

Trends & Outlook

CHALLENGES
AHEAD

"We are in a period of constrained supply and extreme price inflation"

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AHEAD

COST DRIVERS

Paper Cost Makeup

— Pre Covid the main cost associated with making paper was driven by pulp, which historically accounted for around half of the total costs. We know that Pulp has risen significantly over the last 18 months, forcing paper prices up. Making paper is an energy intensive operation and gas is one of the main sources of energy. The cost of energy has now over taken pulp as being the single biggest cost component of paper making. The continued uncertainty caused by the Russia/Ukraine situation is pushing all costs upwards.

Energy

After a period of sustained increases in gas and oil supply, the markets were expectant of prices softening as we come out of the European Winter

With such high levels of gas coming from Russia and servicing many other markets, prices, instead of softening have increased further. Most Paper Mills only option is to pass on significant surcharges and at very short notice. These are running at 000's of £'s per tonne.



Pulp Prices

Global commodity prices for Pulp are at the highest levels ever seen. Prices for NBSK, Northern Bleached Softwood Kraft Pulp had started to soften but has started to increase again, pricing is 56% above Q1 2021. BHKP Bleached Hardwood Kraft Pulp remains at an all time high. Pricing is 68% above Q1 2021 levels.

Global Impact of Russia / Ukraine situation

Global commodity markets are being stressed with the uncertainty that is directly caused by the terrible events we are witnessing in Ukraine.

- Russia has the highest coverage of forestation per capita in the word @ 55,992M² Brazil is 2nd @ 23,652M²
- Russia also has the largest reserves of gas globally @ 1,688,228,000 MMcf, the USA would be 4th @ 368,704,000 MMcf

+62%

Shipping

Freight costs remain at the highest levels recorded and availability of empty containers is still an issue in many regions. Warehouse capacity in the UK is being stretched as some stockpiling of products previously sourced from the Baltic region is evident. In China COVID outbreaks and the COVID zero policy is causing port delays and shipping re-routing.



MARKET TRENDS



Online Sales — 2020/21 saw a huge switch to online as many retail stores were closed during COVID. Sales increased by almost 70% moving from 19% in 2019 to 32.5% in 2021. Early indications are that this change of consumer behaviour will remain.



Digital Print — Commercial print saw a huge fall in demand through 2020, but demand for digital papers and print was less affected during COVID and is recovering faster. Embellishments are on trend, and the co-ordination of marketing activity with Digital and Digital Print are growing in popularity.



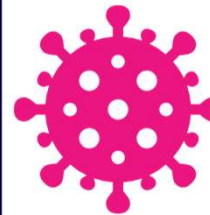
Sustainability — Appears higher on most peoples agenda and focus on Carbon Offsetting and Sustainability Schemes are prevalent. Interest in paper based alternatives to plastics has increased.



Price Inflation — Energy surcharges are now the single biggest driver in costs for paper manufacturing. Pulp prices remain high but gas, one of the main sources of producing energy is at record high levels.

BREAKING NEWS UPM STRIKE EXTENDED UNTIL AT LEAST MID APRIL

SUPPLY & DEMAND



COVID Recovery — 2022 has seen further improvements in demand as global economies recover from the main pandemic period. The Paper market is now facing a supply / demand deficit as significant capacity has been taken out of production over the last two years and Mills are reporting full order books and extended lead times. This situation is further exacerbated by Mill Strikes and the situation in the Ukraine.

Russia Ukraine Situation — Major Paper Mill groups have production facilities located in Russia. Products from these sites has historically been distributed globally and particularly into Western Europe. International sanctions has caused production to cease and the transferral of these volumes to other Mills is extremely challenging as Mills in other regions are over booked with no capacity to accommodate these significant volumes.



Packaging — Demand for packaging to fulfil the significant increases of online sales through COVID continues and this is driving a high demand for pulp to manufacture packaging products. Little slowdown of online sales as changes in consumer buying habits have changed during COVID. The drive to reduce plastics is also stimulating demand for pulp and paper based alternatives. Introduction of the Plastics tax is likely to further stimulate demand for paper based packaging solutions.

Production Capacity — Through the Pandemic and long periods of reduced demand, Paper manufacturers have been instigating significant actions to reduce their cost base and limit large losses. Globally the manufacturing capacity for Uncoated Wood free Papers (Office Papers and Offset grades) has reduced by circa 3.1 million tonnes, a combination of mill closures and machine repurposing. As markets recover post the pandemic, demand is exceeding supply capacity causing paper shortages.

