

Chinese pulp prices set to be pushed up by futures; seen as detached from P&B market reality

SINGAPORE, Jan. 8, 2021 (PPI Asia) - Bleached softwood kraft (BSK) pulp futures prices in China have continued to soar over the past two weeks, prompting sellers to mull big hikes for the new round of pulp imports, with talks expected to kick off next week.

Canadian producers settled northern BSK (NSBK) prices for January shipments with contracted end-users at net \$680-690/tonne in the Chinese market.

The sellers also managed to sell Canadian NBSK to allied Chinese traders and futures investors at \$680-740/tonne for January and February shipments, with some saying customers had placed such orders as early as last month.

With BSK futures prices still soaring, over the past week three Canadian suppliers reported they have been pre-selling the grade's March shipments for as much as \$800/tonne. (As the shipments are quite far into the future and the volumes are unknown, PPI Asia is not including forward March pricing in this week's NBSK assessments.)

"We didn't offer a price. Buyers brought the price to us," indicated one of the sellers.

Meanwhile, Nordic NBSK levels have stood at \$665-700/tonne, as suppliers have not decided on prices for January orders.

Mid-point NBSK is thus at \$696/tonne, flatlining over the past two weeks.

The stable pricing is likely to be short-lived. BSK vendors are looking at implementing hikes of as much as \$100/tonne, thanks to the buoyant BSK futures market.

Besides NBSK, prices for other grades have all been steady.

Radiata pine is standing at \$670-680/tonne, Russian BSK at \$640-660/tonne and US southern pine at \$660/tonne. South American eucalyptus is flatlining at \$520-545/tonne.

BSK futures, resale jump: Prices for BSK futures for the currently most popular March contract (sp 2103) were settled at RMB 6,054/tonne on the Shanghai Futures Exchange on Thursday, a rise of RMB 660/tonne over the preceding two weeks.

The level is equivalent to \$813/tonne after deducting 13% VAT and RMB 120/tonne logistics costs.

Resale NBSK has been nudged up sharply due to the futures surge, soaring RMB 595/tonne to RMB 5,870/tonne (equivalent to \$784/tonne minus VAT and RMB 150/tonne logistics costs).

The widened gap between BSK futures and imports/resale in physical trades has created arbitrage room on the Shanghai bourse.

This is attracting all kinds of investors, including financial institutions, traders and producers, leading to futures prices spiraling ever up.

All the participants, including suppliers, agree that a market bubble has formed and will pop when the time comes.

But for now, with the March \$800/tonne NBSK deals apparently seen as a guidepost, sellers are poised to seek hikes of as much as \$100/tonne for BSK and \$70/tonne for bleached hardwood kraft (BHK) pulp.

Chinese customers have been bracing themselves for them.

KOREAN PULP CONSUMPTION AND INVENTORIES: OCTOBER 2020 (TONNES)

Grade	Consumption	%change 2020/2019	Mill inventories	%change 2020/2019	Consumption	%change 2020/2019
	October		End October		Jan-Oct	
Mechanical pulp	0		0		0	
Thermomechanical pulp	24,086		45,987		245,600	
Domestic	3,286	-8.2	0	nm	38,749	-17.8
Imports	20,800	0.8	45,987	-1.0	206,851	-16.1
Unbleached kraft pulp	15,375	-5.4	20,619	3.2	159,941	-0.1
Bleached kraft pulp	167,440		255,491		1,527,230	
Domestic	31,302	7.2	4,893	-12.9	296,860	-7.6
Imports	136,138	7.3	250,598	-3.4	1,230,370	-5.5
Semi-bleached kraft pulp	0	nm	0	nm	0	nm
Other pulp	1,763	-19.4	6,513	-8.6	21,746	-65.2
Total pulp	208,664	5.0	328,610	-2.9	1,954,517	-8.6

Source: Korea Paper Association. nm = not meaningful.

Sellers' concerns: A number of suppliers, in particular in North America, have shifted the focus of their sales away from end-users to futures buyers, who accept the prices sellers offer with no discounts, and even bid up levels to close deals.

Other pulp producers, especially big-volume ones, are still following the industry's traditional way of doing business, negotiating prices with end-user and trader customers on a monthly basis.

These sellers are facing hard decisions over pricing offers for February shipments.

“If we follow futures pricing and slate a big increase, buyers will put up strong fights and cut volumes,” said a Canadian producer.

“On top of that, we can see those high-priced BSK imports futures investors bought and arbitrated have still not been sold to end-users for making finished products.

“Resale BSK has become too pricey for mills to buy, relative to current domestic paper and board prices.

“The tonnage is now in the hands of traders and futures investors and is becoming expensive stock. When owners can’t handle the financial pressure from keeping them and unleash them on the market, prices will fall, and even crumble.”

The contact and other suppliers also pointed out that if they only seek small hikes, buyers are likely to use the purchased tonnages to arbitrage on the futures market.

“Why would suppliers want to miss the boat?” asked one.

Proposed hikes on the cards include up to \$100/tonne for NBSK and radiata pine and \$50-70/tonne for BHK.

Buyers’ responses: Chinese buyers feel helpless but are aware that prices for all pulp grades are being pushed up by futures.

One major end-user indicated that pulp pricing has become detached from the reality, where the fundamental recovery in the paper and board market is modest.

“There is no way prices for finished products can catch up with a pulp cost surge of \$100/tonne in a month. That’s insane,” lamented the contact.

“Most large mills are holding high stocks, particularly of BHK, and can tackle the pulp price surge.

“But small and medium-sized plants will have trouble. Many of them are facing mounting pressure and will likely to extend their Lunar New Year downtime, and may shut their mills for good after the long holiday.”

“The rally will come to an end sooner or later,” another source commented. “But not before the industry will have seen some major damage. When Chinese speculators leave with their profits, and end-users are left holding the proverbial bag, prices will collapse.”

Looking ahead: Despite no buttressing from strong fundamental demand in the downstream market, sources concur bullish sentiment will keep the pulp price run

TAIWANESE PULP IMPORTS AND RECYCLED PULP EXPORTS: JAN-SEPT 2020

Grade	Volume (tonnes)	% change 2019/2018	Value (T\$1,000)	% change 2019/2018
Bleached softwood kraft pulp	155,888	-7.2	2,656,317	-24.9
Bleached hardwood kraft pulp	330,482	34.1	4,482,020	-6.6
Unbleached softwood kraft pulp	63,512	28.4	1,051,347	-2.2
Unbleached hardwood kraft pulp	0	nm	0	nm
Bleached softwood sulfite pulp	1,973	-35.8	32,270	-48.0
Bleached hardwood sulfite pulp	21,252	-1.8	319,102	-29.0
Unbleached softwood sulfite pulp	540	-52.0	11,075	-60.6
Unbleached hardwood sulfite pulp	0	nm	0	nm
Semi-chemical pulp	12,216	-31.4	181,533	-31.1
Mechanical pulp	319	929.0	5,329	319.3
Dissolving pulp	33,120	-62.3	883,248	-65.2
Recycled pulp	766	-87.1	19,969	-72.7
Other pulp	2,038	-30.5	54,466	-40.3
Total pulp imports	622,106	2.9	9,696,676	-24.9
Recycled pulp exports*	301,687	42.2	2,022,339	33.8

*Mainly to China.

nm = not meaningful. *Source: Taiwan Paper Industry Association.*

ongoing.

The appreciation of the renminbi against the greenback, suppliers' low stocks and the resurgence of the COVID-19 pandemic in the Americas and Europe are supporting the BSK futures uptick.

Several contacts believe that climbing pulp prices will eventually come down, but will likely drop gradually rather than crash.

"Chinese mills have benefited from good profit margins due to low pulp costs for almost two years. The tides are changing to favor the seller side," said a source.

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