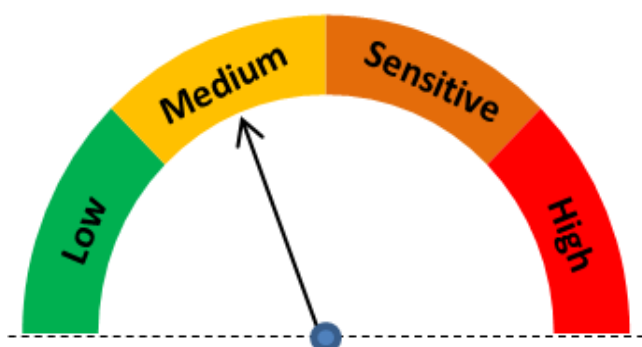


Sector Risk Rating



What to Watch?

- European pulp buyers squeezed by EUR input costs vs USD end product prices
- Impact of rising power prices in the energy intensive parts of the value chain
- Market shares in function of USD, EUR and Scandinavian currency fluctuations
- Importance of recycling in the paper industry as a whole in the light of the global energy transition

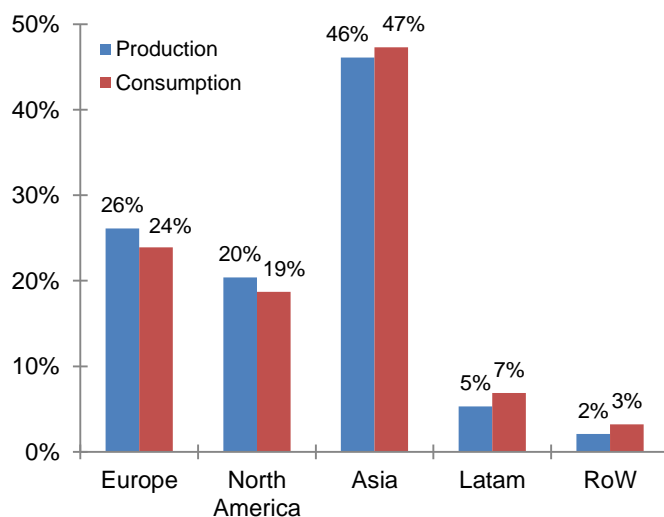
Unpack growth from global trade and e-commerce

Pulp and paper must not be mixed up with the wood sector as the latter depends more on demand from construction. The downstream sector of pulp and paper has more weight. It also depends mainly on household consumption. That is why world paper output increased +0.8%/y/y to 410 million tons in 2017. Asia accounts for the bulk of the market with near half global output (and consumption) of paper and board.

The paper sector which has been under severe pressure from electronic media may have entered 2018 on better conditions after significant capacity withdrawals continued throughout the industry in recent years. More specifically in North America, the US paper market is benefiting from a positive impact from USD weakness on industry trade, and also from higher import duties for imports from Canada.

Pulp prices as much as downstream corrugated paperboard ones have been rising again for two years as a result, and led to margin expansion across the sector. However, it shall be insured that contractions in paper output brought on by digitalization do not outstrip the rise in demand caused by ever more e-commerce packaging provided plastics does not stand in for paper. Overall, the paper's era has not come to an end.

Global paper & board industry
(Breakdown by region, % in volumes)



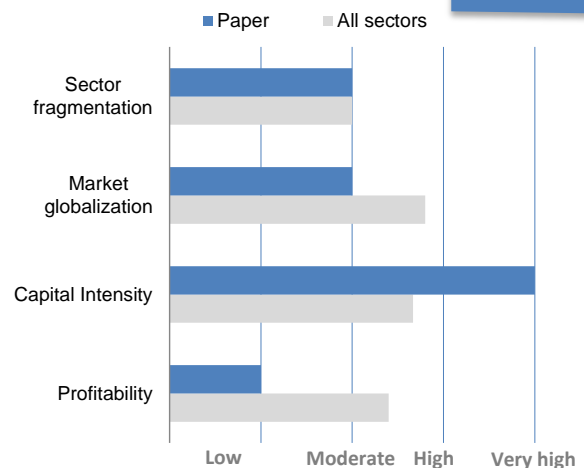
Sources: RISI, CEPI, Euler Hermes

Sector Value:
1,200bn
USD

Key Players

Country	Role	Sector Risk
China	#1 producer #1 consumer	●
United States	#2 producer	●
Japan	#3 producer	●

ID Card



Strengths

- Growing needs for (cardboard) packaging, in line with manufacturing and skyrocketing e-commerce activities
- New market outlets stemming from rising middle class in emerging markets
- Rising demand for hygiene products

Weaknesses

- High sensitivity to feedstock costs (i.e. pulp)
- Ability to face high investments costs to ensure future growth
- Plastics in competition against cardboard in the packaging outlet depending on variations of ethylene price vs. pulp (NBSK) price

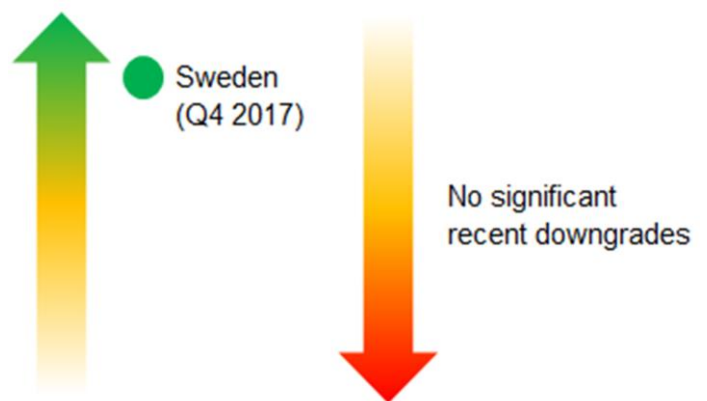
Subsectors Insights

Newsprint and printing papers: Digitalization has been eating away at this range of papers

Corrugated paper(board)s: It depends on the packaging outlet which is itself dependent a lot on e-commerce and retail growth rates

Tissue papers: These high-added-value paper products appear to be a market segment enjoying strong enough margins

Recent Sector Risk



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