

UTIPULP

Group of European Market Wood Pulp users

Answers to the questionnaire on the impact of covid-19 on pulp supplies

April 22, 2021

The objective of this questionnaire is to up-date the analysis of the covid-19 impact on the pulp supplies.

Summary of the answers

- 17 answers have been received (14 companies and 3 national associations).
- For 12 respondents, the pulp supply situation is worse compared to January, and for 3 of them, it is significantly worse.
- A large variety of difficulties is mentioned (curtailment of volumes, logistics delays...)
- Reasons of this situation are numerous (declining pulp prices throughout 2019 and 2020 to reach the momentum below cost level for majority of market pulp players and impacting global supply and demand ratio, planned and unplanned downtimes in pulp productions, speculative physical and futures buying, China recovery, logistics constraints...)
- Situation is tighter for short fibre than long fibre.
- Regarding the covid-19 situation, respondents do not anticipate it will have a significant impact on the market situation. The only exception is a situation where a severe deterioration in Lat. Am. would affect the pulp mills and their logistics.
- Besides the covid situation, several respondents anticipate that the market will remain tight during the coming months.
- But the current situation is perceived by several as temporary and somehow “artificial”, which means that the market should be more balanced in 2022.
- some members expressed remarks on the functioning of the market.

1. Regarding your pulp supply, has the situation improved or worsen since 1st January 2021?

For 2 respondents, the situation is the same as compared to January

“For the pulp issues, it’s really now business as usual”; “The same. No improvements”.

For 11 respondents, the situation is worse.

“In long fibre we have had some difficulties to find pulp: there has been delays in vessels arriving in the harbours (weather conditions in Scandinavia has probably play a role, but also under my point of view pulp suppliers have sent vessels to Asia and less volume available in Europe in order to facilitate the argumentation for a pulp price increase. No problem in short fibre.”

“Worsen – delays on releases at the port and in general on deliveries”.

“The situation has worsened slightly, as by January we didn’t suffer from any issues and are now confronted by (just a few) suppliers who try to cut volumes.”

“Situation has worsened since January, some suppliers cutting down shipments by 5 – 20 % (April – June)”

“Continuous discussion with big number of suppliers to curtail contract quantities during Q1 and Q2 in the range of contract tolerance. Partly consignment stock levels have been reduced to the minimum and from time to time below. All in all tight but manageable situation.”

“Within the association members rated the supply of NBSK in the first quarter of 2021: in half rather worse and in the other half rather good. The stock is mostly good. The members also rated the supply of BHK mostly worse. The stock is mostly good.”

“The situation has definitely gotten worse. Almost all suppliers reduce contractually agreed quantities or, for various reasons, hold on to lower quantity limits. The reasons given are, for example: (i) Planned, unplanned or postponed repairs, (ii) Logistics problems with deliveries by ship and rail (iii) Preferably deliveries to other continents - because higher prices can be achieved there, etc”.

“Market is very tight due to logistic constraints (breakbulk and containers cost and availability), high prices, pulp volume curtailments and no spot offers. No major consequences on pulp supply. Eventually increase of pulp demand from tissue away from home line of business due to the re-opening of commercial activities.”

Nota: Brexit may have added some border delays and extra costs associated with uncertainty, but the Brexit related new procedures are not seen as an issue.

For 3 respondents, the situation is significantly worse.

“Situation has significantly worsened as a consequence of:

- Significantly higher demand than budgeted*
- Supply disruption / limitation*
- Overall we are facing difficulties to get supplied with the sufficient volume needed”.*

“In general situation has significantly worsen since the beginning of 2021 and pulp market has definitely turned to the sellers one. Low availability, pulp price rally, demand surpassing supply characterise current pulp market. Prices in China are sky rocketing, setting up the global trend. Buyers who haven’t secured volumes are in trouble nowadays as spot market is practically not existing and it’s not a case of price but pulp availability as such. There are various reasons for current market pulp strength among which the most important are:

- declining pulp prices throughout 2019 and 2020 to reach the momentum below cost level for majority of market pulp players and impacting global supply and demand ratio,*
- planned and unplanned downtimes in pulp productions,*
- speculative physical and futures buying,*
- China recovery,*
- logistics constraints,*
- USD weakening to support commodity prices,*
- commodity prices rally e.g. copper, oil,*
- vast liquidity and massive government stimulus.*

The above picture is a general one, since our volumes are secured, however we are, as others, exposed to the general price picture.”

2. 2. On the short/medium term, do you anticipate that the covid epidemic will still have consequences on the pulp supply?

The future impact of the covid-19 is seen as a minor cause of the market developments. We will then report on what respondents say about (i) the covid impact, (ii) the general market drivers.

Regarding the covid-19 situation, respondents do not anticipate it will have a significant impact on the market situation. The only exception is a situation where a severe deterioration in Lat. Am. would affect the pulp mills and their logistics.

"The Covid epidemic is not expected to have impact on the pulp supply".

"As the people get vaccinated, we foresee an improvement on the pulp supply. On the other hand, as the general situation was better, pulp demand will also increase and this fact can affect pulp supply."

"A certain threat persists that the pandemic might have an influence. It is unlikely though that entire mills are forced to take downtime, so as long as companies are capable of staffing the lines, any impact should be minor."

"Situation in Brazil is concerning because if epidemic is going out of control, it may impact the production mills or the ports. "

Besides the covid situation, several respondents anticipate that the market will remain tight during the coming months. But the current situation is perceived as temporary and somehow artificial, which means that the market should be more balanced in 2022.

"There might be short & medium consequences due to postponed maintenance shutdowns from last year and maybe a delayed startup of new pulp capacity. The consequences are in both cases negative to the supply situation of the customers."

"Covid seems to be no longer an issue regarding pulp supply and rather typical market forces, supply and demand are today the key points to analyze short and medium pulp market dynamics. It is expected that the economies are starting to pick up from Covid downgrade and best example here is China, but other economies are in line to recover. If so, pulp market should peak up in Q2 2021 to stabilize until the end of this year. Healthy and improving demand will not meet new capacities on a pulp side earlier than 2022."

"The pulp supply situation is currently not good, not to say bad. Basically, I assume that the situation will normalize again halfway in the next 6 months, because those factors that were artificially brought about here will (have to) adjust themselves again. I'm not exactly sure what part of this is due to COVID-19. Maybe it's 30% ..."

"The pulp situation is totally out of logic. The demand for paper due to Covid is not so strong and pulp suppliers had increased prices in around 40/45% since end of 2020."

Long term impact will be clearer in 2022. Investments in Pulp will probably increase!

3. Comments on the market

“considering the extreme volatility of the market pulp it would be more rational for companies to maintain higher stock at mills (less focus on working capital vs more on operating cost) - less agreements based on PIX and more based on open negotiations”.

“I’d like to repeat what I wrote in the previous questionnaire October 2020 when we had totally different picture of the market as well as expectations: Although the mood between buyers is good we have to remember that current downward and now stable trend lasts for the record long time and more and more pulp producers have difficulty to run its operations with acceptable results. Based on historical data and knowing the dynamics in commodity pricing model we can expect higher volatility in the coming future. (even if analysts may have different view on it today)”

As it now appears exactly this happened and came true, so although there is definitely bad mood among buyers as of today (Q2 2021) sentiment may turn over again earlier than anybody expects.”

“The approach of the pulp producer towards his customers (worldwide) is fundamentally questionable. The whole process no longer has anything to do with partnership-based cooperation and reliably functioning logistics along the value chain. It looks more like everything is being done to disrupt the delivery process and unsettle customers in order to (artificially) increase the price.”

4. Suggestions

“I would propose we continue having quarterly virtual meetings”.

If guest speaker comments on market development ... influence of SHFE towards physical market price setting in China would be of interest

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