

The Recovered Paper Market

**General Market Analysis** by Andy Hudson



The second quarter of 2013 has seen an increase in both demand and supply of Recovered Paper. The market is seen as very difficult at the moment with the general consensus on a fair price for OCC at about £100 per tonne collected in the UK from where the price fell in March and to which it has climbed again in recent weeks.

The global economy has not changed that much and demand for finished products is quiet. The introduction of the Green Fence has resulted in shipments from the UK of OCC and mixed paper in particular declining. Most smaller brokers and merchants are not taking any orders for mixed paper at the moment fearing the risk of getting caught out with lower quality material and the consequent loss of import/export licenses. Nevertheless the price gap between OCC and mixed paper is currently seen as too great and there is speculation of a jump in the £/\$ exchange rate, either of which might result in a downward pressure on OCC prices in the coming weeks. Meanwhile Domestic mills report fairly well filled stocks and have no incentive to pay higher prices.

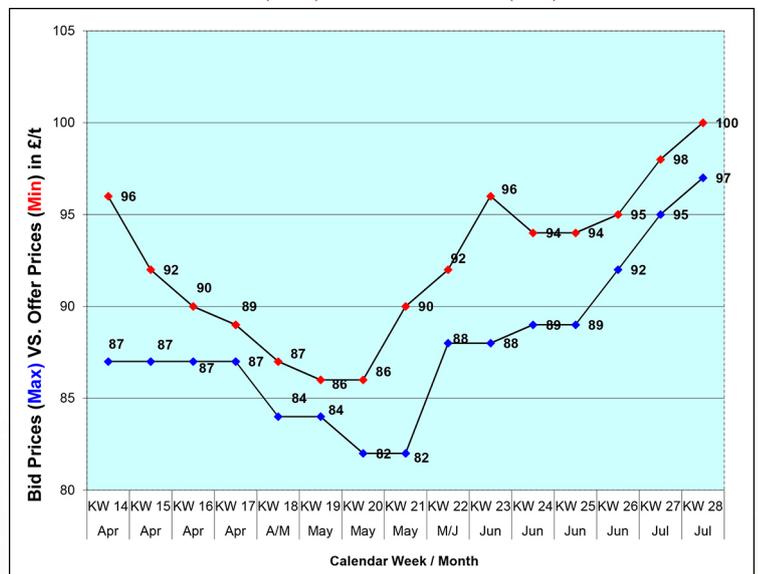
**Technical Analysis**

The second quarter is divided into two phases. Phase one saw a slide in prices from more than £100 per tonne being paid for OCC (mid March – Greater London) to a low of £82 by the end of April/beginning of May. This decline is attributed to the low demand for finished product within China and the consequent adjustment of prices paid for raw material combined with high freight rates. Another less obvious reason has been the reaction to China's Green Fence policy. Smaller merchants and brokers have dropped out of the export market which has led to an oversupply of material waiting to be moved. Domestic paper mills used the price drop to stock up while Exporters only filled medium sized orders but with better quality material.

In phase two prices started to increase to a level of more than £100 per tonne OCC (Greater London) due to two factors. Freight rates started to weaken as shipping lines sought more business and exchange rates moved with the Dollar strengthening against the Pound Sterling allowing Exporters to pay more for their material. A third factor may be that buying behaviour could have been influenced by the anticipation of the upcoming holiday season. Overall the second quarter saw a slight increase in quarter on quarter buying volume, while the offer volume has almost doubled, reflecting the increased collection rates reported by CPI in the second quarter of 2013.

Buying prices in Greater London, the South East and the East Midlands in the second quarter were between £2 and £8 below the selling prices for these regions. The lowest selling price of £82 occurred in Wales. Historically Bids and Offers in Wales and Scotland can be as much as £20 lower to those in the south of England and for indexing purposes are not included in the graph. The second quarter also saw an increase in buying volume in comparison to the preceding quarter. While buying volume has increased by 15% the offer volume has increased dramatically by 72%, reflecting the increased collection rates (CPI) in the second quarter of 2013. The total bid volume for the period has increased from 61,340 tonnes of OCC to 70,828, of which 48,528 tonnes were Container HC (2,022 loads) and 22,300 tonnes (1,115 loads) were Container HC light. The total offer volume for the period was 6,752 tonnes of OCC, of which 1,824 tonnes were Container HC (76 loads), 1,296 tonnes Container Standard (54 loads), 1,656 tonnes Curtain Sided Trailer (72 loads), 1,656 tonnes Walking Floor Trailer (72 loads), 160 tonnes (8 loads) were Container HC light and 160 tonnes (8 loads) were Container Standard light.

Bid Prices (Max) VS. Offer Prices (Min) in £/t



## Managing Director's Comments

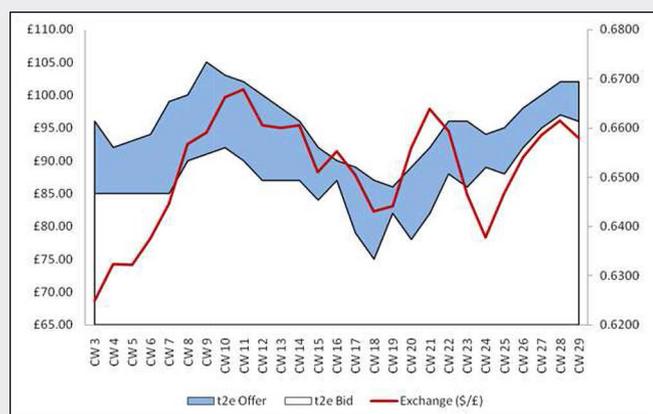
An interesting quarter for recovered paper, prices after going through a dip are back to their levels at the start of the quarter. Concurrently the dollar has weakened and strengthened again while freight rates are now on the slide from an high start. The Chinese have continued to impose their Green Fence. While the consequences have not been as severe as initially feared, it has had an impact on the global recovered paper market. In particular exports from the UK and the remainder of Western Europe to China have been undermined with exports via Holland being the worst affected.

During our visits to China, the availability of OCC seemed plentiful and the quality looked good. Many traders and mills were saying that they had heard of others having problems with the Green Fence but were not having problems themselves. The challenged grade appeared to be mixed papers with some American exporters arguing that the old classification of ONP (#8) had ceased and everything now was a form of soft mix. There were reports that this had caused categorisation and paperwork issues. Some of the mills welcomed the change of policy stating that the quality of recovered paper had improved; others felt it was not for Governments to set quality standards their role was solely to prevent trade that was hazardous to either human health or the environment.

Much emphasis was placed on the thoroughness of importers quality checking regimes and in this the UK's planned MRF code of conduct would appear to be a step in the correct direction. However concerns remain in the paper industry that, without a collective desire amongst MRF operators to raise quality standards, poor sorting at MRF's will continue with the result that large volumes of recovered paper will be lost to energy from waste plants.

There was some discussion that the Green Fence had been stimulated by European regulators concerned about illegal exports however there seems to be no basis for this suggestion. Interestingly it was also suggested that

t2e Bid Offer Spread vs. Exchange Rate (\$/£)

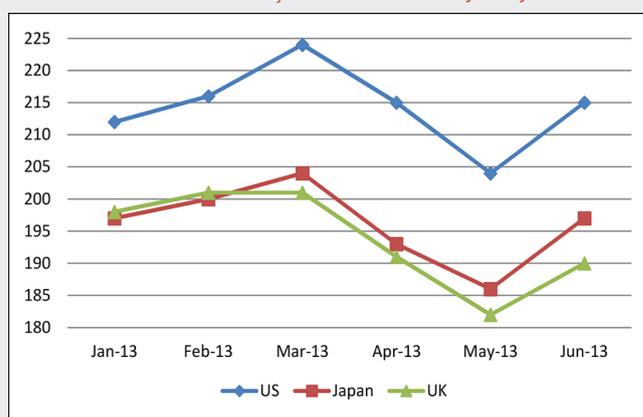


other importing nations were considering imposing similar controls, although it is difficult to anticipate nations such as India doing so as effectively as China.



In conclusion the cause of the Green Fence is uncertain although undoubtedly anticipated by the Chinese importers. The standards applied remain unclear. The perception is that it will stay in place even if not as rigorously as currently for the foreseeable future and beyond the mooted finish date of November this year. Undoubtedly the Green Fence has had a greater impact on the metal and plastic sectors than the recovered paper one.

OCC CIF Price at Major Chinese Ports Jan - Jun 2013



Source RISI, July 2013

From a UK perspective exports to China have dropped noticeably whereas overall exports have only dropped marginally showing that new destinations are being found. t2e has been asked to list delivery ports in Indonesia, Taiwan, Thailand and Vietnam which we are investigating. With the new Saica (OCC) and Palm (ONP) mills coming into action UK domestic capacity continues to grow which can be viewed as positive. However domestic consumption of the finished product continues to decline and as the quarter progressed we are beginning to see more free tonnage both requested and offered on the marketplace.

The price tomorrow remains as unpredictable as ever with some predicting rises and others falls. A good time to trade forward? Thank you for your support and encouragement this quarter. We look forward to continuing to be of service to you.

Angus Macpherson  
Managing Director  
The Environment Exchange

## China Macro-Economy vs RP Prices *by Yaya Cao*



According to a recent BBC release, Chinese exports fell overall 3.1% in June from a year ago, as a result of slowing global demand, whilst imports fell 0.7% reflecting a slowing domestic demand. Many have suggested that China's economic growth is likely to remain under pressure in the oncoming months. The sentiment is in line with data released. HSBC's Purchasing Managers' Index shows that despite an increase in growth from January to March, the drop afterwards has indicated a contraction of business conditions. The manufacturing economy has slowed down for the second consecutive month from 49.2 in May to 48.2 in June, which decreases purchasing activity.

China Purchasing Managers Index 2013, July 2013

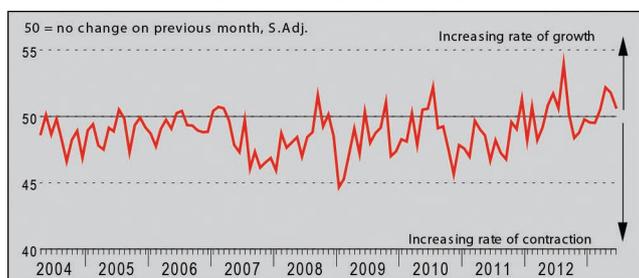


HSBC Purchasing Managers' index 2013, July 2013

Stock of finished products has been increasing continuously for the four months to June 2013, though at a slower rate in the past two months, indicated by figures published by HSBC. During our trip to conferences and paper mills in China in June 2013, we have heard and witnessed finished products been piled up at warehouses. It has been mentioned that a high stock rate results in slower cash flow, which impacts on the ability to purchase raw materials, including recovered paper.

Overall OCC imports in to China from January to May 2013 have dropped by 1.28% to 7.1 million tonnes, although the implementation of the Green Fence operation is widely believed to have had a greater impact over the amount of material imported. CIF prices at major Chinese ports rose in March after Chinese New Year in February, followed by a decline till May; however prices have climbing up from May to June, with the prices from US and Japan OCC price following a similar pattern from the start of the year.

Stocks of Finished Goods Index



HSBC Purchasing Managers' index 2013, July 2013

According to RISI data, collection of recovered paper declined between January and April by 3.2% to 2.7 million tonnes), which are all constraining supply to create upward price pressure.

The outcome? Prices declined from March to May and bounced back in June. The cause? Exchange rates? Freight rates? The purchasing strategy of global paper mills? What will happen in the following months? It is hard to predict. This market certainly has a mind of its own.

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I have been traveling in China over the past four weeks to find more about the real situation and the most recent developments in the Chinese recovered paper market. During my trip, I saw the stagnancy of domestic collection activities and the weak prices for domestically collected recovered paper even when the imports weakened due to the Green Fence Operation. I therefore tend to believe that the slowdown in Chinese paper and board demand, and therefore the slowdown in real recovered paper demand, has contributed more to the weakness of the global recovered paper market than the Green Fence Operation itself. So where the global recovered paper market will move will largely depend on where the Chinese economy and paper and board demand will head, at least in the near term.

Hannah Zhao, Senior Economist, Recovered Paper, is the coauthor of RISI's special study, Outlook for Global Recovered Paper Markets, as well as the World Recovered Paper Monitor, the World Pulp & Recovered Paper 5-Year Forecast and the World Pulp & Recovered Paper 15-Year Forecast. She works out of RISI's Charlottesville, VA, office and can be reached at Tel: +1.434.978.2927-14 or Email: [hzhao@risi.com](mailto:hzhao@risi.com)

## RISI VIEWPOINT: Who is responsible for the sluggishness of the global recovered paper market? The Green Fence Operation or the slowdown of real Chinese demand?

By Hannah Zhao, Senior Economist, Recovered Paper, RISI



The global recovered paper markets were generally unexciting in the first half of 2013. Although US domestic demand for the bulk grades was quite strong as a result of the relatively healthy US economy and paper packaging markets, China's Green Fence Operation and that country's weaker-than-expected fundamental paper and board demand have slowed Chinese recovered paper demand, including imports, and kept the global recovered paper market sluggish. In the US market, average prices of OCC dropped to \$113/ton in the first half of this year, compared to \$132/ton in the first half of 2012 and \$160/ton in the first half of 2011. The price of ONP #8 plunged as well, to \$82/ton in the first half of 2013, compared to \$98/ton in the first half of 2012 and \$136/ton in the first half of 2011. Similarly, the average price of OCC imported from the United States went down to \$215/tonne in the Chinese market in the first half of 2013, compared with \$231/tonne in the first half of 2012 and \$269/tonne in the first half of 2011. China's Green Fence Operation is believed to be one of the major factors dragging the global recovered paper market down. Since it was officially announced in February, China's Green Fence Operation has gained a lot of attention. So how has this operation impacted the global market so far?

According to Chinese Custom data, Chinese recovered paper imports declined by only 1% year-over-year in the first half of 2013. Therefore, the effect of the Green Fence Operation seemed to be limited. However, if we dig a bit deeper into the data, we can see that most, if not all, of the Chinese import drop was coming from Western Europe. Among the top 15 recovered paper exporters to China, seven out of eight Western European countries saw significant declines in Chinese imports over the first six months of 2013. Chinese total imports from the eight Western European trade partners dropped by more than 10% year-over-year. Meanwhile, Chinese imports from the United States, Canada, Japan and Australia all expanded quite significantly, with those from Canada and Australia increasing by more than 20%. It's still too early to say at this point whether the changes in the Chinese recovered paper import flows will be temporary or will last. But this definitely is something that deserves people's attention.

### Chinese Recovered Imports - Thousand Tonnes

Origin	1st Half of 2012	1st Half of 2013	Year-over-Year %
World Total	15,021,573	14,923,797	-0.7
USA	6,358,599	6,517,670	2.5
Japan	1,846,985	2,016,479	9.2
Canada	579,069	705,287	21.8
Australia	427,588	523,686	22.5
UK	1,654,197	1,579,675	-4.5
Netherlands	1,026,360	797,581	-22.3
Italy	559,829	477,270	-14.7
Belgium	379,699	341,996	-9.9
France	309,570	276,792	-10.6
Spain	254,678	216,196	-15.1
Germany	294,992	253,669	-14.0
Ireland	76,042	102,805	35.2
Hong Kong	543,869	456,957	-16.0
South Korea	195,252	185,472	-5.0
Mexico	123,730	107,307	-13.3
Others	391,114	364,955	-6.7

Source: RISI, Chinese Custom Data

Slower fundamental demand for recovered paper from China is another driver for the sluggishness of the world recovered paper markets in the first half of this year. According to the National Bureau of Statistics, China's GDP growth slowed further from 7.7% in the first quarter to 7.5% in the second quarter of 2013. Along with weak industrial production and slow GDP growth, total Chinese paper and board production inched up by only 1% year-over-year in the first six months of 2013, while the production of newsprint contracted by 1% year-over-year during the same period. As a comparison, Chinese paper and board output had grown by 10% per year on average over the past decade. Apparently, the sluggishness of the Chinese economy has also slowed its paper and board output and therefore has slowed Chinese total recovered paper demand, including imports.

## Where to see t2e next



10th - 12th September 2013



16th - 18th October 2013



24th - 27th October 2013



30th - 31st October 2013