



Recovered Paper

Quarterly Report – January 2016

International Market with a focus on Asia

(Ranjit Baxi, J&H Sales International Ltd, GBR)



Oil prices continued their downward journey during the final quarter of 2015, which helped to sustain lower sea freight rates in a rather sluggish market.

Global demand continued to hold at the levels seen in the previous quarter, with occasional bursts in the order cycle. The strengthening US dollar and the weakness of Asian currencies did not help in moving prices upwards.

Export prices remained low owing to increased competition from other supplying regions, supported by increased domestic collections in various Asian markets, including China. More and more Asian mills have been opting to use increased volumes of domestic fibre, which have tended to be cheaper, in order to enable them to compete amid weakening prices for finished goods. Therefore, this also has an effect on their import volumes.

The downward spiral in OCC prices continued during last year's fourth quarter: having started the period at around US\$ 165 per tonne, prices dropped to US\$ 155+ by the middle of the quarter before ending the year at just below US\$ 150. Similarly, prices for mixed paper began the quarter at US\$ 130+ per tonne and continued to weaken, ending 2016 at around US\$ 112+.

Demand from other Asian markets - namely India, Indonesia and Vietnam - was also declining both in terms of volume as well as price, with buyers waiting to see if values were going to drop any further. This meant the volume of exports to these markets also declined during the quarter.

Exporters are hoping for a shift in market demand at the start of 2016, and are especially looking forward to renewed and increasing Chinese demand following the Chinese New Year.

Vietnam & Indonesia

(Mark Mijster, Papermarketing, NLD)



Indonesia

Our report for the third quarter of 2015 highlighted the fact that, at the time, demand from Indonesian paper mills was very poor. At the beginning of the fourth quarter, currency volatility continued to combine with difficulties in selling finished products. It is perhaps an understatement to say that, as a result, the market in general remained sluggish.

While some mills took serious amounts of downtime, those that continued to produce chose to use their recovered paper inventories first as much as possible. When needed, buying from the local market was a favourable option as availability was good and, more importantly, material could be purchased in the local currency.

BIR World Mirror on Recovered Paper

Historically, European countries satisfy approximately 33% of Indonesia's recovered paper demand. But quite remarkably during this rather long period of slow buying, no significant inventories of recovered paper arose within Europe itself.

With regard to the sales difficulties for Indonesian mills, cheap imports of paper and paperboard products from China, South Korea and Sweden have reportedly created fierce competition. In this respect, talks are already taking place at a governmental level regarding the possible introduction of import taxes to protect the local paper industry.

In mid-December, when China's major three buyers were reducing their purchases, fresh recovered paper buying activity could be detected in Indonesia.

Vietnam

In the fourth quarter of 2015, there were two more announcements of foreign paper mills establishing new capacities. Both of these expansions are taking place in the Binh Duong province of South Vietnam: Nine Dragons is going to build a 500,000-tonne kraft topline mill while Taiwanese producer Cheng Loong is creating a 1-million-tonne greenfield board mill. These are impressive volumes, and the investments too are huge.

With regard to imports of recovered paper in the fourth quarter, paper mills continued to buy more or less their normal volumes. But owing to the devaluation of the Chinese yuan and the continuing volatility of the US dollar, it was not always easy for importing paper mills to obtain the necessary funds in time.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Recovered paper volumes increased again in October after the autumn holidays. Given well-filled inventories and despite an excellent order situation, the paper industry took the opportunity to reduce prices for recovered paper. In the bulk segment, OCC was particularly affected; the middle and higher grades were also sufficiently available again.

Quarterly Report – January 2016

Here, price peaks were cut and supply volumes were restricted. Prices for printing papers, multi print and woodfree shavings were trimmed by around Euro 10 per tonne.

The recovered paper industry noted a drop in export volumes in Northern and Western Europe; in particular, China purchased considerably less than in the spring. Export prices were below those prevailing in Europe. By comparison, Eastern Europe showed more stability in October as both recovered paper volumes and revenues remained on the level of the previous month.

In November, recovered paper volumes and fibre demand from the domestic paper industry were both strong. Nevertheless, sales of the volumes available could not be taken for granted. In comparison to the previous month, the industry's inventories increased again whereas stocks were not considerable on the supplier side. There were moderate price cuts for many recovered paper grades, excluding woodfree white and rotation. The recovered paper export market remained largely unchanged from the previous month in terms of both volume and price, with values slightly below European levels.

Owing to the large volume of collected recovered paper, supply of all grades was strong in Germany during December. At the same time, paper industry demand for this raw material was high overall but slightly lower in volume terms compared to the previous month. Well-filled recovered paper inventories at the mills as well as announced and planned production breaks during the holiday period resulted in moderate price reductions. Lower grades fell around Euro 5 per tonne and middle grades by up to Euro 10; some grades, however, remained at the same price levels.

When looking to neighbouring states, slight declines in payments were seen for similar reasons. Effectively, remuneration fell slightly for export sales to Asia but this was not reflected by the Euro price because of exchange rate fluctuations.

Sweden



(Lars-Gunnar Almryd, IL Recycling)



Demand for OCC was stable at a healthy level over the autumn period last year and stocks were normal. During the course of September, prices started to drop in the south of Europe - notably to the Far East - and this led to a slight price decrease in Sweden by December, although this is not seen as a trend. Demand in northern Europe is expected to remain good. Healthy demand is seen too in Poland and Ukraine owing to declining deliveries from Russia - something which will also affect the northern markets.

Swedish mills' demand for the news grades was stable last autumn but at a lower absolute level owing to the fact that there is now only one newsprint mill in the country using recovered fibre, namely Stora Enso Hylte, which has halved its consumption compared to some years ago. On top of that, news grades are still used as raw material for tissue production in some Swedish mills. Much greater exports of non-producer-responsibility grades are taking place both to newsprint mills and the Nordic region's rapidly-growing insulation industry.

Demand for tissue grades is very high in the Nordic market and stock levels are normal to low at both the merchants and paper mills, leading to higher prices and an increase in imports during the autumn to satisfy mill demand.

Swedish recovered paper statistics for the first nine months of 2015 illustrate changes on the local market. When compared with the same period in 2014, total consumption by domestic paper mills fell 2% to 914,000 tons, with news & pams recording a drop of 10% to 287,000 tons whereas OCC climbed 3% to 388,000 tons.

Total collection volumes edged 1% lower to 874,000 tons; news & pams declined by 8% to 254,000 tons whereas OCC rose 3% to 410,000 tons. Overall imports decreased by 6% to 310,000 tons while exports nudged up 1% to 267,000 tons, with shipments of the news grades slumping 23% to 37,000 tons while OCC exports increased by 1% to 141,000 tons. The main export markets for OCC continue to be Poland and Germany at premium prices but Peterson Ranheim in Norway is also buying from Sweden.

Spain



(Francisco J. Donoso, ALBA Servicios Verdes S.L.)



The OCC market is remaining stable, with regular demand not only from local consumers but also from Chinese paper mills. Volume inputs have increased slightly - especially during the Christmas period - but demand has been able to offset this. Prices dropped at the beginning of last year's final quarter owing to rather high stocks at domestic paper mills but then stabilised during the second half of the quarter. Demand and export prices could now increase in line with the end of the Chinese New Year holidays.

Collection volumes for the deinking grades have also remained rather stable but demand has been weaker owing to high stocks at paper mills, with prices dropping as a consequence. Demand for finished newsprint product has continued to worsen, with a negative effect on our recycling market.

White grades demand and therefore prices improved throughout the final quarter of 2015 and have kept stable since then. Exports of the high white grades are becoming more commonplace although they remain quite local.

Paper mills are continuing to put pressure on direct sources in the recovered paper market through their new integrated recycling branches, thereby increasing prices and trying to remove traditional recyclers.

Turkey



(Ekrem Demircioglu, BIR Ambassador)



The Turkish lira was devalued in relation to the US dollar and the Euro in the final quarter of last year, resulting in an increase in prices and a fall in imports. Accordingly, local paper mill sales increased and recovered paper stocks melted away.

The downward price trend seen in the third quarter of 2015 and even at the beginning of the fourth quarter was thus completely reversed. Most notably in December, OCC and mixed paper recorded particularly significant price increases.

BIR World Mirror on Recovered Paper

Expectations for the first quarter of 2016 are of a continued boom in prices. Given that there is insufficient recovered paper in the local market, imports will increase accordingly.

United Kingdom

(Simon Ellin, The Recycling Association)



Last year's fourth quarter brought a period of contrasting demand and pricing in the UK: while there was a general softening of demand and prices across most grades, brown - and particularly OCC - remained fairly static in price terms but with robust demand.

Indeed, despite some general softening on mainland Europe, the price of UK OCC stood firm throughout the quarter, with 2015 ending at levels similar to those at which the final quarter had begun. A multitude of factors influenced this situation, not least favourable UK exchange rate conditions allied to some historically low deep-sea freight rates. Furthermore, the general fibre yield and quality of the UK's OCC are highly favoured by the Chinese market in particular.

In contrast, demand for mixed papers has continued to drop off and thus prices have gradually softened. Seasonal factors have been at the forefront in the UK because of a particularly wet winter, such that buyers for the Far East have been able to source drier and arguably better-quality fibres elsewhere. Prices softened by around £5 per tonne over the final three months of 2015.

Demand for the deink graphic grades softened very slightly during the final quarter of last year, with domestic and Continental mills reporting high stock levels owing to relatively high generation and probably to the drop-off in demand for news-rich mixed papers. As a consequence, prices fell by some £5 per tonne in November.

Following a year of sustained demand and prices for multigrade and SOW fuelled by UK mills, poor order books - particularly for white top - and a significant decline in demand from India resulted in price reductions of up to £15 per tonne in UK market levels.

Quarterly Report – January 2016

However, forecasts are for robust white top demand globally in 2016; India's buyers have returned to the market and demand is already strong in the first quarter of this year, with the result that prices are creeping back up.

Similar reductions had been experienced among the high grades, but again the first quarter has seen improved trading conditions.

France

(Jean-Luc Petithuguenin, Paprec)



In the final quarter of 2015, OCC collection levels were much better than in the corresponding months of the previous year.

Despite good order books and a steady demand from paper mills, the market was unable to absorb the OCC volumes, leading to price cuts in September and October. In December, some periods of downtime were scheduled but did not affect demand. With prices remaining stable, mills made sure to keep stocks at high levels in order to start 2016 in a healthy position.

Demand from the Far East remained at normal levels, with price softening always one step ahead of the domestic market. Pricing continues to be influenced by low sea freight rates and a weak Euro. However, economic growth in China is worryingly short of expectations and must be closely monitored. Norske Skog announced the refinancing of its debt in December, which is good news for the French deinking market after the capacity reduction at UPM Chapelle D'Arblay. Demand remained steady and prices fell slightly for the 1.11, 1.10 and 1.06 grades, restoring normality for this period following a strong summer. Collections of graphic paper are mirroring the declining production of the paper mills. Negotiations on reel pricing started at the end of last year and should provide a breath of fresh air if successful.

After several price hikes for the high grades, collection is still weak and demand significant. As 2015 drew to a close, pressure remained strong. In general, markets in 2016 could be similar to those in 2015 for all grades.

Czech Republic



(Jaroslav Dobes, SPDS-APOREKO)



A preliminary assessment suggests 2015 was a successful year. After several years of stagnation, the annual upturn in recovered paper collections is expected to have been between 10 and 15%

thanks to growth in sources as a result of a strong economic recovery supported by the public's greater retail purchasing power. The overall increase in consumption of paper products was approximately 5%.

In 2015, purchases of recovered paper are expected to have increased by 100,000 tons to around 900,000 tons; one third of the increase will have been consumed by domestic paper mills and the rest will have been exported. Price levels in the first 10 months of 2015 were relatively stable but they fell towards the end of the year. However, no significant reserves remain despite the decline in values.

Sales are continuing without major problems and the outlook for 2016 is optimistic.

Finland



(Merja Helander, Lassila & Tikanoja)



The Finnish market has remained stable with very good demand for all grades. Collection of one of the most important - news & pams - is still declining, with all printing papers from printing

houses following the same trend. Meanwhile, the packaging grades are exhibiting a slightly increasing collection trend, which is extremely good news given that consumption of the brown grades will climb sharply along with Stora Enso's new capacity.

Producer responsibility for all packaging materials has been reorganised. Based on the country's waste law, it means that producers of packages are responsible for collection from source up to consumption. There are differences between producers regarding how they have organised collection of the different raw materials such as fibre-based packaging, glass, metals and plastics. It is clear, however, that producers' costs will increase considerably.

The deadline for the system to be ready was January 1 this year. We can venture to say that this is the future and forms part of the Circular Economy story. All the signs indicate that the positive trend will continue this year in Finland even though the domestic economy in general is not doing very well.

Italy



(Giampiero Magnaghi)

In the final quarter of 2015, the recovered paper market was, on the whole, relatively stable despite some fluctuations. Domestic order activity for mixed paper was rather brisk as local mills did not follow the slow reduction seen in export prices for this grade, allowing these lines to keep their finished product prices stable, most notably for packaging.

Soft mixed attracted less demand from the local market but found a regular outlet in German consumers. Between the end of November and into December, the major mills had sufficient stock coverage while some of the smaller ones were still taking in enough volume to satisfy their needs.

Deliveries from overseas of paper and board for packaging have been seen in recent months. Concerning OCC, local demand has been regular but with competition from prices for export. COMIECO has announced financial support for some municipalities in the south of the country in a bid to increase selective collections. Owing to economic stagnation, collection volumes have seen some reductions in the northern areas.

Having always been totally under the control of COMIECO, auctions of recovered paper have begun to be managed directly by some municipalities, the most significant of which is the city of Milan. On the whole, the most consistent quantities have been taken by a consortium of three mills and one of the major traditional private recovered paper collectors.

In the final week of November, the collector associations of UNIONMACERI and FEDERMACERO decided at a joint meeting in Rome to join in creating a new and supposedly more functional structure which began formal activities at the beginning of January.

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BIR – REPRESENTING THE FUTURE LEADING RAW MATERIAL SUPPLIERS

Bureau of International Recycling (aisbl)
Avenue Franklin Roosevelt 24
1050 Brussels – Belgium

T. + 32 2 627 57 70
F. + 32 2 627 57 73

bir@bir.org
www.bir.org