

FIS sets up new pulp futures desk to help develop futures market

LONDON, April 29, 2021 (Press Release) - FIS, leading freight and bulk commodity broker and pioneer of the iron ore futures market, have set up a new pulp futures desk to help develop the futures market.

The global pulp production market equates to some 176 million tonnes a year, with some 52 million tonnes being shipped across the globe, some 25 million being imported by China alone.

Much like the nascent iron ore market in the 2000s, the current paper market had traditionally been longer term contracts which has moved more recently towards more spot business. This spot business therefore requires the ability to hedge exposure, and the time is ripe for developing the futures market.

John Banaszkiwicz, CEO of FIS, said:

“We are pleased to be able to partner with NOREXCO on pulp futures and to drive forward development of the only real paper market! There is already a well-established market onshore in China, but we hope to help develop this globally, helping to grow the offshore, as well as the onshore market. We are keen to bring our experience of developing the iron ore futures market to help grow this market.”

The iron ore market has now grown to a yearly physical volume of 1.56 billion tonnes, with a partnering iron ore futures market 18.5 times bigger at 29 billion tonnes. For the pulp market 400 million tonnes traded on the paper futures market on the Chinese domestic market, with just over twice as big as the physical market.

The pulp market as a raw material impacts on a range of paper-based products from cardboard to tissues. Printing and writing materials are the largest product produced from integrated and market wood pulp, followed by containerboard (corrugated boxes/cardboard). Tissue production is the smallest product with respect the total pulp consumption but consumes a significant part of market pulp materials.

With an increasing move towards spot business and diminishing long term contracts, companies will be exposed to adverse price movements. It is therefore important to further develop the futures markets to give companies the ability to hedge future exposure, as well as others to trade a growing and different commodity.

Quint Feenstra, FIS Pulp Broker:

“Pulp and Recycled Paper’s volatility has increased significantly over the recent years, to levels where they now rival the likes of oil and base metals.

As a result, the need for proper risk management in the pulp and paper value chain is more present than ever.”

Pulp and Paper futures can play an important role in managing one’s operational and financial risks by hedging future exposure to Pulp and Paper prices. Recent pulp prices have seen considerable volatility

Several factors have been behind recent market moves including the Coronavirus and the resultant cuts to collection rates and the great growth in online shopping and delivery, which has driven demand for packaging supplies.

January 2021 demand in the United States topped any monthly, with ecommerce sales booming, up to 16% of total retail sales in Q2 2020, up over 7% from the same quarter the year before.

The increasing volatility mandates the need for a growth in the derivative market and risk management strategies in the pulp market to benefit all counterparties from pulp producers to end users, from tissue makers to paper sellers.

The largest bleached softwood pulp producers are the United States, Canada, Finland and Sweden, together accounting for 75% of production. For bleached hardwood, by far the largest producer is Brazil with 46% of production. For producers and consumers, the ability to track pricing and trade financial markets based on a pulp underlying will help companies manage trade flows and associated price risks in an easy and flexible way.

FIS are also pleased to be able to use their expertise in freight risk management to help companies manage the price risk in the shipping of pulp around the globe. Some 52 million tonnes of pulp is shipped every year, with 25 million tonnes (48%) imported into China.

Container rates, much like the pulp market, have seen unprecedented volatility during the coronavirus pandemic, with shortages of boxes and supply issues causing rates to rise dramatically. With a standard 26 tonnes of pulp transported in a container, significant price rises in freight rates can impact negatively on profit margins. FIS has built a strong market reputation on managing freight risk in conjunction with bulk commodities and are proud to offer this service to pulp market businesses.

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