

**BRADNER SMITH & COMPANY**  
**PAPER MARKET UPDATE**  
**December 2009**

**COATED FREESHEET**

○ ***Present Situation***

Lead times range from 10 days to 3 weeks. Web prices remain flat while sheetfed manufacturers are trying to move prices up. Year over year shipments are positive, but compare to the bottom of the cycle last year. Demand remains weak.

○ ***Outlook***

Rising costs (fiber, energy, transportation and chemicals) will force manufacturers to consider price increases. RISI anticipates price increases may be attempted as early as April in spite of weak demand. After falling through 2009 (down an estimated 37% in 2009), imports will likely rise in 2010 as Europe remains significantly oversupplied. Permanent capacity cuts will be necessary to sustain price increases.

⇒ ***Other Issues***

The pursuit of anti-dumping and countervailing duties continues. The Commerce Department's ruling on the countervailing duty was delayed from December to February and the ruling on the anti-dumping duty will occur in March. These duties are not expected to significantly reduce overall imports, as Korean and European manufacturers have a ready supply for any shortage.

**UNCOATED FREESHEET**

▪ ***Present Situation***

Lead times are 3-4 weeks for most manufacturers. Price increases have been announced for February, and include offset, opaque and cut size business papers. To date, forms paper has not been included.

▪ ***Outlook***

Price increase announcements reflect rising costs. The expiration of the black liquor tax credit has pushed already rising costs. The rate of decline in demand is expected to slow in 2010 and rising costs suggest prices will trend up. In spite of falling demand, imports are increasing – European & Asian. Combine imports with coated paper capacity running uncoated freesheet, and the success of price increases will be difficult.

⇒ ***Other Issues***

Verso Paper has joined the list of coated paper manufacturers manufacturing uncoated freesheet on their coated paper equipment. Chinese and Indonesian imports have increased dramatically – 20,000 tons in November and December, compared to 9,600 tons per month earlier in the year.

**COATED GROUNDWOOD**

⇒ ***Present Situation***

There are signs of mild recovery for coated groundwood, although this is due less to an increase in demand and more to depleted inventories and reduced imported paper. In 2009, imports of coated groundwood were down by 23% according to RISI, and exports of domestic paper increased.

⇒ ***Outlook***

Despite the mild improvement in shipment figures, prices continue to trend down due to the overall lack of demand and hungry mills willing to negotiate for tonnage opportunities. This makes it especially difficult to comprehend how an April 1<sup>st</sup> increase would be able to be sustained.

⇒ ***Other Issues***

Although RISI estimates that actual demand for coated paper will fall in 2010, we disagree, especially in light of the poor 2009.

## **UNCOATED GROUNDWOOD**

### ⇒ ***Present Situation***

SC papers continue to stay competitive with #5 papers. Ironically, the lower end of the SC spectrum seems to have less volatility than that of the more premium SC's.

### ⇒ ***Outlook***

RISI indicates that pricing has stabilized for SCA and hovers around \$37.25/cwt for 35#. They expect to see price recovery in Q4 of this year.

### ⇒ ***Other Issues***

The same issues facing producers of coated grades are affecting those of SC mills, namely, higher input costs to make the paper. Compounded by this, most producers of SC are north of the border and face the problem of a strong Canadian dollar.

## **OTHER ITEMS OF INTEREST**

⇒ The USPS announced that they are about to unveil their updated operational concept for a possible move to 5 day delivery. They have also filed an update with the Postal Regulatory Commission saying 162 branches are now under review for possible consolidation.

⇒ In a review of 29 retailers, same store sales rose 3.3% in January, according to Thomson Reuters, better than the 2.5% analysts had forecasted.

⇒ Quad Graphics announced plans to acquire World Color Press Inc. (formerly QuebecorWorld). The acquisition is expected to be complete this summer. Quad Graphics will become a publicly traded company following the acquisition with estimated sales of \$5.1 billion.

⇒ NewPage Corp announced they will restart #10 coated groundwood paper machine at their Rumford mill. The machine had been shut down since September 2009. An estimated 100 hourly employees have been invited back to work, and the machine is expected to be up and running by mid February.

⇒ AbitibiBowater intends to emerge from bankruptcy protection by the end of the second quarter, on schedule with its 12-15 month plan.

⇒ Domtar reported earnings for the 4<sup>th</sup> quarter 2009 at \$124 million, compared to a net loss of \$678 million for the 4<sup>th</sup> quarter of 2008. Downtime taken in the 4<sup>th</sup> Q was reduced by 20%.

⇒ Since its recent peak in November, the Euro has fallen in value over 9% against the US dollar. Should this trend continue; imports from Europe will increase.

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**Sources: Walden's, RISI, Direct Newline, PaperAge, Folio, Multichannel Merchant**