

## Paper & Forest Products

### January Price Watch - Price Drops not as Bad as Feared

*Pulp & Paper Week* published its January pricing update for key paper and paperboard packaging grades over the weekend. See the highlights below.

- Containerboard prices slip again in January.** List prices for linerboard declined another \$10 (2%) in January to \$640/ton, while semichemical medium prices similarly slipped \$10 (2%) to \$610/ton, as weak box demand and soft export shipments more than offset significant containerboard mill downtime (recall the U.S. containerboard operating rate was 72% in December). However, discounts of up to \$50/ton were reported in the spot market, as mills benefiting from the plunge in OCC prices looked to compete for volumes. Key containerboard and box producers are TIN, SSCC, IP, PKG, and RKT.
- Producer discipline prevents large uncoated freesheet price drop.** List prices for benchmark 20-lb. repro bond (cutsizes) posted a surprisingly small decline in January, drifting lower by \$8 (1%) month on month to \$1,085/ton, despite the worst decline in uncoated freesheet shipments since 1975 in December. Offset prices were slightly weaker, declining \$10 (1%) month on month to \$920/ton in January. We have thus far been encouraged by producers' ability to hold the line on pricing amid weak demand (cutsizes prices have slipped only \$25/ton, or 2%, since peaking in October); however, given no signs of demand-side improvement in January, we think additional downtime will be necessary to limit further price erosion. Key uncoated freesheet producers are IP and UFS.
- Coated paper prices continue rapid descent.** List prices for benchmark coated freesheet (No. 3, 60-lb. rolls) tumbled \$60 (6%) to \$1,000/ton, while list prices for coated groundwood (No. 5, 40-lb offset rolls) were off \$35 (4%) to \$920/ton. Demand for coated paper remains very weak, as commercial print and catalogue customers continue manage inventories; however, the magnitude of the price declines in January was more than we had been anticipating and places our FY09 coated paper price forecasts at risk to the downside. Key producers are VRS, ABH, and UPM in coated groundwood and VRS, SPP, and SEO in coated freesheet.
- Newsprint prices trend lower in January.** Prices for benchmark 30-lb newsprint declined another \$10-15 (1%-2%) month on month to \$755/tonne on the East Coast and \$720/tonne on the West Coast. The East/West price differential widened to a record \$35/tonne in January as oversupply and reports of increased imports on the West Coast drove down prices in that market. We currently expect an additional \$25/tonne in newsprint price declines in 1H09. ABH is the key newsprint producer.
- SBS prices hold firm.** List prices for bleached board were unchanged in January at \$1,260/ton, as market fundamentals remain reasonably firm (December SBS shipments were down only 1% y/y). Elsewhere, CUK list prices slipped \$5 to \$1,060/ton, while CRB prices were off \$10 (1%) month on month to \$925/ton, which is not surprising given the sharp falloff in prices for OCC. Key bleached board producers are MWV, IP, and RKT, while MWV is the key CUK producer and RKT is the key CRB producer.

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