



MADISON'S TIMBER PREVIEW

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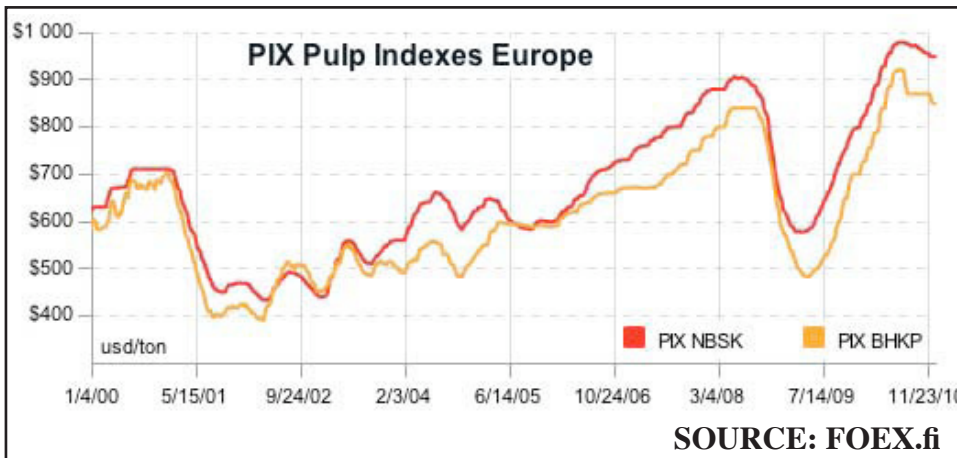
February 25, 2011

Bucking long term trend forecasts and analyst expectations of 3Q 2010, market pulp producers globally are boldly announcing yet another round of price increases. Continued reduced capacity, stable inventory levels, increasing demand from China, higher spot prices in North America, and increased fibre costs at the end of 2010, have worked to offset sluggish international demand enough to encourage a number of companies to announce NBSK pulp price hikes.

In what became the first of many such announcements, on January 20 Vancouver, BC's, Mercer International said it would raise NBSK pulp prices by \$20/tonne in Asia starting February 1. On February 9, Domtar Corp, out of Montreal, QC, became the first producer worldwide to slate a global NBSK price increase of \$30/tonne, set for March 1. The previous day Domtar had reported net earnings of \$325 million compared with \$124 million during the same period the previous year, on a 2 per cent decrease in sales from \$1.4 billion over 4Q 2010.

On February 11, a few days after reporting record sales of \$266.1 million and net income of \$47.9 million for 4Q 2010, Vancouver's Canfor Pulp Products announced an increase of NBSK pulp prices by US\$30/tonne worldwide for March 1. That same day Mercer notified customers of a \$30/tonne NBSK price increase globally, also effective March 1. February 14 Mercer spread word of the global love for pulp when the company posted a 13-fold surge in 4Q 2010 profit, with earnings of €35.3 million, up from €2.7 million euro a year ago.

On February 17 West Fraser Timber, also based in Vancouver, reported 4Q 2010 sales of \$719.1 million and net earnings of \$39 million, up from sales of \$570.2 million and a loss of \$20.1 million a year ago, and announced a NBSK pulp price increase of \$30/tonne worldwide, to take effect March 1.



Not wanting to be left behind Chile's Celulosa Arauco announced plans also February 17 to increase March bleached radiata pine and unbleached softwood kraft pulp prices by \$20-40/tonne in China. On February 22, Ilim Group of Russia said it would increase March bleached softwood kraft pulp prices \$30/tonne in China. The next day Atlanta's Georgia-Pa-

cific announced it would increase US southern bleached softwood kraft pulp prices by \$30/tonne on March 1. If successful, this will be the first increase since June 2010 in North America and will take US NBSK list prices to \$990/tonne. European NBSK saw a major price hike in December.

The supply/demand balance of global pulp is currently somewhat delicate, encouraging producers to drive prices higher. Europulp reported on February 16 that pulp inventories at European ports decreased in January 2011 by 83.5 thousand tons, or 7 per cent, to 1.11 million tons compared to December 2010. However port inventories increased by 334.5 million tons, or 43.1 per cent, compared to January 2010. According to *Pulp and Paper Products Council* data released Wednesday, global producer pulp deliveries fell by 13.9 per cent to 3.4 million tonnes in January, down from 4 million tonnes the previous month.

Worldwide producer pulp inventories overall closed January at 33 days-of-supply, a level considered balanced, a buyer contact in the US explained in the PPPC report. The inventory rise wasn't a surprise because

PPPC International Pulp Shipment Data

'000 tonnes	Jan-11	Dec-10	MoM	Jan-10	YoY
Shipments - Total	3,425	3,979	-13.9%	3,328	2.9%
Softwood	1,777	1,900	-6.5%	1,682	5.6%
Hardwood	1,526	1,936	-21.2%	1,530	-0.3%
North America	584	697	-16.2%	640	-8.8%
W. Europe	1,200	1,180	1.7%	1,172	2.4%
Latin America	259	282	-8.2%	274	-5.5%
China	693	979	-29.2%	529	31.0%
Other Asia/Africa, E. Europe	689	841	-18.1%	713	-3.4%

Source: Deutsche Bank, PPPC

producer stocks typically increase in January, the source said. Over the past decade world-20 stocks, representing 80 per cent of world capacity, rose an average two days-of-supply, according to PPPC. China's demand helped tighten availability in North America and Europe, as producers shipped tonnes to the country at ever-higher prices. As a fourth straight monthly price increase was set in China, most of North America's largest BSK producers set \$30/tonne domestic hikes.

The total pulp shipment-to-capacity ratio skidded from December's 102 per cent to just 87 per cent in January, and matching the ratio's 87 per cent in October. The PPPC said softwood producers' shipment-to-capacity ratio was 92 per cent while hardwood was just 82 per cent.

High demand for wood raw-material by the pulp industry pushed the costs for wood fibre upward in the second half 2010, reported *Wood Resource Quarterly* Monday. Softwood chips and softwood pulplog prices were higher in most key markets around the world in 4Q 2010. As a consequence, the Softwood Wood Fiber Price Index increased for the third consecutive quarter, to reach \$103.60/odmt, the highest level since the beginning of the financial crisis. The Index is now 16 per cent above the 1Q 2009 price.

Pulp mills in Ontario and Quebec have consistently had some of the highest wood fibre costs in North America. Over the past 20 years, pulp mills in Eastern Canada have paid more for wood fibre than mills in the Western provinces with the exception of a short period in 1995, according to the North American Wood Fiber Review. One year ago, pulp manufacturers in British Columbia paid almost C\$60/odmt less for softwood chips than did pulp mills in Ontario and Quebec, and five years ago the difference was almost C\$100/odmt.

However, prices have fallen lately; softwood chip prices have declined ten per cent over the past 12 months and they were 25 per cent lower in the 4Q 2010 than five years ago. Prices are currently the lowest they have been in this region in over ten years, as reported in the *Wood Resource Quarterly*.

Dr. Wolfgang Palm, president of the German Pulp and Paper Association, stated at the association's annual press conference Thursday that production and sales had risen over the year by more than 10 per cent, to 23.2 million tons, surpassing pre-crisis performance in 2008. Sales rose in 2010 by 17 per cent to €14.4 billion, although company profits were considerably encumbered by soaring raw material costs, which rose on average last year by almost 70 per cent for pulp compared with the 2009 figures. This development was bound to have an impact on the market and many companies announced that they would be following other industrial sectors and increasing their prices, said Palm.

The driving force within the paper industry in 2010 was foreign sales, which performed better than domestic sales, improving by 15 per cent compared compared to just 6 per cent within Germany, explained Palm.

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