

WOOD MARKETS UPDATE

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populus tremuloides (quaking aspen)

U.S. pulp spot markets show signs of life

March 21, 2017 (RISI)—In US pulp spot markets, prices have continued to rise even after the \$15-25/tonne gains recorded two weeks ago. Benchmark northern bleached softwood kraft (NBSK) edged up \$5/tonne to \$610-630/tonne net delivered the US East and Midwest, bringing the cumulative rise in NBSK spot prices up \$55/tonne year-to-date.

In US bleached hardwood kraft (BHK) spot markets, a pricing run also continued, with levels rising to \$530-560/tonne net, up \$10/tonne, according to RISI polling through March 17. Producer sources continued to report deals above \$560/tonne net in the Northeast, while more volume at around \$530/tonne was recorded in the Midwest.

U.S. PULP SPOT PRICES (US\$/tonne)				
	Mar. 17	Mar. 3	Feb. 17	Feb. 3
NBSK - US East	\$610-630	\$600-630	\$590-610	\$575-605
BHK - US East	\$530-560	\$520-550	\$500-530	\$490-520

Source: RISI.

GENERAL INTEREST

Goodhue County Minnesota placed under emergency EAB quarantine

March 6, 2017 (postbulletin.com)—The Minnesota Department of Agriculture has placed Goodhue County under an emergency quarantine after emerald ash borer was found in the city of Red Wing. During a hike over the weekend at Barn Bluff, an MDA employee noticed an ash tree with significant woodpecker damage, a tell-tale sign of possible emerald ash borer infestation. She took photos of the tree and noted the location. After further investigation, the MDA found EAB larvae in the tree. The USDA on Friday officially confirmed the insect to be emerald ash borer. Because this is the first time EAB has been identified in Goodhue County, the MDA is enacting an emergency quarantine to limit the movement of firewood and ash material out of the county to help reduce the risk of further spreading the tree-killing insect. Fourteen other Minnesota counties are under quarantine to prevent the spread of the emerald ash borer.

ECONOMY & HOUSING

Why we could get negative interest rates

April 3, 2017 (forbes.com)—At its March meeting, the Federal Reserve raised interest rates by 0.25%. In doing so, it hiked rates for only the third time since 2006. However, in a strange turn of events, the Fed’s move was perceived as a dovish one by the markets. That’s because even with inflation at its highest level since 2012, the Fed said monetary policy will remain accommodative “for some time.” As has been the case in the past, the Fed is willing to let inflation consolidate above its 2% target before embarking on a more aggressive tightening path. This willingness to let inflation “run hot” means even as nominal rates rise, real rates—that is, the nominal interest rate minus inflation—are headed into negative territory. So what are the implications of negative real rates?

Negative Real Rates Drive Gold Higher

The consumer price index (CPI), the most widely used measure of inflation, averaged 2.67% for the first two months of the year. Even if inflation averaged only 2% for all of 2017—the Fed’s target—it would be a big problem for investors and savers alike. Today, a one-year bank CD pays about 1.4%. Therefore, anyone who keeps their money in a bank is watching their purchasing power erode. Of course, there are other options. You can put your money in U.S. Treasuries or dividend-paying stocks—both popular sources of fixed income. However, with both the 10-year Treasury yield and the average dividend yield for a company on the S&P 500 hovering around 2.35%, that doesn’t leave much in the way of real gains if inflation is running at 2% per annum.

2016 U.S. real GDP growth dismal 1.6%

March 30, 2017 (BEA news release and washingtonpost.com)—The U.S. economy expanded 2.1 percent in the fourth quarter, October through December, based on the BEA’s third estimate, capping off a long period of tepid expansion under the Obama administration. For the full-year 2016, the U.S. economy grew 1.6 percent, the lowest reading since 2011 and down from an increase of 2.6 percent the prior year. Economists blamed slow growth last year primarily on lackluster business investment, as historically low oil prices during most of 2016 brought expansion in the U.S. energy sector to a halt. However, data showed that business investment turned up in the fourth quarter as global oil prices began to rise – a sign that the U.S. economy could be turning a corner into 2017.

China’s 2016 economic growth weakest since 1990

January 21, 2017 (multiple sources)—China’s economy slowed further last year to expand at its weakest pace for quarter of a century, with warnings that it risks losing further momentum in 2017 as Donald Trump’s presidency creates new challenges for the trading superpower. The world’s second-largest economy grew 6.7% last year, according to China’s statistics office, meeting Beijing’s target range of 6.5-7% but the slowest growth since 1990. Trump has pledged to impose high tariffs on imports from China and to brand the country a currency manipulator. The president-elect has long maintained that China has been devaluing its currency to make its exports more competitive on overseas markets. With China a key driving force behind already faltering global growth, its relations with the new US president will come into sharp focus.

FINANCE & MANAGEMENT

WY 2016 net earnings \$1 billion on \$6.4 billion sales, \$24.9 billion market cap

February 3, 2017 (PRNewswire)—Weyerhaeuser Company (NYSE: WY) today reported fourth quarter net earnings to common shareholders of \$551 million, or 73 cents per diluted share, on net sales of \$1.6 billion. For the full year 2016, Weyerhaeuser reported net earnings attributable to common shareholders of \$1.005 billion, or \$1.39 per diluted share, on net sales of \$6.4 billion. 2016 results include after-tax earnings of \$612 million from discontinued operations related to the divested Cellulose Fibers segment. Full year 2016 includes net after-tax charges of \$141 million from special items. Excluding these items, the company reported net earnings from continuing operations before special items of \$534 million, or 75 cents per diluted share. This compares with net earnings from continuing operations before special items of \$382 million for the full year 2015.

Sappi to invest \$165 million in Maine paper mill rebuild

February 8, 2017 - Sappi Limited, a leading global producer and supplier of diversified wood fiber products, today announced the approval of a range of projects in Europe and the United States including the approval of a US\$165 million capital project to expand Sappi North America's manufacturing capabilities and flexibility to include a variety of consumer packaging products. This investment on Paper Machine No. 1 at its Somerset Mill in Skowhegan, Maine establishes a strong platform for growth in paper-based packaging while maintaining Sappi's leadership position in the graphic paper market, increasing annual production capacity at this mill to almost one million tons per annum.

Sappi mulls plans to increase dissolving pulp output by 500,000 tonnes/year

February 2, 2017 (PPI Europe)—Sappi is planning to increase its output of dissolving wood pulp (DWP) in both South Africa and the US. According to the firm's CEO Steve Binnie, based on estimated global demand growth for DP of 4-5% per year, Sappi is planning to raise its own DWP production by around 500,000 tonnes/yr during the next five years. At its Ngodwana and Saiccor mills in South Africa, the firm will raise capacity by up to 100,000 tonnes/yr during the course of this year and next, bolstering its existing one million tonne/yr DWP capacity in the country, Binnie said in the firm's 2016 annual report. At the same time, Binnie said that its Cloquet mill in the US state of Minnesota is currently utilizing some two-thirds of its capacity to produce DWP, with the remainder dedicated to integrated hardwood pulp production. Going forward, however, Sappi expects to utilize the full DWP capacity at the plant, meaning an additional output of 100,000 tonnes/yr, said Binnie. According to figures from Sappi, the Ngodwana mill's DWP capacity currently stands at 210,000 tonnes/yr, while that for the Saiccor mill is 800,000 tonnes/yr. The Cloquet mill can produce 330,000 tonnes/yr of DWP.

PCA reports 2016 earnings \$450 million on \$5.8 billion sales

January 30, 2017 (Business Wire)—Packaging Corporation of America (NYSE: PKG) today reported fourth quarter 2016 net income of \$111 million, or \$1.17 per share and \$1.23 per share excluding special items. Fourth quarter net sales were \$1.5 billion in 2016 and \$1.4 billion in 2015. Full year 2016 earnings were \$450 million, or \$4.75 per share and \$4.88 per share excluding special items. Full year 2016 net sales were \$5.78 billion compared to 2015 net sales of \$5.74 billion.

PCA CEO Kowlzan needs more wood for Boise, International Falls paper mill

December 21, 2016 (ifallsjournal.com)—Mark Kowlzan, the CEO of Packaging Corporation of America, which owns the Boise paper mill in International Falls, Minnesota, gave an update to elected officials, local mill employees, and PCA officials as the third year owning the mill comes to a close. When PCA purchased the mill in 2013, Kowlzan said it was in need of upgrades and investments. He knew when discussions of the purchase began, people were uncertain what a packaging company would do with a paper mill. “I told people we were going to invest, fix the mill and make money making paper,” he said. And PCA has done just that.

Fast forward to 2016, Kowlzan said everything he said PCA was going to do has been done and more. Kowlzan highlighted how efficiency has increased and accidents and down time have decreased in the last three years and how he sees a bright future of the International Falls mill. But, in order to continue down the path of profitability, the timber harvest on county, state and federal lands will need to increase to a sustainable level. “We need more wood,” Kowlzan said. He urged the area’s elected officials to do what they could to ensure the timber would be available to keep mills running efficiently.

Faced with global oversupply, Stora Enso scraps pulp mill project in China

January 19, 2017 (asiapapermarkets.com)—With global pulp supply projected to increase, Stora Enso has reportedly scrapped plans for a chemical pulp mill at its Beihai pulp mill site in China, a *Reuters* news report quoting Stora executives said. “The supply-demand of the global pulp market has been negatively impacted by new investments in hardwood pulp production [*Editor’s note: primarily in Brazil*]. At the same time, we consider the wood costs to supply the potential chemical pulp mill to be too high, which reduces the competitiveness of such a mill,” Chief Executive Karl-Henrik Sundstrom said in a statement. Stora said the decision remains subject to approval by its board, and would not affect other operations at the Beihai mill. Stora Enso had inaugurated the first phase of its integrated board and pulp mill facility located in Beihai City, Guangxi, China, in June 2016. Developed with a total investment of €800 million (US\$886 million), the project was claimed to be the biggest Nordic direct investment in China and a significant investment made by the company in its history.

PRODUCTION & PRICES

Resolute idles Ontario newsprint mill

March 10, 2017 (CNW)—Resolute Forest Products Inc. today announced the indefinite idling of its paper mill located in Thorold, Ontario. The facility, which employed over 100 workers, has an annual production capacity of approximately 197,000 metric tons of newsprint on one machine using 100 percent recycled furnish. The difficult decision to proceed with the indefinite idling is driven by the ongoing significant decline in North American newsprint consumption, coupled with the increasing cost of recovered paper. The company had already been taking downtime at the operation since mid-December 2016. Resolute is collaborating with Stone House Investments Holdings Inc., an independent third party interested in converting Thorold to production of an alternative product. Resolute recognizes the impact of today's announcement and believes conversion of the mill would provide a more sustainable future for the operation, its workforce and the surrounding community.

Diapers for baby boomers give boost to beleaguered paper industry

March 9, 2017 (Bloomberg.com)—As the world population ages, sales are climbing for absorbent hygiene products that have gotten more comfortable and discreet. Demand is projected to grow 4 percent in 2017, according to ERA Forest Products Research, boosting prospects for companies including International Paper Co. and Domtar Corp. They're expanding production of the moisture-capturing fiber known as fluff pulp used in diapers and tampons. The shift is providing welcome relief for an industry hurt by the emergence of the digital era and paperless communication. As North American producers expand output of fluff grades, the market for traditional pulp is tightening. Fluff pulp prices have been rising in recent months with more gains expected in March, according to Bloomberg Intelligence. "The fastest-growth market is adult incontinence," said Kevin Mason, the managing director of ERA Forest Products Research in Kelowna, British Columbia. U.S. retail sales for products targeting adult incontinence reached almost \$2 billion in 2016. Papermakers in the U.S. South, including Memphis, Tennessee-based International Paper, are poised to benefit as they produce almost 90 percent of world's fluff pulp.

Census reports alternative facts for Canadian lumber imports

March 15, 2017 (harder.blog)—Revised Census data that corrects a "massive" disparity in Canadian softwood lumber shipment volumes to the United States in 2016 could significantly impact countervailing and/or anti-dumping duty cases. Relying on statistics gathered through the U.S. Census Bureau Random Lengths had reported that [preliminary] imports from Canada were 16.065 billion board feet in 2016. Figures from Statistics Canada indicated Canadian shipments to the U.S. were 14.954 billion board feet. "The gap between the two sets of data of 1.11 bbf, or 7%, was massive by historical standards. The discrepancy surfaced late in the first quarter last year, and grew as wide as 10%" (Random Lengths International Report, March 15). A number of downward adjustments released yesterday by the U.S. Census Bureau which included SPF, Western Red Cedar, and Douglas Fir shipments, brings the U.S. import statistics in accord with Canadian export data.

Trump's trade nominee targets Canadian softwood lumber dispute

March 14, 2017 (theglobeandmail.com)—President Donald Trump's nominee for United States Trade Representative is vowing to end the long-running softwood-lumber dispute with Canada – whether by cutting a deal or fighting it out in trade court – and take Ottawa to task for not cracking down on counterfeit goods destined for the U.S. In a clear signal of the new administration's bilateral priorities, Robert Lighthizer told his Senate confirmation hearing Tuesday that softwood is “at the top of the list.” He said he recognizes that American companies want “quantitative restraint” – a limit on Canadian lumber entering the United States. “It is a very serious, intractable sort of problem. It has enormous political consequences on both sides of the border,” he told the Senate's finance committee. “We need a new deal: Either litigation or a new agreement that works [for the U.S].”

The ugly truths of a volatile lumber market

March 1, 2017 (constructionmagnet.com)—History, it seems, is simply repeating itself. Random Lengths.com points out, “The three-week surge in lumber prices just ahead of anticipated duties on Canadian exports to the states looks similar to the one that occurred in 2001 just before the U.S. imposed countervailing and anti-dumping duties on Canada.” Here's what is contributing to the surge: A coalition of predominantly southern yellow pine (SYP) producers petitioned the U.S. Department of Commerce (DOC) last November, asking for an investigation into Canadian softwood lumber shipments with an eye toward levying tariffs on those shipments. According to the DOC's timeline we may know their preliminary determination on countervailing and anti-dumping duties (CVD and AD duties) in the next few weeks.

It is very likely the DOC will determine harm has been done to U.S. lumber producers through the importation of lumber from Canada. It's “very likely” because the Trade Preferences Extension Act of 2015 now makes it even easier for U.S. industries to bring an action against a foreign country and win. Several changes to trade law within the bill allow the DOC and the U.S. International Trade Commission (ITC) to more easily impose CVD and AD duties, to assess higher duty rates and to examine fewer foreign companies to establish harm. A preliminary determination in favor of U.S. petitioners is also “very likely” because the strong U.S. dollar favors Canadian lumber. Since the exchange rate is influenced by a wide array of external factors, those petitioning for CVD and AD duties have an incentive to push for a determination now while the exchange rate helps make the case for a decision in their favor.

Lumber “experts” have indicated the market assumes the total assessed duties will likely be in the range of 30 percent. If the DOC and ITC determine harm is being done to the U.S. companies who petitioned the investigation, the duties can be assessed on lumber imported from Canada retroactively up to 90 days from the preliminary determination date. This means lumber coming across the border today may be subject to CVD and AD duties.

MARKET INTEL

Global dissolving wood pulp bubble has burst

March 15, 2017 (*Editor compiled from multiple sources*)—Dissolving pulp, a material derived from cellulose that is found in many products from textiles to cigarette filters refers to pulp with cellulose content above 90%, including: wood pulp, bamboo pulp and cotton pulp. This market overview is limited to dissolving wood pulp (DWP). Viscose staple fiber (VSF) is the primary commodity grade made from DWP, accounting for 75% of total demand. Global production was in decline from 1990 to 2001. From 2002 to 2015, global production increased about 228%, rocketing from 2.7 million tonnes to 6.2 million tonnes. In 2015, Global DWP capacity totaled about 7.5 million tonnes with production at 6.2 million tonnes and capacity utilization at 83%. Most of the “new” capacity can swing production between DWP and paper grade pulp depending on market conditions. Producing regions include: North America, Europe, South Africa, and Asia (primarily China) (Figure 1). The world's major DWP producers are: **Sappi**, Aditya Birla, Lenzing, Sun Paper, Bracell, and Rayonier which account for a combined 57% market share.

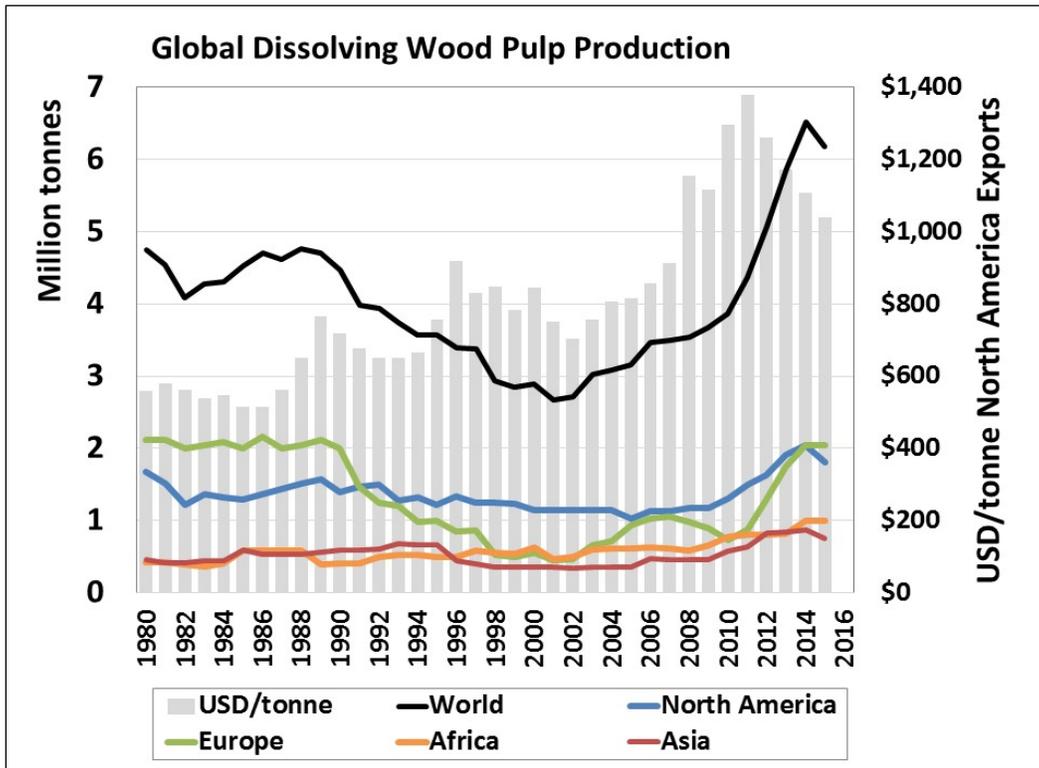


Figure 1. Dissolving wood pulp production by region. Data: FAOSTAT. Chart: MNDNR.

Exploding in 2011, North America and Europe started ramping up DWP production. By the end of 2015, China's dissolving pulp capacity more than doubled, reaching about 1.56 million tonnes and making up 20.8% of the global total but, actual output of dissolving pulp was less than 750,000 tonnes, about 50% capacity utilization. During 2012-2015, due to soft demand and overcapacity, the dissolving pulp sector suffered losses. Chinese dissolving pulp companies have been plagued with high production costs and weak competitiveness.

Status—Given recent market corrections, the DWP boom is turning bust, apparently being more of a bubble than sustainable growth. In 2008-10, high cotton prices caused global demand for commodity grade VSF to spike. Given declining demand for printing-writing papers, industry was quick to take advantage of this perceived opportunity. Since July 2015, cotton supply increased and prices decreased to the point where, in China, VSF was more expensive than cotton in 16 of the past 18 months (Figure 2). The market is currently saturated with Chinese overcapacity being the primary issue. Faced with soft demand, declining prices, and unfavorable currency exchange rates, U.S. exports declined in 2015 (Figure 3).

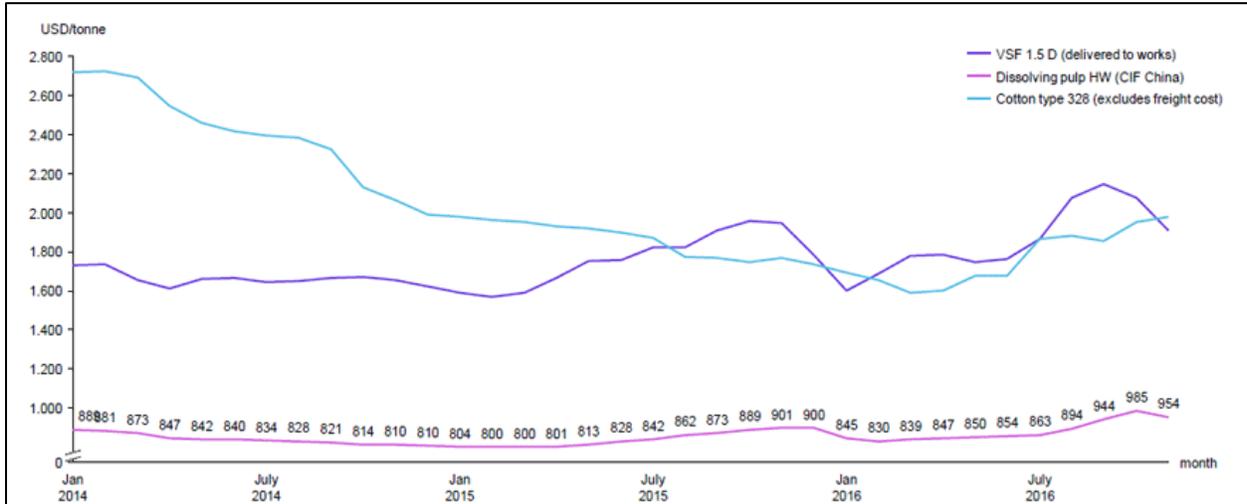


Figure 3. VSF, Cotton, and DWP prices in China. Source: asiapapermarkets.com, November 2016.

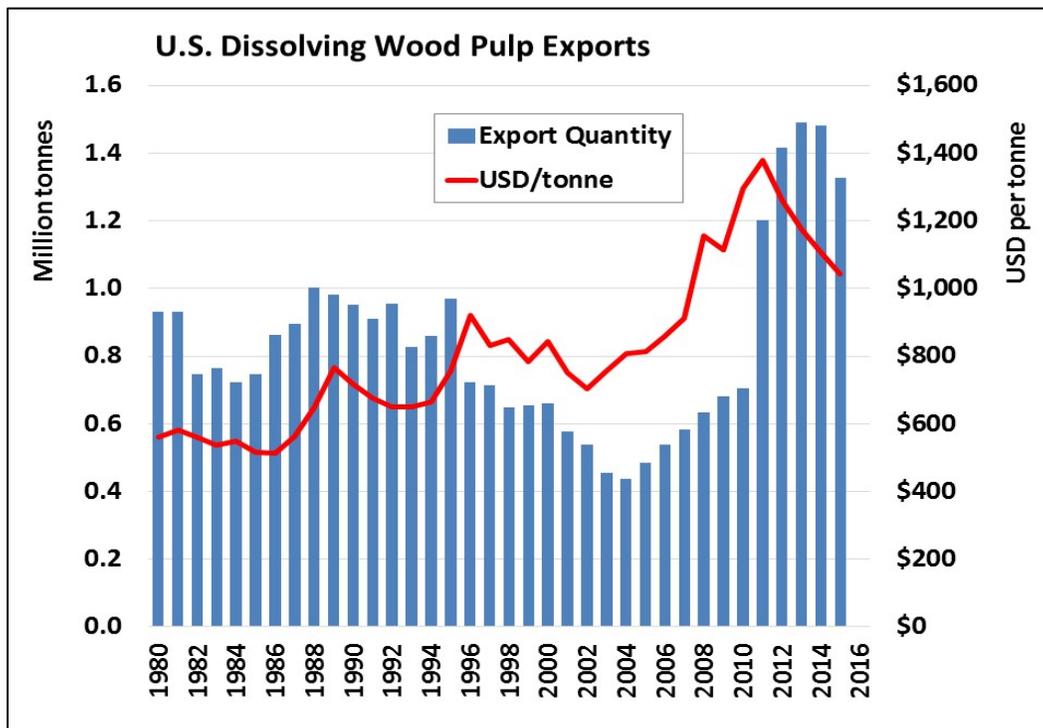


Figure 3. U.S. DWP exports and pricing. Data: FAOSTAT. Chart: MNDNR.