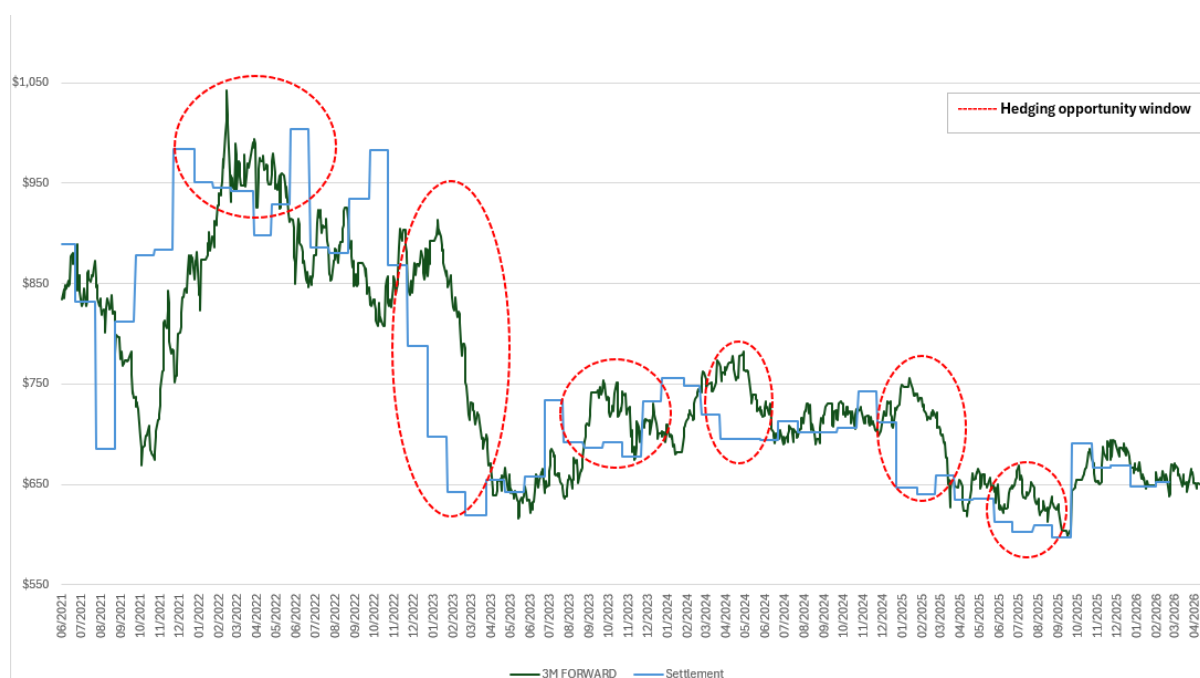


How can pulp producers turn price volatility in the SHFE futures contract into an opportunity to secure revenue?

NOREXECO offers trading in a financially settled “mirror” contract of the SHFE pulp contract, traded in USD ex. VAT

Price volatility is often seen purely as a source of risk for the physical pulp industry. However, when speculators push the SHFE futures market away from fundamentals the curve can temporarily overshoot or undershoot the level justified by physical reality. For producers selling into China, this can be used as an opportunity to improve pulp revenues.

When futures prices rise materially above the prevailing physical spot market, a producer may sell futures forward to lock in the higher price level. The futures position works as a financial hedge alongside the producer’s underlying physical pulp sales into China.



NOREXECO's current set-up with market makers and traders/arbitrageurs creates a bridge to SHFE liquidity, adding price transparency and opportunities to trade volume.

Why physical delivery remains important

Although international participants in the mirror contract cannot use it to make or take delivery, the contract’s link to a physically delivered domestic China futures market remains important.

The domestic Chinese contract is settled through physical delivery. This delivery mechanism anchors the futures price to the underlying physical market at the specified delivery terms and location. As settlement approaches, the domestic futures price is expected to converge with the relevant physical market value, subject to normal differences for quality, location, logistics, financing, taxes and other contractual terms.

NOREXECO international mirror contract will reflect the same underlying market economics, but traded in USD ex VAT. Its price should therefore remain connected to the domestic physically delivered contract and, ultimately, to the physical pulp market in China. This relationship provides the economic foundation for using the international contract as a forward price-risk-management instrument.

NOTE — NOREXECO will be in London during London Pulpweek in November. Please feel free to reach out if you would like to book a meeting while we are there.