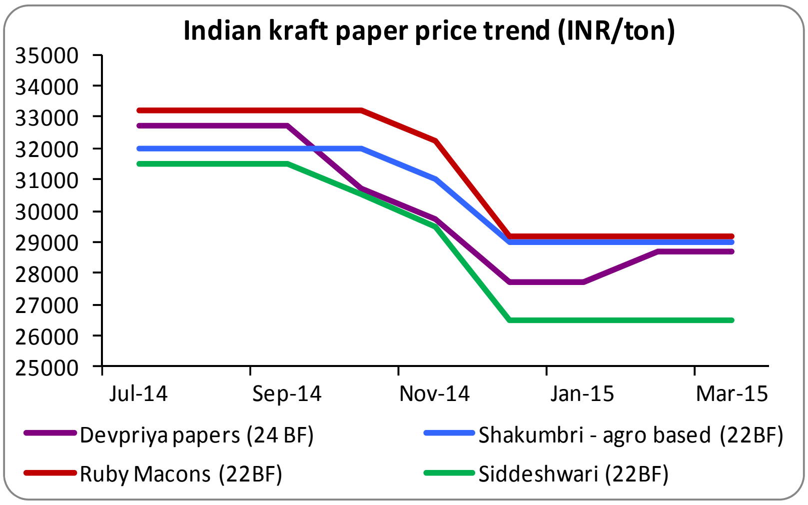
Bi-Weekly Paper and Paperboards Market Intelligence

Decision enabling cash market analysis & price outlook

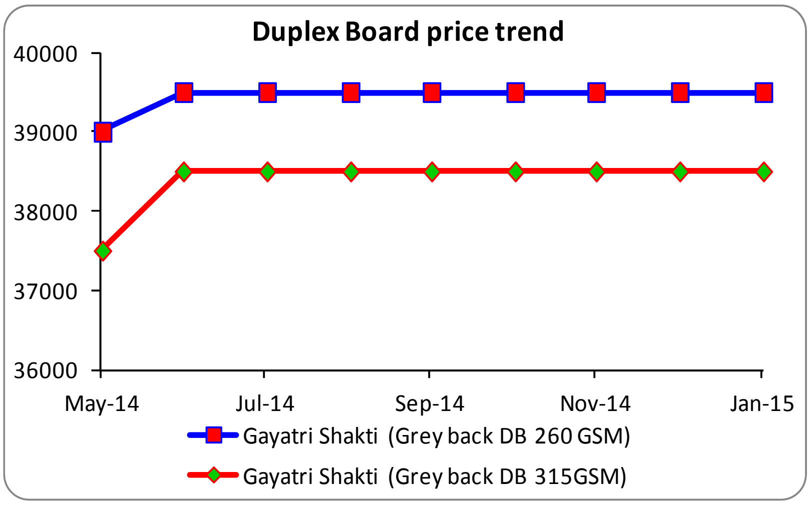
March 19, 2015

Market recap

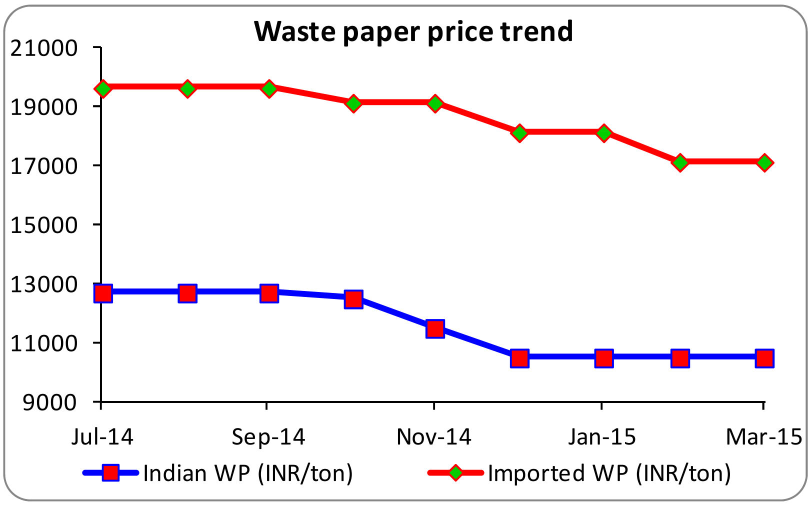
Indian paper and paperboard remained unchanged during the past month, as the lack of growth in new orders continued to keep prices under pressure. Both Kraft paper and duplex board manufacturers continue to await further cues from the market to push prices higher, after prices slumping to lowest level since 2012, ahead of the summer season but the muted demand growth resulted in prices remaining on a flat note.



At the raw material front, waste paper prices also remained unchanged in the past month affected by weak demand prospects. Meanwhile, collection activity picked up in the past month as the extreme winter conditions eased making the raw material availability higher in the market.



On the agro based paper front, wheat straw prices remained flat as mill owners awaited for fresh stocks to enter the market along with demand concerns. Sugar bagasse prices increased marginally despite more paper mills acquiring pollution certifications due to lack of buying interest from mills.



At the international front, prices of remained on a flat note after the recent decline in prices. Muted Chinese demand due to impact of slowdown in the economy weighed on the pulp prices for Asian customers.

Holistic view for Kraft paper and duplex board prices (With respect to current price levels per ton)

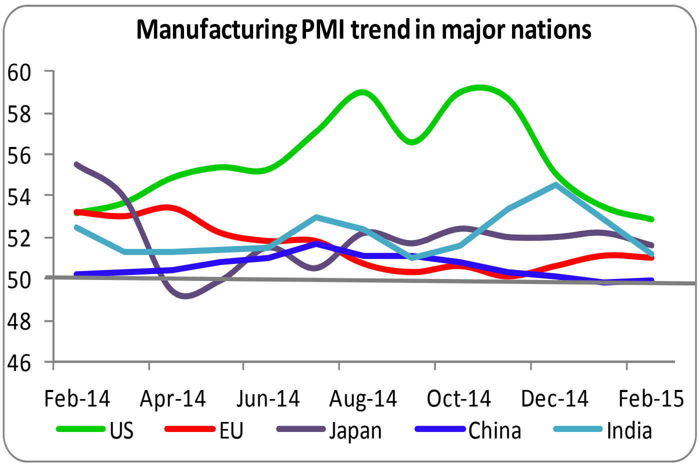
Region	1 month	2-3 months	More than 4 months
Kraft paper West India (Recycled paper based)	+500	+1000	+2500
Kraft paper North India (Bagasse based)	+500	+1000	+2500
Duplex Board West India	-1000	+1000	+2000
Duplex board North India	-1000	+1000	+2000

Procurement strategy and review for Kraft paper and duplex board

Region	Strategy Review	Physical Strategy
Kraft paper West India (Recycled paper based)	Mar-May'15 buying requirements completed in February.	Wait for pricing buying requirements beyond May'15
Kraft paper North India (Bagasse based)	Mar-May'15 buying requirements completed in February.	Wait for pricing buying requirements beyond May'15
Duplex Board West India	Mar-May'15 buying requirements completed in February.	Wait for pricing buying requirements beyond May'15
Duplex board North India	Mar-May'15 buying requirements completed in February.	Wait for pricing buying requirements beyond May'15

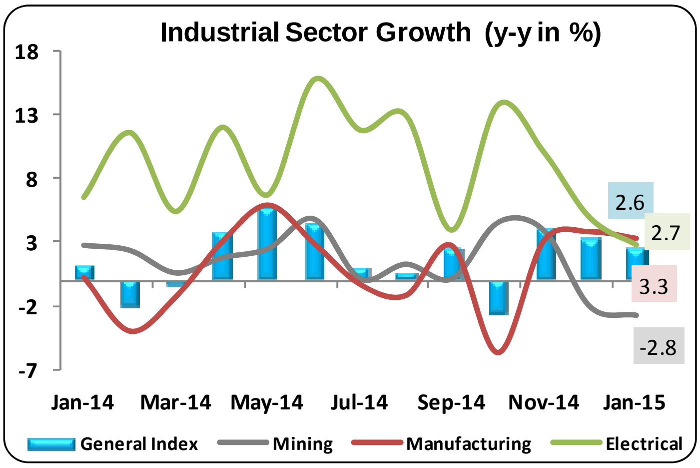
Market analysis

Economy Overview



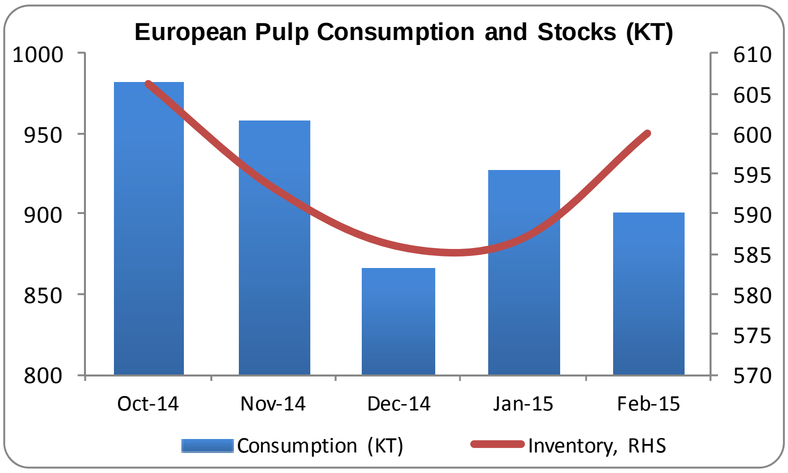
- ✓ On the economic front, manufacturing PMI data of major markets remained subdued in February indicating the slowdown in demand growth in the near term. US manufacturing PMI stayed well above the contraction but pace of growth slowed for the fourth consecutive month. Further, pace of manufacturing activity of EU and India also slowed over the past month. Weak trend in manufacturing activity is expected raise concerns regarding demand growth and weigh on prices in coming days.

- ✓ China's official manufacturing PMI witnessed marginal improvement from 49.8 to 49.9 calming markets about the hard landing of Chinese economy. While the official number is still in contraction zone, interest rate cut by 25 basis points by PBoC over the weekend shall soothe market concerns over growth.
- ✓ In a further sign of slowdown in its economic growth China's industrial production increased by 6.8%, much lower than expectations, during Jan-Feb months declining from 7.9% increase during December. Weakness in industrial activity is likely to aggrevate the concerns in the market regarding demand growth in China.
- ✓ Meanwhile, US industrial production grew by 3.5% on annual basis in February. Industrial activity in US has slowed for the second consecutive month suggesting weak demand outlook from factory sector.
- ✓ India's industrial production grew by 2.6% in January compared to last year with green shoots coming from manufacturing sector which has been lagging earlier. Manufacturing output increased by 3.3% in January compared to last year and about 3.9% compared to December'14. Positive signs in industrial production data are likely provide optimism about demand growth and negate the investors concerns.



Global Paper Industry

- ✓ Pulp consumption at European ports declined by 2.8% during February to 900,579 tons from 926,560 tons while the stocks increased by 2.2% to 600,027 tons from 587,016 tons. Weak demand and mounting stocks are expected to keep pulp prices on subdued note in coming days.



- ✓ Germany's paper and paperboard production during January'15 decreased by 1.5% to 1.86 million tons compared to 1.89 million tons during January'14. Total exports declined 5.1% to 845 thousand tons from 891 thousand tons.
- ✓ US paper and paperboard production increased by a marginal 0.1% in January compared to same month last year to 6.687 million tons from 6.694 million tons. Paperboard production increased by 2.8% to 4.186 million tons from 4.069 million tons led by 3.9% growth in containerboard production.
- ✓ Total US kraft shipments declined by 3.1% in January compared to last month to 124.4 thousand tons from 128.4 thousand tons during earlier month. Bleached kraft shipments edged lower to

9.4 thousand tons from 9.7 thousand ton in December while unbleached kraft paper shipments decreased from 118.7 thousand tons to 115 thousand tons.

- ✓ US recovered paper exports in January declined 6.4% to 1.56 million tons from 1.66 million tons from same month last year due to the congestion issues at large West Coast ports affecting movement. Exports to China were down 6.5% on annual basis from 1.17 million tons to 1.1 million tons indicating the decline in demand from top consumer which is expected to weigh on the prices.
- ✓ Global pulp shipments in January'15 decreased by 14.1% to 3.497 million tons from 4.069 million tons in December'14. However, shipments in January are 2.5% higher compared to 3.411 million tons in January'14 increased by 3.4% compared to 3.934 million tons from a year earlier indicating the demand recovery in the market. Shipments declined due to the winter weather conditions and slowdown in Chinese demand.
- ✓ Softwood stocks increased by to 34 days in January from 31 days of supply in December, while hardwood stocks also raised from 36 days of supply in December to 45 days of supply in January indicating the lack of demand in the market. Overall combined stocks days of supply jumped up by six days to 40 days in January from 34 days in December stocks.
- ✓ Chilean pulp and paper company CMPC will be adding a new line bleached eucalyptus line of capacity of 1.3 million tons per year to its Guaiba mill which is currently operating at 450,000 tons per year production capacity. Also, despite the unfavourable macroeconomic conditions, Brazilian wood pulp exports also continue to go up with exports during 2014 increasing by 12.6% to 10.6 million tons from 9.4 million tons.
- ✓ Higher pulp exports from South American along with current higher stocks and weaker demand outlook from China is likely to keep softwood and hardwood prices in a bearish tone in the medium term.
- ✓ China's recovered paper imports in 2014 declined by 5.8% from 29.2 million tons to 27.5 million tons indicating the slowing demand for packaging paper and paperboards in China. Further, higher availability of recovered paper and increase of capacity up to 129 million tons in China has also led to decline in imports during 2014 and are expected to decline further in coming year.

Indian Paper Industry dynamics and Market Intelligence

- ✓ **Impact of union budget 2015-16:** Budgetary allocation of INR 689 billion to the education sector to translate into steady demand for paper grades like creamwove and maplitho paper primarily as education stationery.
- ✓ Union budget provided boost for growth in consumer durables with reduction of customs duty on raw materials, which go into the manufacture of various products as well as a reduction in tax on royalty will encourage indigenous manufacturing. Boost for manufacturing growth is expected to push the demand higher in the medium term.
- ✓ On the other hand, lack of incentives for the FMCG sector or e-commerce companies will impact the demand outlook adversely. Meanwhile, central government's push to digital India programme should affect overall demand in the long term.
- ✓ Further, doubling of energy cess will drive up power costs (that form about 15% of total manufacturing costs) and consequently add to the input prices which should increase the pressure on manufacturers to maintain their profitability.

Paper tariffs	Customs		Excise	
	2014-15	2015-16	2014-15	2015-16
Newsprint	0.0	0.0	0.0	0.0
Maplitho	10.3*	10.3*	6.2	6.2
Duplex board	10.3*	10.3*	6.2	6.2
Art board	10.3*	10.3*	6.2	6.2
Wood pulp (hard)	5.2*	5.2*	2.1	2.1
Wood pulp (soft)	5.2*	5.2*	2.1	2.1
Waste paper (OCC)	12.0	12.0	6.2	6.2
**customs duty are "nil" for ASEAN countries after FTA in December 2013*				

- ✓ To summarize, incentives for manufacturing growth and boost for education sector are expected to contribute to the price gains in the medium term, while rise for input costs due to increase in energy cess is likely to push the prices higher in the near term for paper and paperboards.
- ✓ During last month, domestic paper and paperboard prices remained on a flat note as the demand did not pickup as expected during last month leaving mill owners disappointed. Global weak trend in prices and higher supplies during extended sluggish growth phase continued to weigh on the prices however mill owners held off the prices reduction in anticipation of demand eventually picking up.
- ✓ Slower growth rate in Indian manufacturing sector in the last few months coupled with flat growth in new orders continued to weigh on the demand prospects during the past month.
- ✓ At the recovered paper front, prices remained flat for March due to the sluggish demand in the market as well as the weak trend in international prices. With weather conditions improving, especially in the northern regions, waste paper collection activity has picked up despite lack of buying orders from mill owners.
- ✓ Meanwhile at the agro based raw material front, sugar bagasse prices witnessed marginal increase in prices in tune of 5% for the second consecutive month. However, lack of buying interest in the market kept the price gains marginal reflecting the slump in consumption.
- ✓ Further, wheat straw prices were unchanged for March as the paper manufacturers awaited for the fresh stocks to enter the market along dull trend in demand. Fresh crop of wheat is expected to hit the market from the last week of March which should increase the buying activity for wheat straws and give a firm tone to prices in the medium term.
- ✓ Going ahead, high temperatures and water scarcity due to the starting of summer season in coming month shall increase the input costs for paper manufacture in coming months. Increase in input material costs like water and power will add to the pressure on mill owners to increase prices. Further, increase in energy cess will also add to the costs pushing it further higher in coming months.
- ✓ On the demand front, seasonal gain in the industrial activity during the April – May ahead of the decline in monsoon season, also vindicated by the encouraging industrial production data for the January, should boost demand prospects in coming months. Much anticipated increase in new orders after slump in demand during past two quarters should easy pressure on paper producers amid increasing input costs and lead to stable growth in production.

- ✓ Additionally, increase in raw material prices along with starting of summer season which is expected push the prices higher due the other input costs such as water and electricity is also likely to contribute to the price gains in coming month.

To summarize, increase in raw material prices along with starting of summer season which is expected push the prices higher due the other input costs such as water and electricity is also likely to contribute to the price gains in the medium term.

Physical market prices

Raw material prices

Paper and paper board raw material prices			
Raw material	**17th Mar'15**	**3rd Feb'15**	**% Change**
Chemicals and additives			
Caustic soda, Mumbai, INR per ton	31500	32000	-1.56
Rosin, Mumbai, INR per ton	102000	102000	0.00
Alum, Delhi, INR per ton	12000	12000	0.00
Caustic soda, Delhi, INR per ton	37000	36000	2.78
Pulp and recycled paper	**Mar '15**	**Feb '15**	**% Change**
Indian waste paper, INR per ton*	10500	10500	0.00
Bagasse based pulp, INR per ton*	5954	5670	+5.00
Imported waste paper, INR per ton*	17124	17124	0.00
* Monthly average prices			

Kraft paper prices (Basic rates in INR per ton)							
Paper mill	**Raw material**	**GSM**	**BF**	**Region**	**Mar' 15**	**Feb' 15**	**% change**
Aryan Paper Mills	Recycled paper	150	22	West	30000	30000	0.00
Ruby Macons Ltd	Recycled paper	150	22	West	29200	29200	0.00
Ruby Macons Ltd	Recycled paper	220	24	West	32100	32100	0.00
Shakumbri Paper Products	Agro based	150	22	North	29000	29000	0.00
Ruchira Papers	Recycled paper	150	22	North	30000	30000	0.00
Siddeshwari Paper Mills	Agro based	150	22	North	26500	26500	0.00
Siddeshwari Paper Mills	Agro based	220	24	North	29000	29000	0.00
Devpriya Paper Products	Recycled paper	220	24	North	28700	27700	0.00
Devpriya Paper Products	Recycled paper	180	22	North	26700	25700	0.00

Duplex board prices (Basic rate in INR per ton)				
Paper mill	**Region**	**Feb' 15**	**Jan' 15**	**% change**
Gayatri Shakti, Grey back duplex board, 260 GSM	West	39500	39500	0.00
Gayatri Shakti, Grey back duplex board, 300 GSM	West	38500	38500	0.00
Gayatri Shakti, coated white back , 260 GSM	West	42500	42500	0.00
Gayatri Shakti, coated white back , 300 GSM	West	39700	39700	0.00
Deevya Shakti, HWC duplex board, 250 GSM	South	38550	38550	0.00
Deevya Shakti, HWC duplex board, 320 GSM	South	36470	36470	0.00
Three M papers, HWC white back, 250 GSM	West	40750	41500	0.00
Three M papers, HWC white back, 300 GSM	West	38250	38000	0.00
ITC Limited, Safire Graphik, 400 GSM	South	64500	64500	0.00
ITC Limited, Carte Lumina, 400 GSM	South	66000	66000	0.00

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