the new hardwood capacity that’s planned. If the global economy can continue to stumble forward and China continues to grow even at reduced rates of “only 7%” annually, pulp demand will slowly expand and operating rates should return to stronger levels that could support a recovery in pricing next year.

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