



PulpWATCH

Monthly news and analysis of the international pulp market

Strengthening US dollar and rising production present headwinds to pulp price increases

- In North America, softwood list prices were mostly unchanged during September from the previous month, with NBSK at \$1025-\$1030/t and SBSK at \$970-\$990/t. BEKP was listed at \$810-\$820/t.
- In Europe, NBSK mostly settled within a range of \$930-\$935/t in September. BEKP was mostly stable within a range of \$710-\$730/t.
- In China, the hardwood market was also stable during September, with BEKP trading in a range of \$540-\$560/t net. NBSK was mostly listed at \$720-\$730/t, with radiata at \$705/t.

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THE HARDWOOD PULP market has taken the first tentative steps towards recovery, with several BEKP suppliers pitching for global prices hikes of \$20-30/t, effective from 1 October. It is too early to gauge to what extent the new list prices will be implemented this month, but at the very least they have already helped to restore some stability to the market with most hardwood prices holding firm during September.

The announcements also had the effect of boosting BHKP sales to Asia, where buyers snapped up volumes towards the end of the month ahead of the proposed increases being implemented. This transfer of inventory to consumers will have almost certainly reduced producers' stock levels back to more balanced levels during September, as has been the seasonal norm in recent years; in each of the past 3 years, World-20 BHKP producer stocks have fallen by 4 days in September. However, although Asian demand surged last month there were few signs that European and North American buyers significantly increased their orders, highlighting their lack of concern about being caught on the wrong side of a rising market. This sentiment almost certainly stems from the record production volumes reported by the hardwood pulp industry during July and August; World-20 production of hardwood market pulp is estimated to have surged by 7% year-over-year, equal to 0.3 million t of growth. Although hardwood demand remains buoyant (+4% y-t-d), it has so far been insufficient to absorb the new supplies coming to market.

The softwood market continues to operate within different parameters; demand remains lacklustre, with World-20 shipments of BSKP contracting by 4.3% y-o-y in August and by 1.1% through the year-to-date. The fact that prices continue to hold relatively firm is testament to the supply side issues which have blighted the softwood sector this year. Although maintenance shuts will further cut softwood availability through October, it is likely that demand will fall commensurately given the ongoing process of substitution with hardwood grades. Thereafter, if the softwood industry is able to increase operating rates through the remainder of the year, conditions could become more challenging for suppliers, especially given the ongoing appreciation of the US dollar against the euro.

World-20 bleached chemical market pulp demand grew by 2.7% y-o-y in August, contributing to y-t-d gains of 1.1%. Production remained near record highs and outpaced shipments for the second consecutive month, resulting in a further significant increase in producer stocks. Total inventories of BCP grew by 2 days from July to 38 days at the end of August; inventories of BSKP jumped by 3 days to 29 days, while stocks of BHKP held firm at 46 days. Since the end of June, it is estimated that producer stocks have grown by more than 13%, equal to 0.6 million t.

In North America, softwood list prices were mostly unchanged during September from the previous month, with NBSK at \$1025-\$1030/t and SBSK

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Market focus

at \$970-\$990/t. Spot pricing for both grades slipped by approximately \$10/t, taking NBSK to \$685-\$720/t, and SBSK to \$610-\$650/t. The North American softwood market is the worst performing market in the world this year when measured by demand; shipments to the region have declined by 5% y-t-d, equal to -146,000 t. The weakness in demand is expected to persist through the remainder of the year as tissue production and graphic paper production continues to contract; after 8 months of the year, North American printing and writing paper production has fallen by 6% (-783,000), while tissue production is estimated to have fallen by 2% (-100,000 t).

In the North American hardwood market, BEKP was listed at \$810-\$820/t in September, flat or slightly lower than in August. Similarly there was relative stability reported in the NBHK market where prices settled at \$830-\$840/t. Any downwards momentum in the market quickly evaporated around mid-month as several BEKP suppliers announced a new list price of \$840/t for October business. With BEKP suppliers looking to displace domestic hardwood supply, it remains to be seen how vigorously the new list price will be implemented.

In Europe, softwood suppliers laboured to implement their \$20/t price increase during September, with most NBSK eventually settling within a range of \$930-\$935/t, compared with \$930/t in August. The single biggest obstacle to the price increase was the exchange rate, as the euro continued its downward slide against the US dollar. Since May the euro/dollar exchange rate has dropped from €1.39/\$ to €1.26/\$. The currency movement ensured that the PIX Index for NBSK jumped by €31/t during September, yet remained relatively unchanged in dollar terms. Persistently fragile economic conditions and unattractive interest rate differentials hint at further currency depreciation during the months to come, which would almost certainly add to the downwards pressure on European pulp prices.

The currency movement during September resulted in a €22/t jump in the European PIX hardwood index despite a very modest contraction in dollar terms (-\$2/t). Similar to the situation in North America, the European hardwood market stabilised around mid-month after several BEKP producers announced their intentions to raise the price to \$750/t in October, from a range of \$710-\$730/t in September. The price announcements were made following ENCE's disclosure that they will close their 420,000 t/y BEKP mill in Huelva, Spain by 19th October. It is thought that most of the production from the mill is shipped to the Mediterranean markets and the Middle

The euro's depreciation provided a major obstacle to producers attempts to increase the BSKP price in Europe

Index of selected currencies against the US\$ since January 2011



Source: Hawkins Wright, XE.com

Market focus

Chinese hardwood pulp demand surged through the 2nd half of September

East, which is where the Latin American suppliers will now be hoping to gain market share.

In China, the hardwood market was again stable during September, with BEKP trading in a range of \$540-\$560/t net. Demand was reportedly quite healthy and temporarily spiked after producers announced their intentions to implement price hikes of \$20-\$30/t in October. Whether prices actually rise this month remains to be seen, since the demand surge in September will almost certainly be to the detriment of orders this month, especially given the start of the Golden Week holiday on October 1. Ongoing malaise in the paper markets coupled with increased supply of Asian hardwood might also hinder attempts to increase prices, while some suppliers may adopt a more compromising approach to the price hikes as they seek to grow or protect their market share.

The Chinese softwood market was also relatively stable in September, supported in part by the relatively low volume of consumer stocks currently being held in China. NBSK was mostly listed at \$720-\$730/t, with radiata at \$705/t. Arauco has restated a list price of \$710/t for Chilean radiata in October, while Ilim has restated a price of \$670/t DAF for Russian softwood.

In the weeks ahead, currency will likely play an increasingly dominant role in shaping the direction of the pulp market. Since the start of the year, the dollar has appreciated against the local currencies of most of the world's pulp producers and buyers and in recent weeks the dollar's appreciation has accelerated. This has made pulp more expensive to buy (in local currency terms), raising affordability concerns and heightening the resolve of buyers globally to lower the pulp price.

At the same time, the dollar's appreciation is making pulp cheaper to produce (in dollar terms), which in previous cycles has encouraged marginal supply growth, particularly from the integrated producers in Europe. With increased supply already forthcoming from the ramp up of Maranhao, Nantong and Montes del Plata, this raises the possibility of prolonging the current supply imbalance, regardless of the closures of Huelva and Old Town. Although temporary reprieve will be forthcoming from the maintenance season coupled with the large transfer of producer stocks to consumer stocks in September, longer term the market is likely to remain oversupplied until such time that further closures are announced or demand improves.

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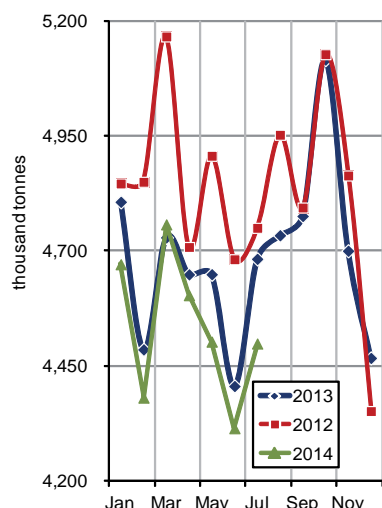
PIX indices for NBSK and BHKP, in €



Source: FOEX, Hawkins Wright

Printing & writing paper, tissue markets

Global
P&W paper shipments



Source: CEPIPRINT, CEPIFINE, PPPC, KPA, JPA

North America

NORTH AMERICAN PRINTING and writing paper demand fell by 6.5% y-o-y in August, equal to -114,000 t. The weakness in demand contributed to a 7.0% y-o-y fall in shipments and prompted an 8.3% y-o-y decline in production. After 8 months of the year, demand is 4.1% weaker than during the prior year period, equal to -546,000 t. Meanwhile, shipments have fallen by 5.3% y-t-d and production is down by 6.1%.

North American uncoated woodfree demand fell by 6.5% y-o-y in August, contributing to a y-t-d decline of 4.1%. Even so, the market remains relatively balanced which has enabled producers to hold prices stable for the past few months. The stability mostly owes to machines closures earlier in the year which have trimmed production by 8.2% during the first 8 months of the year, equal to -466,000 t. This decline in domestic production has more than offset a 39% y-t-d jump in imports, equal to 183,000 t.

Coated mechanical paper demand fell by 3.5% y-o-y in August, and production fell by 4.3% y-o-y. Through the year to date, demand and production have each fallen by 8%. Verso is the latest company to announce capacity rationalisation. At the beginning of October, it was announced that they would close the Bucksport paper mill in Maine before the end of the year. The mill has coated groundwood

Printing & Writing paper output

million tonnes	2011	2012	2013	May-14	Jun-14	Jul-14	% MoM	% YoY	% YTD
Europe (deliveries):	28.09	26.87	25.41	2.03	1.94	2.07	6.7%	-2.3%	-2.0%
Coated WF	7.53	7.33	6.87	0.55	0.53	0.55	3.2%	-2.7%	-2.5%
Uncoated WF	7.66	7.42	7.18	0.61	0.59	0.62	5.3%	1.6%	1.7%
SC-Magazine	4.54	4.33	4.12	0.31	0.31	0.31	1.3%	-8.0%	-3.6%
Coated mech.	8.36	7.80	7.24	0.55	0.52	0.60	15.1%	-2.6%	-4.4%
North America (shipments):	20.80	19.43	19.15	1.47	1.46	1.52	4.0%	-6.4%	-4.7%
Coated WF	3.70	3.60	3.56	0.26	0.27	0.30	9.1%	1.4%	-1.5%
Uncoated WF	9.10	8.76	8.58	0.65	0.64	0.66	4.1%	-9.2%	-7.2%
Uncoated mech.	4.50	3.76	3.93	0.32	0.31	0.32	3.5%	-3.3%	-1.1%
Coated mech.	3.50	3.30	3.08	0.24	0.24	0.24	-1.3%	-11.6%	-5.9%
Japan (production):	8.77	8.42	8.58	0.75	0.65	0.65	-0.9%	-5.4%	2.2%
Korea (production):	3.28	3.21	3.30	0.26	0.25	0.25	2.6%	-6.4%	-5.5%
Brazil (production):	2.68	2.63	2.62	0.23	0.22	0.22	4.2%	1.4%	0.3%
TOTAL SAMPLE	63.62	60.57	59.05	4.74	4.52	4.72	4.4%	-4.2%	-2.3%

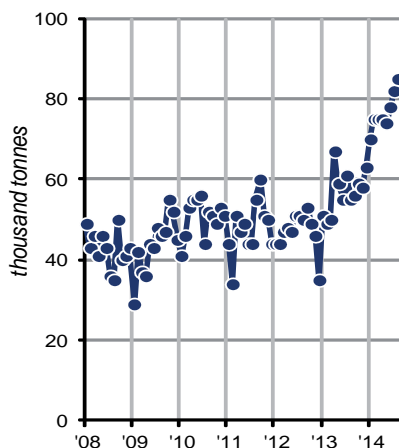
Tissue production

million tonnes	2011	2012	2013	May-14	Jun-14	Jul-14	% MoM	% YoY	% YTD
CEPI	6.80	6.90	6.93	0.59	0.56	0.57	2.4%	-1.1%	0.1%
AF&PA	6.61	6.60	6.82	0.57	0.56	0.57	2.6%	-1.7%	-2.0%
Japan	1.78	1.77	1.75	0.15	0.14	0.14	-4.3%	2.5%	2.4%
Brazil	0.96	1.04	1.10	0.09	0.09	0.09	1.1%	-2.1%	2.7%
Korea	0.46	0.46	0.49	0.05	0.04	0.04	-5.8%	1.2%	14.7%
TOTAL	16.6	16.8	17.1	1.45	1.40	1.42	1.4%	-1.0%	0.1%

Source: CEPI, AF&PA, PPPC, JPA, KPA, BRACELPA

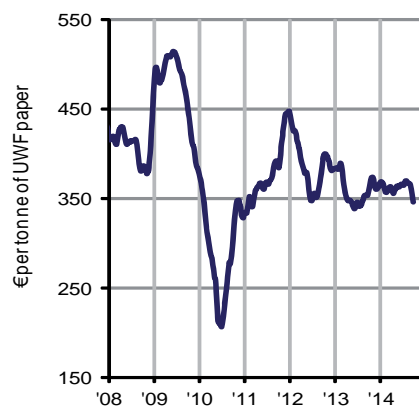
Printing & writing paper, tissue markets cont.

North America
Uncoated Woodfree imports



Source: PPPC

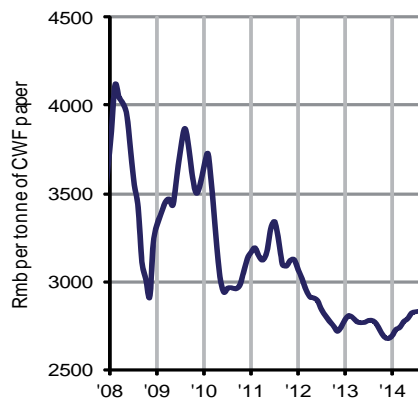
Papermakers' converting margins in Europe



The papermakers' converting margin is the absolute difference between the selling price of uncoated woodfree paper and the input cost of fibre.

(Data is based on a 3 month moving average)

Papermakers' converting margins in China



The papermakers' converting margin is the absolute difference between the selling price of coated woodfree paper and the input cost of fibre.

(Data is based on a 3 month moving average)

paper capacity of approximately 350,000 tons and almost 55,000 tons of specialty paper capacity.

Expera Specialty Solutions has signed a letter of intent to acquire Resolute Forest Products' 200,000 t/yr bleached softwood kraft pulp and 110,000 t/yr specialty paper mill in Fort Frances, ON. The pulp line and one of the paper machines has been idled since November 2012, whilst the other paper machine was idled in January of this year. It is thought that the motivation behind the potential acquisition is to reduce Expera's exposure to the pulp market. At present, the company operates approximately 0.5 million t/yr of specialty paper capacity, almost half of which is integrated with pulp production. Owning the Fort Frances pulp mill would obviously reduce this exposure although it should be noted that the mill only has drying capacity of just 80,000 t/y of pulp.

West Europe

European uncoated woodfree paper demand continues to defy expectations; 0.6% y-o-y demand growth in July has helped support growth of 1.8% through the year-to-date (Jan-July). The increase in demand has in-turn prompted 2% growth in European shipments this year, helping to absorb some of the surplus capacity. With relatively balanced market conditions, prices continue to remain quite stable both for offset and cut size grades.

In the coated woodfree sector, demand fell by 4.9% y-o-y in July, and has fallen by 2.1% y-t-d. Even so, suppliers are pushing ahead with plans to increase prices by 5-9%, effective since September. So far, prices have moved very little which suppliers attribute to the widespread use of quarterly pricing contracts. By implication, attempts to raise prices will not be fully felt until October.

Conditions in the mechanical paper market remain challenging, with lacklustre demand putting downward pressure on prices. LWC prices have fallen by as much as €60/t since the start of the year, and further price declines will almost certainly result in additional capacity rationalisation. The SC market has held up marginally better this year, although price declines of €20-€30/t during the summer highlight the growing oversupply in this sector. Demand for SC grades slipped by 5.5% y-o-y in July, and has fallen by 5.5% y-t-d.

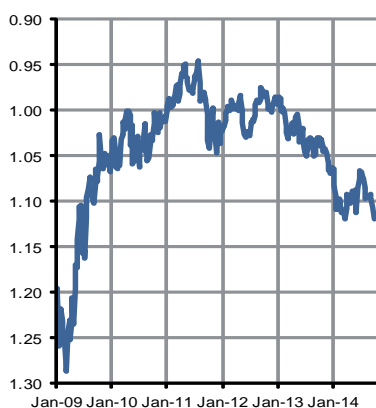
China

The price erosion experienced in the Chinese paper market during the summer appears to have eased, with only modest declines or stability reported for most grades during September. This has supported a modest improvement in papermakers' converting margins since pulp prices have deteriorated at a faster pace.

Ordinarily, Chinese paper demand is seasonally strong through October and this has prompted price increases in previous years. However, so far at least no paper producers have announced plans to increase prices, symptomatic of the elevated levels of inventory that most paper mills are currently holding. The general malaise in China reflects conditions elsewhere in Asia, where prices for most grades of paper fell during the summer.

Exchange rates

Canadian \$
Exchange rate: \$/US\$



Source: XE currency, Hawkins Wright

Euro
Exchange rate: €/US\$



Source: XE currency, Hawkins Wright

Chile
Exchange rate: peso/US\$



Source: XE currency, Hawkins Wright

EUROZONE INFLATION SLIPPED again in September, with prices rising at their slowest rate in nearly five years, adding to fears of a deflationary spiral. Against this backdrop of persistently low inflation, economic growth is also stalling, prompting the ECB to announce further monetary stimulus at its latest meeting in September. It will begin its purchasing program of non-financial private sector asset-backed securities (ABS) and covered bonds later this month in an attempt to add liquidity to the financial system, boost lending and lift flagging economic growth. With interest rate and growth differentials now firmly favouring the US, the euro has turned sharply negative, falling by 9% since early May. In this context, many economists expect an even deeper fall in the coming months that may leave the euro close to 1.20 dollars.

The US dollar isn't just appreciating against the euro but most of the world's major currencies. The US dollar index is up nearly 9% since the beginning of May, being driven by expectations that the US Federal Reserve will soon raise interest rates as the US economy recovers. Wealth gains from rising home and equity prices coupled with an improving labour market are underpinning consumer confidence and spending. Meanwhile, second-quarter real GDP growth was revised higher to an annualized 4.6% q/q, and despite a few disappointing data reports, most recent indicators point to another solid output increase for Q3.

The Canadian dollar weakened by almost 5% in the third quarter of 2014, driven in part by falling commodity prices and weaker economic growth relative to the US. The weakness of the currency has been to the benefit of exporters of market pulp; softwood prices CIF West Europe in Canadian dollar terms averaged \$1028/t in September, their highest level in more than 10 years.

In Brazil, the presidential elections (scheduled for October 5 and 26) will be the dominant feature affecting investor sentiment toward the Brazilian Real in the coming weeks. With electoral polls suggesting a second round run-off will be necessary after the October 5 vote, investor anxiety is growing and this triggered an 8% depreciation of the Real during September to 2.5. For Brazil's pulp exporters, the depreciation of the real has offset some of the recent declines in the US dollar price of pulp; while the BHKP PIX index in Europe has fallen by 7% during the past 12 months, it has dropped by only 4% when measured in Real.

Of all of the major pulp producer's currencies, the Chilean Peso and the Russian Ruble have been the worst performing during the past year. Both have fallen by 18% against the US dollar, the Chilean Peso falling as a result of weak economic growth and falling commodity prices, with the Ruble's collapse intrinsically linked to the geo-political crisis affecting the region. For Chilean and Russian pulp producers, the currency collapse has provided a significant boost to pulp prices expressed in Peso and Rubles; hardwood prices are currently 10% higher than in September 2013, while softwood prices have surged by 26%.

Amongst the other major currencies, the Japanese yen is currently trading near 6 year lows driven by the Federal Reserve's tightening monetary policy and recent weakness in the Japanese economy.

Meanwhile the Swedish Krona has fallen sharply since the start of the year on deflationary concerns and a deterioration in manufacturing, owing to weaker demand from the EU. The currency has fallen by 11% y-t-d, making it the worst performing primary currency in the world this year.

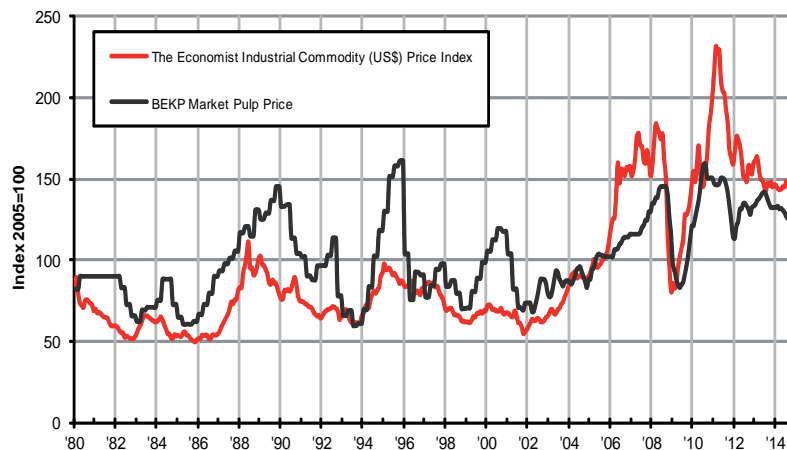
Economic focus

Brazil

Exchange rate: real/US\$



BEKP prices versus other commodities

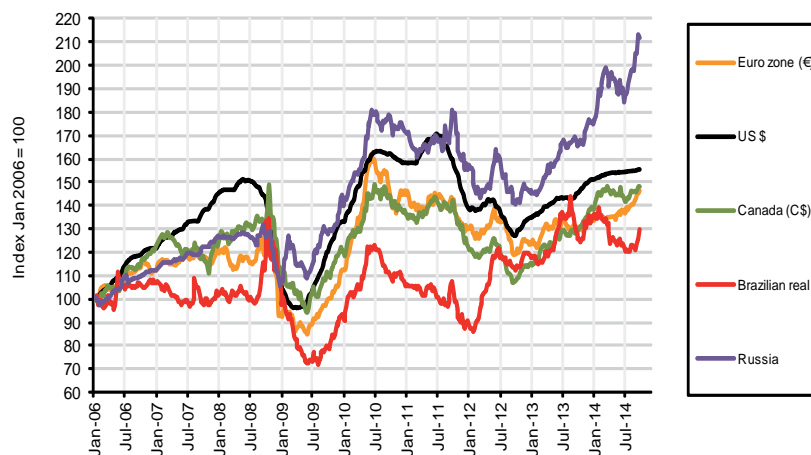


China

Exchange rate: RMB/US\$



Pulp prices (PIX) in US dollars and other currencies



	XRT: local currency/US\$			Pulp prices (PIX) in US\$ and local currency					
Currency	Sep-13	Sep-14	% change*	Hardwood			Softwood		
				Sep-13	Sep-14	% change	Sep-13	Sep-14	% change
US\$	1.00	1.00	n/a	777	725	-7%	865	931	8%
Euro	0.75	0.78	-3%	583	563	-3%	649	722	11%
Brazilian Real	2.27	2.35	-3%	1,766	1,703	-4%	1,965	2,187	11%
Canadian \$	1.04	1.10	-7%	805	801	-1%	896	1,028	15%
Chilean Peso	503.61	594.89	-18%	391,474	431,434	10%	435,706	553,857	27%
Chinese Yuan	6.15	6.14	0%	4,781	4,453	-7%	5,321	5,716	7%
Indo Rupiah	11,293.33	11,940.14	-6%	8,778,728	8,659,395	-1%	9,770,621	11,116,557	14%
Japanese Yen	99.27	107.44	-8%	77,170	77,919	1%	85,889	100,029	16%
Korean Won	1,083.90	1,037.44	4%	842,556	752,387	-11%	937,755	965,882	3%
Russian Ruble	32.61	38.32	-18%	25,350	27,791	10%	28,214	35,677	26%
NZ \$	1.23	1.23	0%	956	894	-6%	1,064	1,148	8%
Swedish Krona	6.51	7.12	-9%	5,058	5,163	2%	5,629	6,628	18%

Source: OANDA, FOEX

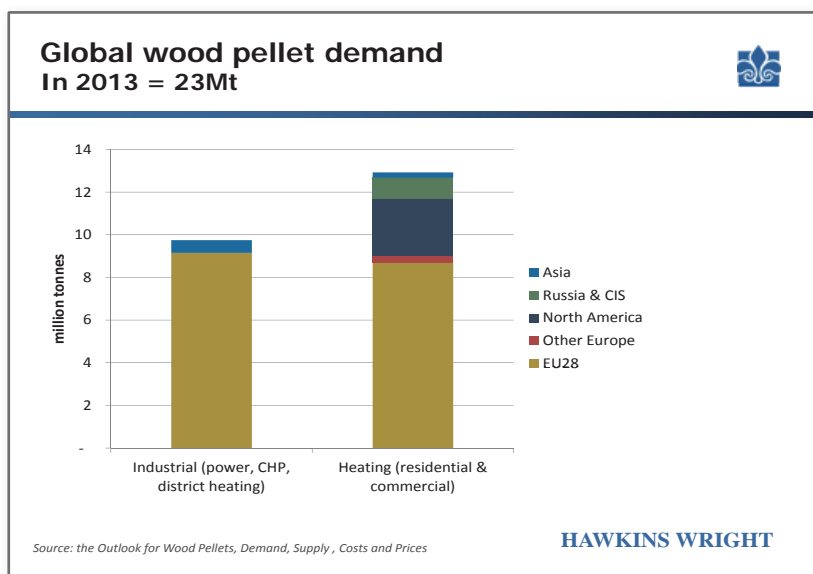
Industry focus

The expanding global market for wood pellets

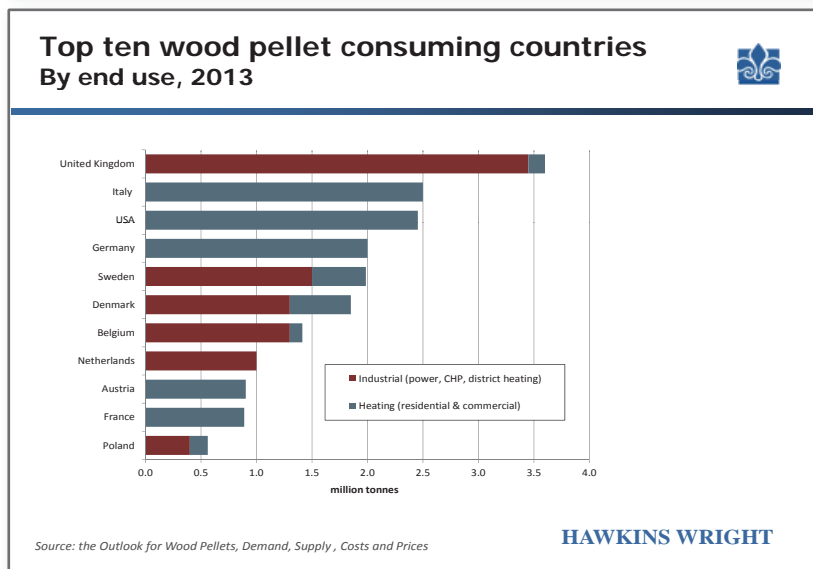
The global pellet market is worth US\$4 billion

BETWEEN 2007 AND 2013, the world's annual production of wood pellets has more than doubled to over twenty million tonnes. As a result, a product which started out as a predominately locally produced heating fuel is now a globally traded commodity, with a market value in excess of US\$4 billion a year.

Demand for wood pellets in the residential and commercial heating sector is significant and continues to grow steadily. In 2013 this market accounted for approximately 58% (13Mt) of global pellet demand (~23Mt). However consumption in the industrial sector (e.g. for power, combined heat and power, and district heating) is catching up fast and demand in these segments of the market totalled 10Mt in 2013.



The primary region of industrial wood pellet demand growth has been the European market, which accounted for 94% of industrial consumption worldwide in 2013. However newer markets such as South Korea and Japan have recently begun to show signs of growth. In 2013 approximately 600kt of industrial pellets were used in Asia and the expansion of this market has become even more pronounced during 2014. Over 1 million tonnes of wood pellets had already been imported to Korea by the end of August this year, a massive increase of 430% versus the same period in 2013. This puts the Korean market on track to consume ~1.5Mt of wood pellets during 2014.



The drivers of growth globally are many and various. The use of wood pellets to generate industrial-scale heat and power is largely being driven by government policies that aim to curtail emissions of greenhouse gases and increase the output of renewable energy. This dependence on government support means the industry has been subject to significant political risk. In some countries, for example the UK, changing political priorities and subsequent tinkering with renewable energy poli-

Industry focus

The UK's industrial wood pellet demand could hit 14Mt in 2018

Heating pellet demand in the EU28 totalled 8.7Mt in 2013

cies have resulted in much slower growth of the bioenergy industry than had been initially expected.

As a result of the ever more challenging investment landscape the pipeline of wood pellet-fired power plants in the UK has gradually diminished. Nevertheless, some large scale projects have survived, not least Drax Power's plan to convert at least three of its six coal-fired units to use 100% wood pellets. UK industrial wood pellet demand is therefore still set to increase dramatically, from around 3.4Mt in 2013 to approximately 14Mt in 2018 (according to our central forecast). However there remains significant uncertainty in this market and UK wood pellet demand will ultimately depend upon the final investment decisions for a small number of large projects, each of which will have a big impact on the outlook for pellet consumption.

In contrast, using wood pellets to heat residential and commercial buildings can be a self-justifying economic activity even if government incentives are absent. Demand for heating pellets is mainly driven by the price of competing heating fuels, typically heating oil and bottled gas. Other factors also play an important part, including economic activity, the robustness of local fuel supply chains, and the weather.

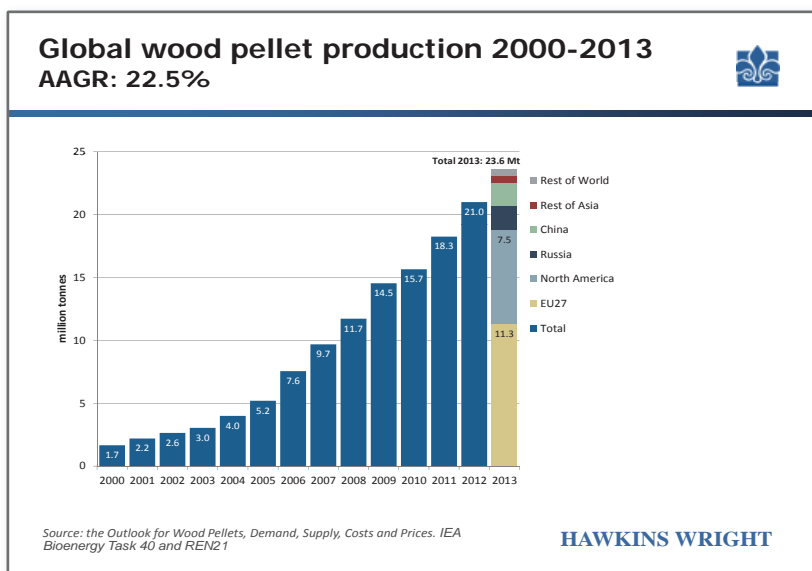
Due to the favourable economics of pellets versus conventional heating fuels – together with encouragement (though not necessarily financial support) from national governments – heating pellet demand in the EU28 has more than doubled in the past five years, from 4.3Mt in 2008 to 8.7Mt in 2013, a CAGR of 15%. Significant volumes of pellets are also consumed for heating in North America. Demand figures for this region are somewhat uncertain, but we estimate that at least 2.5Mt was used in 2013.

The structures of the two principal pellet markets – large-scale industrial and smaller-scale and de-centralised heating – have historically been quite different. The heating market is highly fragmented and seasonal, with several hundreds of thousands of individual consumers each using a few tonnes, or tens of tonnes, of pellets every year. These are purchased in bags or delivered in truckloads. This demand has typically been served by relatively local, or at least regional, pellet suppliers.

In comparison, the industrial pellet market is highly concentrated and less seasonal. Just a few large European utilities – and recently a few Asian ones – account for

the vast majority of global demand. Each utility requires hundreds of thousands of tonnes of pellets delivered in shipload volumes throughout the year.

While historically separate, these two markets are beginning to converge. Newly-built North American industrial pellet suppliers – with access to an abundance of low cost wood fibre – are starting to penetrate the European heating pellet market. They are competing with local suppliers whose logistics costs may be lower but whose fibre costs can be significantly greater.



Industry focus

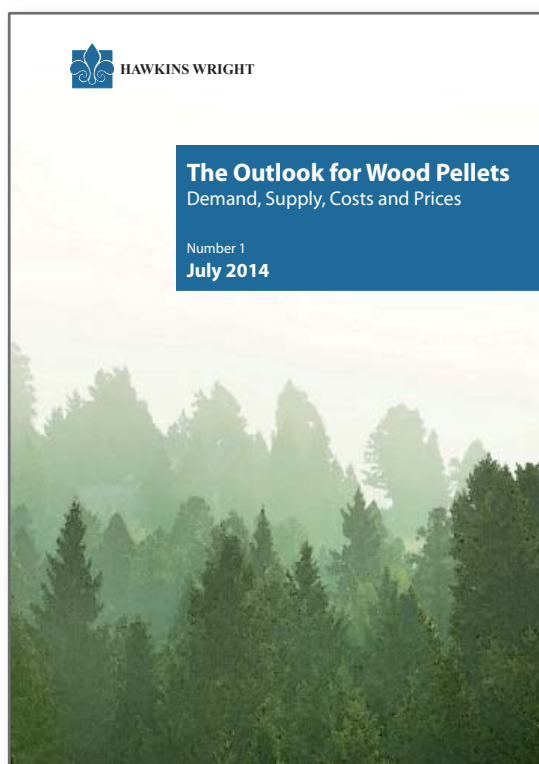
Asian pellet demand has stimulated new supply in South East Asia

Furthermore although Europe is currently the largest pellet producing region, accounting for 53% of global production in 2013, demand in the EU28 is now rising faster than supply. Imports to the region are therefore growing rapidly, from just 2.6Mt as recently as 2010 to over 6Mt in 2013. Imports are expected to at least double again by 2016-17.

While the vast majority of international trade is currently between North America and Europe, the recent growth in pellet demand in Asia is having a noticeable affect on the global pellet trading landscape. This year we have seen significant quantities of pellets that were originally destined for European utilities instead being diverted to Asian power stations. These newcomers to the market have been buying almost exclusively through spot and short-term trades and have thus acted to clear up surplus supply in the market.

This has created an important new trade route across the Pacific; however the role of intra-Asian trade should not be forgotten. Vietnam is currently the largest supplier to Korea and exports from China, Thailand, Malaysia, and Indonesia have grown rapidly during the past year. The focus on low price by the Korean generating companies, often at the expense of quality, means that this trend looks likely to continue. There is significant interest in expanding pellet manufacturing capacity in Asia and in eastern Russia to supply growing demand in Korea.

North American pellet suppliers may play a more important role in serving the needs of the more quality-conscious Japanese utilities. The industrial pellet market in Japan has been slower to take-off than that in Korea, but several projects are now being developed. Given the importance of coal fired generation in Japan and the government's commitment to curtail greenhouse gas emissions, there is scope for significant increases in Japanese demand for imported pellets over the next decade.



This article is based on a new Hawkins Wright service titled 'The Outlook for Wood Pellets', comprising regularly updated analyses of wood pellet demand, supply, costs and prices. For more information please contact:

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To download a Table of Contents and Order Form visit:

www.hawkinswright.com/Bioenergy-Outlook_for_Wood_Pellets

SYMPOSIUM - November 13th 2014

British Wood Pulp Association and Hawkins Wright London Symposium

The BWPA and Hawkins Wright Symposium has become a key event during the annual London Pulp Week. From Sunday 9th to Friday 14th November 2014, pulp and paper executives from around the world will congregate in London for a series of private and semi-public meetings and events. The BWPA and Hawkins Wright symposium provides an opportunity for all attendees to meet collectively and listen to high quality presentations from leading industry executives and analysts.

On the evening of Thursday 13th, the British Wood Pulp Association will host its centenary dinner at the Hilton Waldorf hotel, which promises to be an important and memorable event (www.bwpa.org.uk)

Please note we will be hosting the 2014 Symposium at the Royal College of Surgeons, 35-43 Lincoln's Inn Fields, which is a 2 minute walk from Aldwych.

We are delighted to announce the following list of speakers:

- Professor Andrea Boltho, Oxford University
- Marcelo Castelli, CEO Fibria
- Brian Dillon, Global Fibre Sourcing Director, SCA Hygiene
- Niklas von Weymarn, VP Research, Metsä Fibre Oy
- Tom Wright, Director, Hawkins Wright

Please contact Amanda Marcus (Amanda@woodyedge.co.uk) for sponsorship opportunities.

For registration, please visit:

www.pulpweek.co.uk



Key statistics - Demand

- World-20 shipments of BCP jumped by 2.7% y-o-y in August, contributing to growth of 1.2% through the year-to-date.
- World-20 shipments of BSKP fell by 4.3% y-o-y in August, and have fallen by 1.1% y-t-d.
- World-20 deliveries of BHKP jumped by 11% y-o-y in August and have grown by 3.7% y-t-d.
- Through the year-to-date, World-20 shipments of BCP to North America have fallen by 1.8%, while deliveries to West Europe have declined by 0.3%. Shipments to East Europe have jumped by 16%, compared with growth of 3.5% in shipments to China and 0.7% growth in Other Asia/Africa.

Shipments of bleached chemical pulp

thousand tonnes				Year-to-date (8 months)		
Country of origin	Jun-14	Jul-14	Aug-14	2013	2014	% change
North America	1,165	1,230	1,190	9,900	9,435	-4.7%
West Europe	800	785	765	6,700	6,490	-3.1%
Latin America & NZ	1,755	1,435	1,590	10,645	11,765	+10.5%
Other World-19	100	110	110	950	850	-10.5%
Total World-20	3,820	3,560	3,655	28,195	28,540	+1.2%
Seasonally adjusted total	3,780	3,620	3,700	28,230	28,570	+1.2%
Other producers	780	810	815	6,200	6,440	+3.9%
TOTAL WORLD	4,600	4,370	4,470	34,395	34,980	+1.7%
Seasonally adjusted total	4,550	4,440	4,520	34,460	35,030	+1.7%

Shipments of chemical pulp

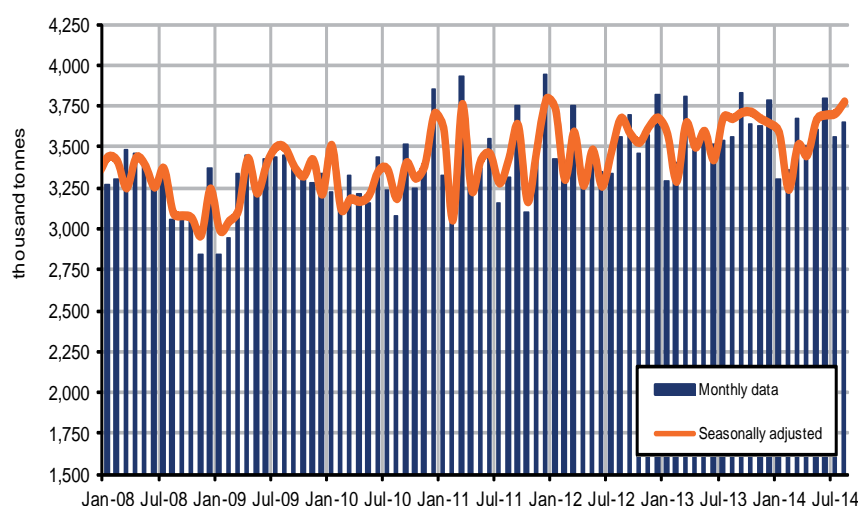
thousand tonnes				Year-to-date (8 months)		
Grade	Jun-14	Jul-14	Aug-14	2013	2014	% change
BSKP	1,840	1,895	1,835	15,000	14,830	-1.1%
BHKP	1,975	1,660	1,815	13,185	13,670	+3.7%
Sulphite	0	0	5	10	5	-50.0%
Total BCP	3,815	3,555	3,655	28,195	28,505	+1.1%
UKP	120	125	125	980	1,005	+2.6%
TOTAL CHEMICAL PULP	3,935	3,680	3,780	29,175	29,510	+1.1%

Demand for bleached chemical pulp

thousand tonnes				Year-to-date (8 months)		
Destination	Jun-14	Jul-14	Aug-14	2013	2014	% change
North America	615	640	605	4,945	4,855	-1.8%
West Europe	1,195	1,165	1,115	9,395	9,365	-0.3%
East Europe	100	105	115	680	790	+16.2%
Latin America	255	285	275	2,090	2,125	+1.7%
Japan	170	140	150	1,215	1,200	-1.2%
China	975	760	875	6,275	6,495	+3.5%
Other Asia/Africa	485	450	475	3,460	3,485	+0.7%
Oceania	20	25	25	160	175	+9.4%
WORLD TOTAL BCP	3,815	3,570	3,635	28,220	28,490	+1.0%

Shipments of bleached chemical market pulp By the World-20 producers

August 2014



Source: PPPC, Hawkins Wright

Notes:

- World-20 comprises producers in Canada, USA, Sweden, Finland, France, Belgium, Germany, Spain, Austria, Norway, Brazil, Uruguay, Chile, Argentina, New Zealand, Japan, South Korea, Morocco, South Africa and Swaziland.
- "Other producers" comprise Hawkins Wright's estimates for Portugal, Russia, Eastern Europe, Indonesia, Thailand and Taiwan.
- r = revised since previous issue.
- e = estimated by Hawkins Wright.
- ... = not available or not meaningful
- Source: PPPC, Hawkins Wright Research

Key statistics - Supply

- World-20 production of BCP is estimated at 3.9 million t in July, fractionally weaker than the record high production level recorded in July.
- World-20 production of BSKP jumped by 3% y-o-y in July, but has fallen by 0.5% through the year-to-date.
- World-20 production of BHKP surged by 6% y-o-y in July, contributing to year-to-date gains of 3%.

Production of bleached chemical pulp

thousand tonnes				Year-to-date (7 months)		
Country	May-14	Jun-14	Jul-14	2013	2014	% change
North America	1,120	1,175	1,300	8,580	8,375	-2.4%
West Europe	805	710	800	5,840	5,550	-5.0%
Latin America & NZ	1,555	1,575	1,690	9,880	10,595	+7.2%
Other World-19	90	110	120	805	760	-5.6%
Total World-20	3,570	3,570	3,910	25,105	25,280	+0.7%
Seasonally adjusted total	3,670	3,680	3,710	25,190	25,360	+0.7%
Other producers	780	795	830	5,445	5,645	+3.7%
TOTAL WORLD	4,350	4,365	4,740	30,550	30,925	+1.2%
Seasonally adjusted total	4,470	4,500	4,500	30,660	31,030	+1.2%

Producers' operating rates

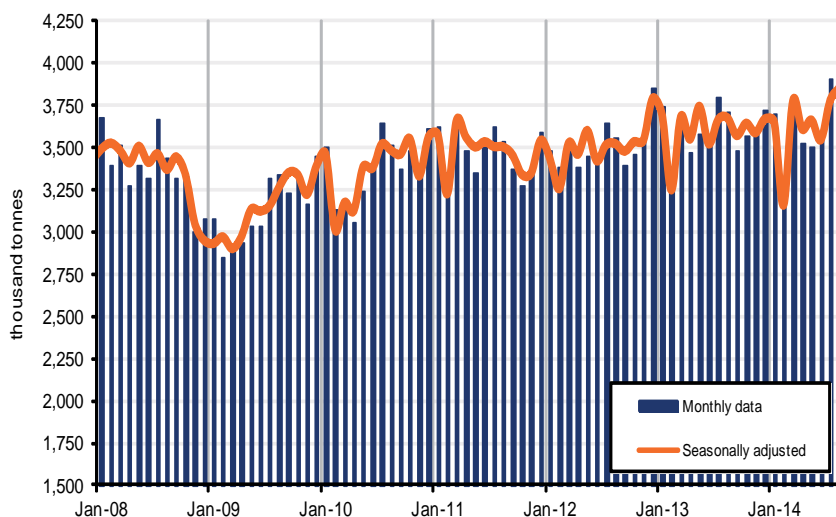
thousand tonnes				Year-to-date (7 months)	
Country	May-14	Jun-14	Jul-14	2013	2014
North America	81%	88%	94%	93%	88%
West Europe	87%	79%	86%	91%	88%
Latin America & NZ	90%	94%	98%	94%	90%
Other World-20	80%	100%	107%	94%	98%
Total World-20	86%	89%	94%	92%	89%

Notes:

- World-20 comprises producers in Canada, USA, Sweden, Finland, France, Belgium, Germany, Spain, Austria, Norway, Brazil, Uruguay, Chile, Argentina, New Zealand, Japan, South Korea, Morocco, South Africa and Swaziland,
- "Other producers" comprise Hawkins Wright's estimates for Portugal, Russia, Eastern Europe, Indonesia, Thailand and Taiwan.
- Operating rates use Hawkins Wright's estimates of practical maximum production capacity.
- r = revised since previous issue.
- e = estimated by Hawkins Wright.
- ... = not available or not meaningful
- Source: PPPC, Hawkins Wright Research

Production of bleached chemical market pulp World-20 producers

August 2014



Source: PPPC, Hawkins Wright

Key statistics - Inventories

- World-20 inventories of BCP grew by 2 days in August to 38 days. This is the same level of inventory that was held in August last year.
- World-20 stocks of BSKP rose by 3 days to 29 days of supply in August.
- World-20 stocks of BHKP remained unchanged at 46 days of supply.
- We estimate that total producer stocks have risen by 0.6 million t since June.

Producers' inventories of bleached chemical pulp

thousand tonnes				Year ago	
Country	May-14	Jun-14	Jul-14	Jul-13	change
North America	1,110	1,120	1,190	1,090	+100
West Europe	645	555	565	690	-125
Latin America & NZ	2,310	2,130	2,390	2,305	+85
Other World-19	140	150	160	150	+10
Total World-20	4,205	3,955	4,305	4,235	+70
Seasonally adjusted total	4,400	4,280	4,340	4,270	+70
Other producers	420	405	420	405	+15
TOTAL WORLD	4,625	4,360	4,725	4,640	+85
Seasonally adjusted total	4,840	4,710	4,770	4,680	+90

Consumers' stocks of purchased pulp

thousand tonnes					Year ago	
Country	May-14	Jun-14	Jul-14	Aug-14	Aug-13	change
West Europe (Utulpul)	586	566	579	579	602	-23
W.E. Softwood	212	191	202	203	229	-26
W.E. Hardwood	356	358	360	359	351	+8
North America	228	227	227	227	226	+1
Japan	148	154	154	153	161	-8
South Korea	204	210	205	204	155	+49
TOTAL	1,166	1,157	1,165	1,163	1,144	+19

Days of supply (World-20 producers stocks)

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Year ago Aug-13
BSKP	27	26	25	26	29	28
BHKP	46	46	40	46	46	50
TOTAL BCP	36	36	33	36	38	38
Seasonally adjusted	38	39	36	37	37	37

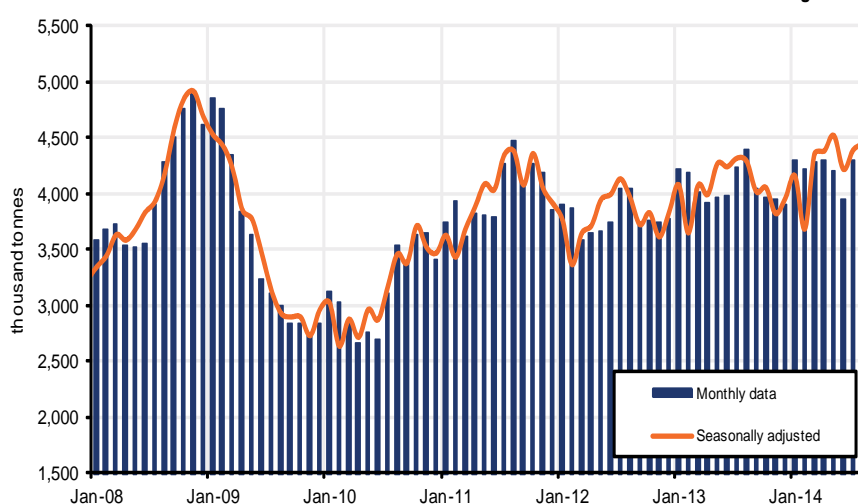
Notes:

- Inventories at period end.
- Consumer pulp stocks and Europulp stocks include UKP and/or other pulp grades.
- World-20 comprises producers in Canada, USA, Sweden, Finland, France, Belgium, Germany, Spain, Austria, Norway, Brazil, Uruguay, Chile, Argentina, New Zealand, Japan, South Korea, Morocco, South Africa and Swaziland.
- "Other producers" comprise Hawkins Wright's estimates for Portugal, Russia, Eastern Europe, Indonesia, Thailand and Taiwan.
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- ... = not available or not meaningful
- Source: Hawkins Wright Research, JPA, KPMA, PPPC, UTIPULP

Producers' inventories of bleached chemical market pulp

World-20 producers

August 2014



Source: PPPC, Hawkins Wright

Key statistics - China Analysis

- Chinese imports of BSKP totalled 1.28 million t in August, fractionally weaker than in the previous month but unchanged from the import volume reported in August 2013.
- Imports of softwood market pulp have grown by 3% y-t-d. Most of the growth has stemmed from Russia (+36% y-t-d). Imports of Swedish market pulp have contracted by 43% y-t-d.
- Imports of hardwood market pulp have jumped by 5% y-t-d, supported in part by 31% y-t-d growth in shipments from Brazil.
- Imports of waste paper continue to fall. Imports slumped by 17% y-o-y in August, and have fallen by 6% y-t-d.

Chinese imports of pulp by grade and by origin

thousand tonnes					Year-to-date (8 months)		
Grade & country of origin	May-14	Jun-14	Jul-14	Aug-14	2013	2014	% change
BSKP - total	549	555	575	543	4270	4413	+3%
Canada	197	191	208	219	1520	1517	-0%
Russia	54	76	58	83	435	592	+36%
Chile	90	102	129	112	718	745	+4%
USA	88	75	89	93	800	789	-1%
Sweden	9	7	4	4	110	62	-43%
Finland	83	87	78	22	534	547	+2%
Others	28	17	9	10	153	160	+5%
BHKP - total	533	573	533	585	4259	4487	+5%
Indonesia	185	172	172	190	1328	1392	+5%
Brazil	229	256	232	266	1527	1998	+31%
Uruguay	30	50	43	41	335	341	+2%
Thailand	0	0	0	0	32	2	-93%
Chile	31	16	47	25	245	235	-4%
Russia	15	17	10	14	112	110	-1%
Canada	4	1	4	1	152	31	-80%
USA	20	42	1	22	239	184	-23%
Others	19	19	24	26	289	193	-33%
Mech/Semi-chem	137	162	150	123	962	1044	+8%
Canada	115	132	118	101	761	812	+7%
New Zealand	5	20	19	15	111	129	+16%
Nordic	13	9	10	5	61	79	+30%
Others	4	1	3	2	29	24	-18%
UKP	44	32	44	33	354	337	-5%
TOTAL MARKET PULP	1263	1322	1302	1284	9845	10281	+4%
MARKET VALUE (million US\$)	826	844	796	783	6143	6597	+7%

Chinese imports of wastepaper by grade

thousand tonnes					Year-to-date (8 months)		
Grade	May-14	Jun-14	Jul-14	Aug-14	2013	2014	% change
Total	2391	2285	2473	2080	19804	18667	-6%
OCC	1343	1230	1371	1156	9600	9433	-2%
Mixed	523	495	481	406	3218	3398	+6%
ONP	453	502	556	472	3942	3342	-15%
Office	72	58	64	46	549	414	-25%

Notes:

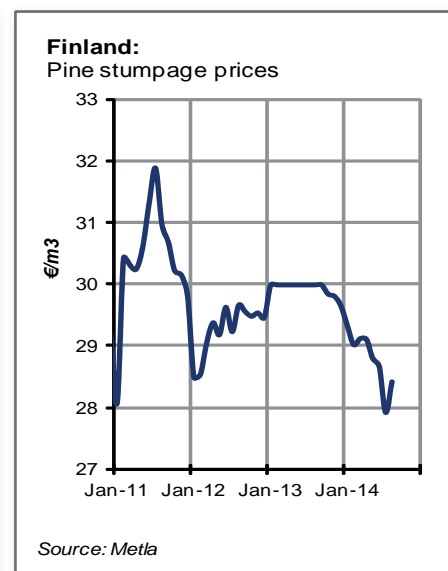
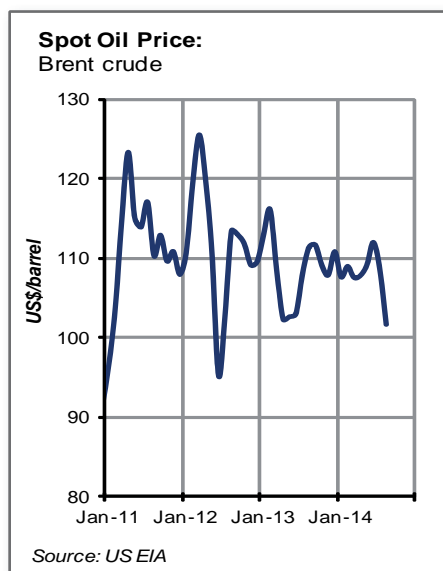
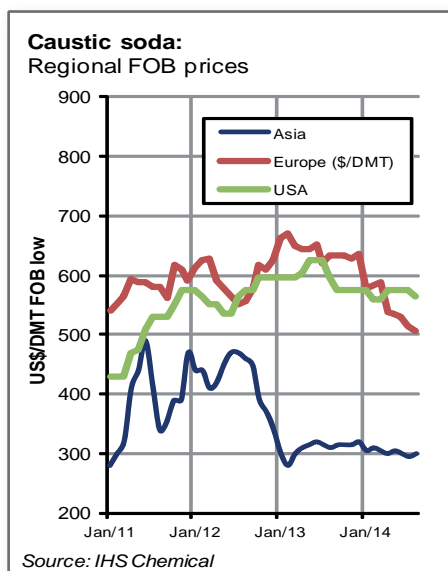
1. *r* = revised since previous issue.
2. *e* = estimated by Hawkins Wright.
3. ... = not available or not meaningful
4. Source: Chinese Customs Data

Key statistics - Cost Analysis

Cost Indicators							
		May-14	Jun-14	Jul-14	Aug-14	Change on prev mth.	Change on prev yr.
Europe							
Brent crude	\$/barrel	109.1	111.9	108.5	103.2	-4.9%	-7.2%
Coal	\$/tonne CIF ARA	75.7	73.2	74.2	77.1	3.9%	2.1%
Natural Gas, Germany	€/Mwh	33.9	33.7	33.7	33.5	-0.5%	-2.5%
Electricity - €/Mwh, Germany	€/Mwh	101.6	102.1	101.8	101.6	-0.2%	8.1%
Finnish pulpwood - pine	€/m3	28.8	28.68	27.93	28.43	1.8%	-4.5%
North America							
West Texas Intermediate	\$/barrel	102.1	105.8	103.9	98.0	-5.7%	-8.0%
Natural Gas, Henry Hub	\$/million BTU	4.6	4.6	4.1	3.9	-4.4%	13.5%
Coal	\$/sh.t	62.7	60.0	60.5	59.9	-0.9%	13.5%
Pine pulpwood (Timber Mart-South)	Stumpage price/ton	10.54	10.54	n/a	n/a	n/a	n/a
Baltic Dry							
BDI	Index	993	914	798	944	18.3%	-13.0%
Handysize	Index	494	455	380	370	-2.5%	-29.4%
Caustic							
North America	\$/DST FOB Low	575	575	575	565	-1.7%	-5.0%
Europe	€/DMT FD Low	390	390	380	380	-	-20%
Asia	\$/DMT FOB Low	305	300	295	300	1.7%	-3.2%

Notes:

1. Finnish pulpwood prices are roadside prices (with bark)
2. The US pine pulpwood price is the stumpage price

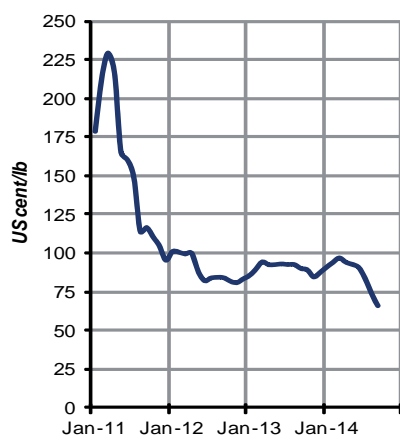


Key statistics - Commodities

COMMODITY PRICES							
		May-14	Jun-14	Jul-14	Aug-14	MoM	YoY
Economist index	Index	145	145	148	147	-0.8%	0.0%
Lumber	Framing Lumber Composite	378	374	381	401	5.2%	13.6%
Pellet PIX	PIX Continental Europe	229	226	226	225	-0.5%	-9.1%
Cotton	US cent/lb	93	91	84	74	-11.7%	-20.2%
Corn	US\$/tonne	217	203	182	176	-3.2%	-24.9%
Iron Ore	US\$/tonne	101	93	96	93	-3.6%	-32.4%
Aluminum	US\$/tonne	1,751	1,839	1,948	2,031	4.2%	11.8%
Copper	US\$/tonne	6,891	6,821	7,113	7,002	-1.6%	-2.6%

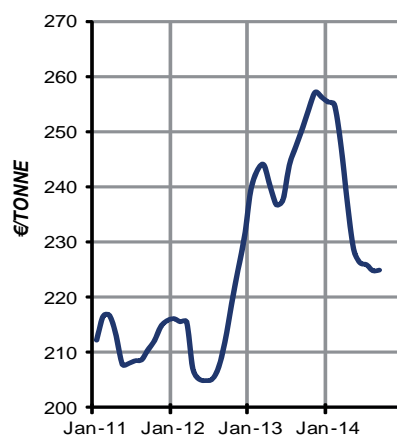
1. The framing lumber composite price is designed as a broad measure of price movement in the lumber market. The composite price is a weighted average of 15 key framing lumber prices. Prices are \$ per thousand board feet. Sourced from Random Lengths.
2. The PIX Pellet Continental Index. Medium-scale commercial heat in Germany/Austria delivered within 50km in bulk, excluding taxes. Lot size: 26t Germany, 17t Austria. Sourced from FOEX.
3. Cotton, Cotlook 'A Index', Middling 1-3/32 inch staple, CFR Far Eastern ports, US cents per Pound
4. Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US Dollars per Metric Ton
5. China import Iron Ore Fines 62% FE spot (CFR Tianjin port), US Dollars per Dry Metric Ton
6. Aluminum, 99.5% minimum purity, LME spot price, CIF UK ports, US Dollars per Metric Ton
7. Copper, grade A cathode, LME spot price, CIF European ports, US Dollars per Metric Ton

Cotton price
US cent/lb



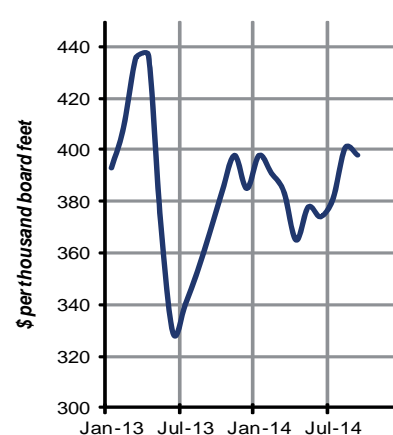
Source: IMF

FOEX PIX WOOD PELLETS
CONTINENTAL EUROPE



Source: FOEX

The Random Lengths Framing Lumber Composite Price

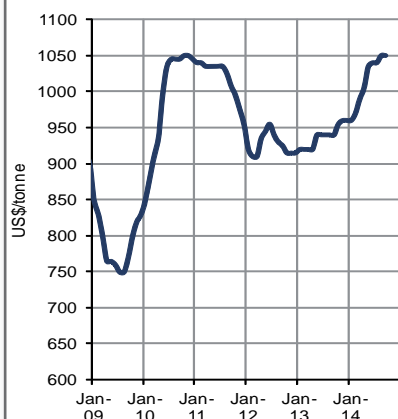


Source: Random Lengths

Price indications

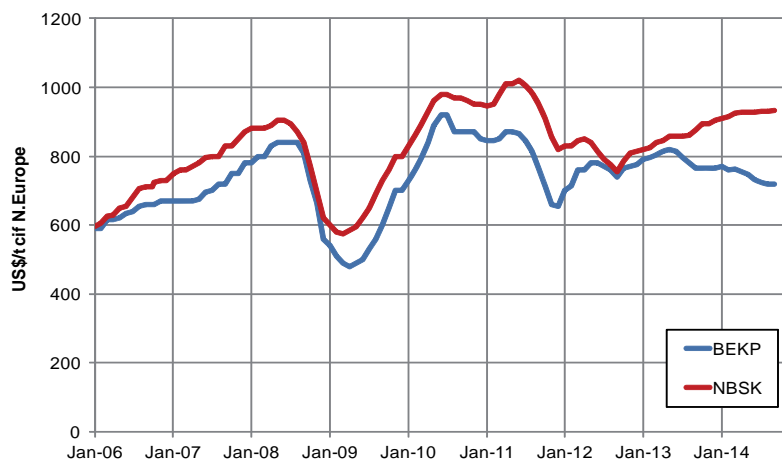
Fluff pulp prices

CIF West Europe



Source: Hawkins Wright

Benchmark pulp prices, West Europe



Source: Hawkins Wright

UKP pulp prices

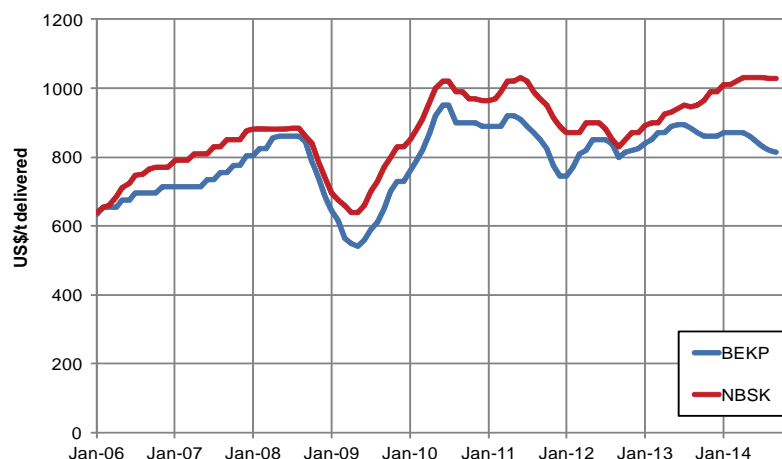
C&F China



Source: Hawkins Wright

Note: price series for North American supply

Benchmark pulp prices, North America



Source: Hawkins Wright

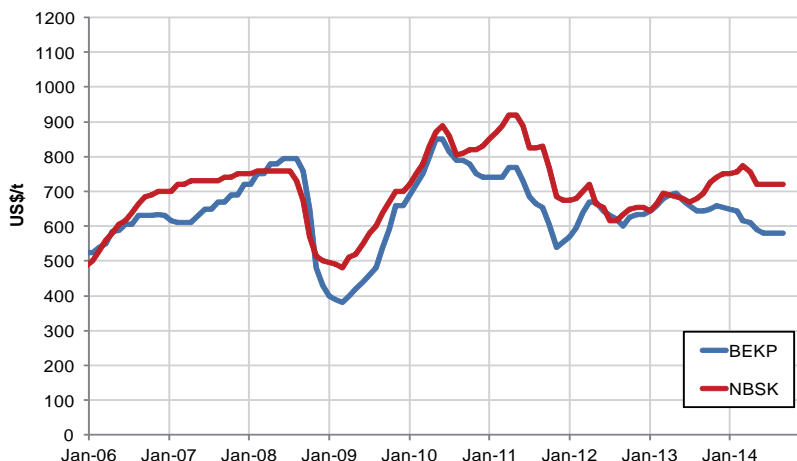
Dissolving pulp prices

China (rayon grade)



Source: Hawkins Wright

Benchmark pulp prices, China



Source: Hawkins Wright

Market pulp price indications

All prices are per metric tonne		2014	2014	2014	2014	2014	Announced list prices for
		May	June	July	August	September	October
WEST EUROPE (CIF)							
- NBSK (Nordic/Canada)	\$	925-930	925-930	925-930	930	930-935	950
- NBSK PIX Index (monthly ave)	\$	924.46	925.07	926.98	928.48	931.02	
- NBSK PIX Index (monthly ave)	Euro	672.75	680.66	683.66	694.80	720.13	
- Southern (USA)	\$	880	880	880	880	880	
- Eucalyptus (Latin America)	\$	740-755	730-740	720-730	710-730	710-730	750
- PIX Index (monthly average)	\$	751.11	742.44	733.14	727.61	725.23	
- PIX Index (monthly average)	Euro	547.59	546.04	540.93	544.53	560.95	
- Northern mixed (N. America)	\$	715-730	705-725	695-710	690-710	690-710	
- Southern mixed (USA)	\$	710-725	700-710	690-700	685-700	685-700	
- BCTMP Hardwood (Canada)	\$	635-650	630-640	620-630	610-630	610-620	
UNITED STATES (delivered)							
- NBSK (Canada)	\$	1030	1030	1030	1025-1030	1025-1030	
- PIX Index (qtr./month average)	\$	1030.00	1030.00	1030.00	1029.92	1027.80	
- Southern (US)	\$	990	990	990	970-990	970-990	
- Eucalyptus	\$	850-870	840-850	830	810-830	810-820	840
- Northern mixed (Canada/US)	\$	870-880	860-875	855	830-850	830-840	
- Southern mixed (US)	\$	870-880	860-875	855	830-850	830-840	
SOUTH KOREA (CIF)							
- NBSK (Canada)	\$	825	825	825	825	825	
- Eucalyptus	\$	610	610	610	610	610	640
- Acacia (Indonesia)	\$	610	610	610	610	610	
- BCTMP Hardwood (Canada)	\$	620	620	620	620	620	
CHINA (c&f., 90 days credit, list prices unless otherwise stated)							
- NBSK (Canada)	\$	710-730	710-730	710-730	710-730	710-730	
- NBSK (import price in Rmb) ²	Rmb	5357	5340	5323	5281	5272	
- NBSK PIX Index (monthly ave)	\$	733.05	724.67	725.18	723.88	722.99	
- Radiata pine (Chile)	\$	690	690-700	690-700	690-700	690-705	710
- BSKP (Russia)	\$	670-680	670-690	670-690	670-690	670-690	
- Eucalyptus (Brazil)	\$	570-610	570-590	570-590	570-590	570-590	+\$20/\$30/t
- BEKP (import price in Rmb) ²	Rmb	4364	4248	4235	4201	4195	
- BHKP PIX Index (monthly ave)	\$	594.89	594.16	589.21	584.65	582.48	
- Acacia (Indonesia)	\$	550-580	540-570	530-550	530-550	530-550	
- BCTMP hardwood (Canada)	\$	540-560	530-550	530-550	510-540	510-540	
- Dissolving (viscose grade)	\$	850	845	840	830	820	
- UKP (NA/Chile)	\$	690	690	690	680	660	

Notes: Estimated transaction prices for delivery in the period shown, before any loyalty or large order discount. Figures in brackets are unconfirmed or based on partial information.

(*The import price expressed in RMB has been estimated by making adjustments for the the exchange rate, VAT (17%), local transportation, a port handling fee and a bank charge for insurance and financing (assuming financing is carried out by a third party)).

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