

Market Update

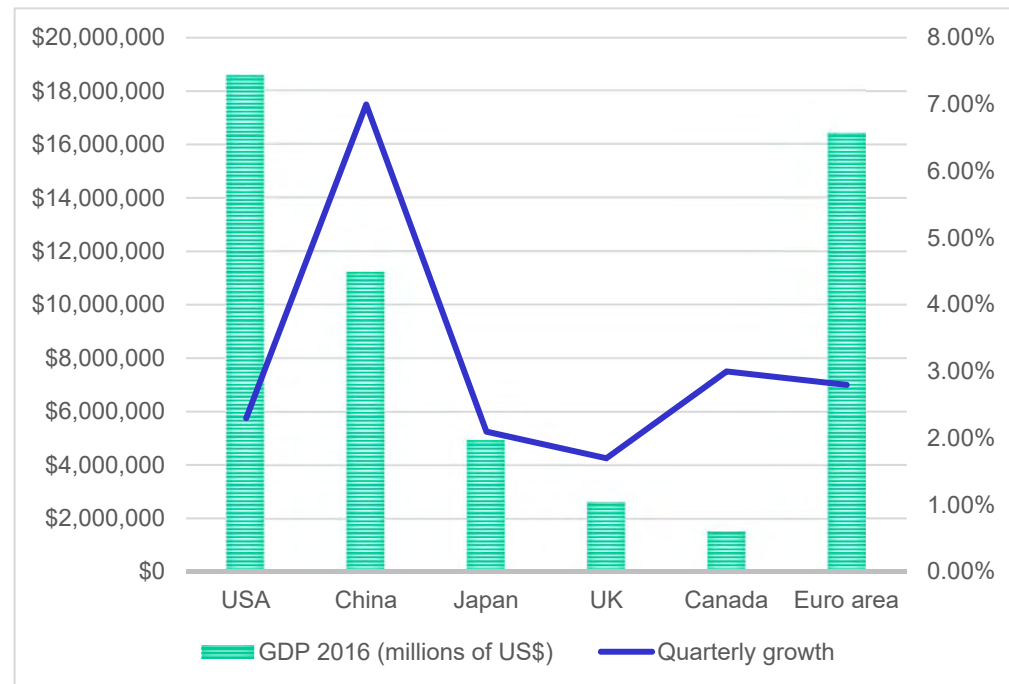
January 2018

Overview

- All major global economies are growing
- Online retail growth is helping to significantly increase demand for containerboard
- Containerboard prices have risen 40-60%
- Paper is being rationed
- Feeding through to a double digit price rise on box and sheet board
- Summary

Growth in major global economies is accelerating

- Hence demand for containerboard is consistently high
 - E.g. German corrugated demand forecast to grow by 5.6% in Q1 2018
- North American containerboard operating rates above 101%
 - Inventories still dropping more than their 10-year average (77,900 tons)
 - US corrugated industry forecasting 2-3% growth in 2018
 - Few exports to Europe
- Some European Kraft buyers indicating 10-20% more demand in 2018
 - There is not sufficient capacity to meet this demand



Rapid growth of online retail sales

- Online retail sales grew by 14.2% across Western Europe and Poland in 2017
- The UK is the biggest online retail market
 - Now 15% of all retail sales
- Pack sizes are fragmenting (i.e. fewer products shipped per box) and leading to more square metres of board being required

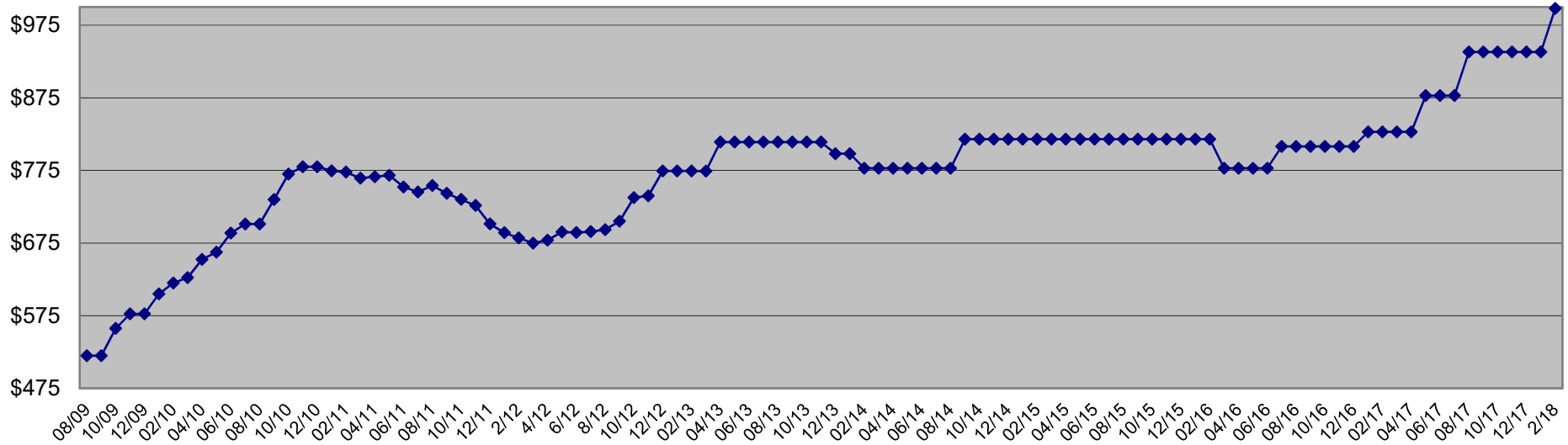
	Online sales (£bn) 2016	Growth 2015-16	Online sales (£bn) 2017	Growth 2016-17	Online sales (Euro bn) 2017
UK	£60.43	12.6%	£67.38	11.5%	77.63 €
Germany	£54.21	18.3%	£63.09	16.4%	72.69 €
France	£37.00	16.7%	£42.11	13.8%	48.51 €
Spain	£9.94	18.8%	£11.85	19.2%	13.65 €
Italy	£7.62	16.9%	£8.78	15.2%	10.11 €
Netherlands	£7.11	16.5%	£8.32	17.0%	9.58 €
Belgium	£4.83	15.3%	£5.46	13.2%	6.29 €
Austria	£4.77	13.5%	£5.41	13.4%	6.23 €
Switzerland	£5.78	11.6%	£6.38	10.3%	7.35 €
Sweden	£4.98	11.6%	£5.70	14.5%	6.57 €
Poland	£5.23	17.8%	£6.14	17.2%	7.07 €
Europe	£201.90	15.6%	£230.62	14.2%	265.68 €

Unprecedented inflation in paper prices

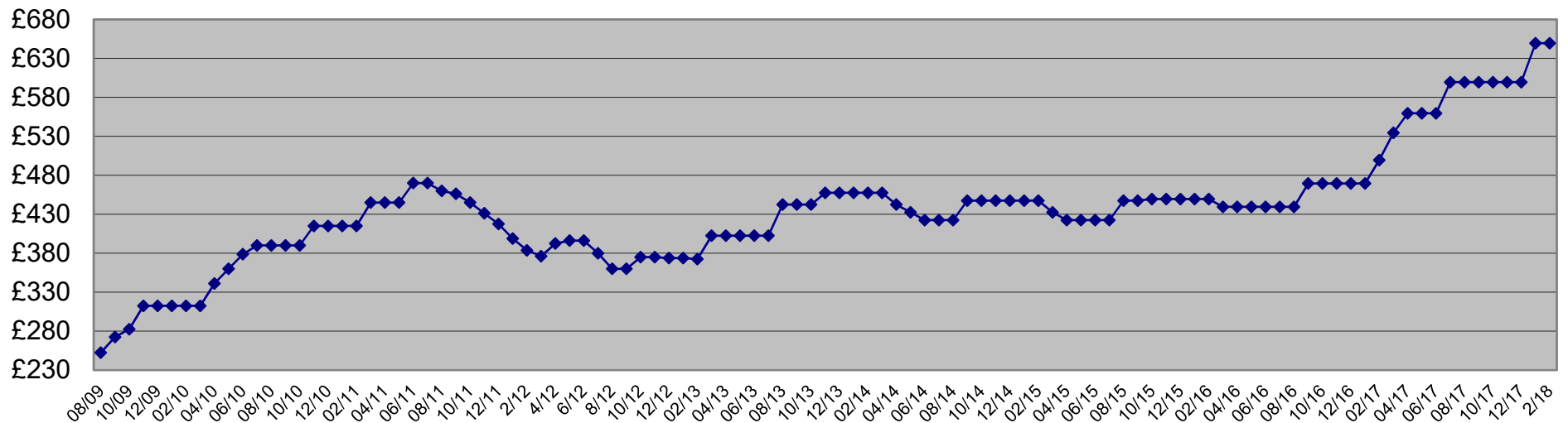
- Containerboard prices are up 40-60% (depending on your starting point) in the last 18 months
- Mainland European suppliers need a larger increase for the UK due to the circa 15% devaluation in sterling since the Brexit vote
- An unprecedented inflationary period
 - Forecasts of 2-3 industry-wide rises this year
- When you can't make enough of a commodity – the price keeps rising until:
 - Demand softens and / or
 - Supply increases

Containerboard Prices

Monthly Prices - Kraft



Monthly Prices - Test 3



The containerboard market

- Prices for integrated paper and box companies are up circa 40% since Autumn 2016
- Prices for independents box plants / sheet feeders are up circa 60%
 - Exacerbated by the circa 15% post-Brexit vote devaluation in sterling
- The spot market now requires a premium (rather than offering a discount)
- There is not enough paper to go around
 - Many instances across Europe of companies running out of various grades and having to substitute

Summary

- Growth in containerboard usage continues to outpace increased capacity globally
- Rapid growth in the online retail market is exacerbating the situation
- There is not enough paper – it is being rationed
- Hence paper and board prices are rising significantly and we need to pay these to secure supply
- Hence we need to pass on this increase in full to ensure that:
 - Our supply chain is robust enough to continue to secure future supplies
 - We remain viable

Appendix

Market Update

MACROECONOMIC OUTLOOK 2018

Economists from Goldman Sachs share their views on the global economy and their expectations for 2018.



GLOBAL: AS GOOD AS IT GETS

The global economic environment headed into 2018 is about "as good as it gets," says Goldman Sachs Research's Chief Economist Jan Hatzius. He expects global growth will reach 4% next year, buoyed by synchronized expansion across developed and emerging markets.

[WATCH VIDEO](#)



US: TOO MUCH OF A GOOD THING

The US economy heads into 2018 with strong growth momentum and an unemployment rate already below levels that Federal Reserve officials view as sustainable. Chief Economist Jan Hatzius expects the Fed to lean against this strength with four rate hikes next year, despite a still-firming inflation backdrop.

[WATCH VIDEO](#)



EUROPE: STRONG GROWTH, FEEBLE INFLATION, PERSISTENT MONETARY POLICY

Goldman Sachs Research's Huw Pill expects Euro-area growth to show continued momentum, driven by stronger consumer and business sentiment, lower-than-expected unemployment, as well as the strength of the global economy. In the U.K., he sees some moderation in growth, as Brexit continues to affect the long-term outlook.

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ASIA: TIME TO TIGHTEN

Chief Asia Pacific Economist Andrew Tilton sees another year of strong growth ahead for the region, bringing with it increased inflationary pressure. He expects a broad shift toward monetary policy tightening in response, with some notable exceptions like continued dovishness from the Bank of Japan.

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BY COMPANY

SCA to increase brown and white kraftliner prices by Euro 60/tonne in Europe, effective Feb 1

SUNDSVALL, Sweden, 2 January 2018 (Press Release) - SCA increases prices for Brown and White Kraftliner by € 60 per ton.

SCA announces a price increase for all Brown and White Kraftliner grades in Europe by 60 per ton, effective from 1st of February 2018.

"The market for containerboard continues to be very strong. The demand for kraftliner of all grades is high and the supply is tight", says Mikael Frölander, Vice President Sales and Marketing Containerboard.

The core of SCA's business is the forest, 2.6 million hectares in northern Sweden. Around this unique resource, we have built a well-developed value chain based on renewable raw material from our own and others' forests. We offer paper for packaging and print, pulp, wood products, renewable energy, services for forest owners and efficient transport solutions.

2016 the forest products company SCA had approximately 4,000 employees and sales amounted to approximately SEK 15,4 bn (EUR 1,6 bn). SCA was founded in 1929 and has its headquarters in Sundsvall, Sweden.

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NEWS

Smurfit Kappa to hike prices for all containerboard grades

14 Dec 2017 - Smurfit Kappa plans to increase containerboard prices by 60 euro per tonne across all European markets with effect from 15 January 2018.



Symbolic image of cardboard sheet

The increase will apply to all containerboard grades: brown, white, and coated kraftliner as well as brown and white recycled containerboard.

The increase is driven by very tight European containerboard markets and necessary due to input cost increases and a volatile recovered fibre outlook, informs the company.

Earlier this month DS Smith announced a similar increase for recycled containerboard grades.

Pro-Gest announce price hike for recycled containerboard prices by €50/tonne

The Pro-Gest Group has recently announced an intention to raise the prices for all its recycled containerboard grades by at least €50/tonne. This increase took effect for deliveries from January 1.

The firm has reported that the increase is driven by healthy containerboard demand across Italy, unstable raw material prices and rising energy costs in Italy.

DS Smith raising recycled containerboard prices

DS Smith has issued the following press release:

"In consideration of the continued solid market demand across continental Europe, the high utilisation rates of our machines, as well as the increasing cost of manufacturing, DS Smith Paper is announcing a price increase valid from January 1st 2018 of €60/tonne, for recycled brown containerboard grades across Continental Europe".

Additionally, Know It All understands that DS Smith has been seeking a £70/tonne increase in the UK with effect from the 1st of January 2018.

NEWS

Hamburger Containerboard announces price hike for recycled containerboard

11 Jan 2018 – The 2018 price hike announcement continues the last year's trend which has seen a substantial rise in costs of recycled containerboard and kraftliner.



Source: EUWID

In a statement, Hamburger Containerboard said prices for brown containerboard, as well as coated and uncoated white-top testliner will be increased by €60/t for orders as of 1 February 2018. The company explained that the price hike was motivated by the currently strong market demand.

With this announcement Hamburger Containerboard joins DS Smith, Smurfit Kappa Group and SCA in [ramping up containerboard prices for deliveries in the first quarter 2018](#).

At the start of January, Svenska Celulosa Aktiebolaget (SCA) announced a €60/t price increase for its brown and white-top kraftliner range of products effective 1 February 2018. SCA said market for kraftliner in Europe was very strong with high demand for all kraftliner grades and tight supply.

In 2017, containerboard producers and suppliers had increased their sales prices at several occasions. According to [EUWID Pulp and Paper market research](#), prices for brown recycled containerboard and unbleached kraftliner soared by up to €100 /t and €150/t respectively in major European markets.

EUWID Pulp and Paper keeps busy professionals up-to-date on the latest news and price trends in major European pulp and paper markets.