



9 June 2008

# Paper & Packaging

## Dr. Paper's Pulse on Pricing

### Trend Analysis

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#### COATED GROUNDWOOD

A host of players, domestic and offshore, have announced coated paper increases over the past 2 weeks. In the US, Verso announced a series of \$50/ton price increases for June 1 on light-weight coated (LWC) and other coated grades. AbitibiBowater and others have also announced hikes. In Japan, Nippon and Oji have both announced \$100/ton hikes on export LWC. Q1 US shipments rose an impressive 10.3%. With rising costs & weak US\$, it creates an interesting dynamic. There is growing evidence that demand is weakening. As we have noted, contacts in the printing distribution community are reporting that high paper prices and a slower economy are triggering reductions in some cataloging budgets. Late last week in announcing 25K of market downtime, NewPage pointed to rising inventories at a number of printers as well as slower demand from advertisers.

#### UNCOATED FREE SHEET

Following initial announcements by Boise, Domtar, International Paper and several other producers have come out with \$60/ton price hikes on cut-size and offset rolls for June and July. This would be the second price hike in '08 on uncoated grades - - - the result of significant cost increases in energy, chemicals, transportation and fiber. However, demand remains lackluster. Shipments declined 9.6% y/y in March and preliminary data suggests that April was similarly weak (down -10% in the US). Difficult comp's could May look challenging as well.

#### PANELS

The structural panel composite decreased \$2/msf this week to \$327/msf. The dip in the composite was all driven by lower plywood prices as OSB prices continued upward - the OSB index rose \$4/msf to \$232/msf. As with lumber, we think that the prospect of a prolonged downturn may force further restructuring as we move through '08. One of the most leveraged OSB producers, Ainsworth, has recently suggested that they are looking at longer-term solutions to their situation.

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# PAPER & FOREST PRODUCT PRICING

DR. PAPER'S PULSE ON PRICING

6.9.08

GRADE	CURRENT COMMENTARY	DATE	PRICING INITIATIVES	CURRENT PRICE	
<b>LUMBER</b> <i>Affects: TIN, WY</i>	The Random Lengths composite declined for a second consecutive week — down 6/mbf to \$275/mbf. Earlier price increases had been driven by a seasonal rally and capacity withdrawals (in 1Q08 NA lumber mills cut production 20% y/y).		(\$6)	\$275	
<b>PANELS</b> <i>Affects: WY, LPX</i>	The structural panel composite decreased \$2/msf this week to \$327/msf. The dip in the composite was all driven by lower plywood prices as OSB prices continued upward - the OSB index rose \$4/msf to \$232/msf. As with lumber, we think that the prospect of a prolonged downturn may force further restructuring as we move through '08. One of the most leveraged OSB producers, Ainsworth, has recently suggested that they are looking at longer-term solutions to their situation.		(\$2)	\$327	
<b>MARKET PULP</b> <i>Affects: BOW, UFS, WY</i>	Pulp prices continue to rise. Global stocks of chemical pulp dropped 100K mtons in April. Following Domtar and Weyerhaeuser, Tembec announced a \$20/mton price hike to \$900/mton on NBSK effective July. Recent price increase announcement for fluff pulp were as much as \$50/mton.	6/1/2008 MARKET PULP 1/1/2008 MARKET PULP 12/1/2007 MARKET PULP 9/1/2007 MARKET PULP	PROPOSED INCREASE INCREASE INCREASE	\$20 M/TON \$5 M/TON \$25 M/TON \$20 M/TON	\$900 \$880 \$875 \$850
<b>NEWSPRINT</b>	Two Japanese paper producers, Nippon Paper group and Oji Paper have announced minimum price increases for newsprint of \$200/mton and \$100/mton, respectively. In May, AbitibiBowater, White Birch, Catalyst and Tembec announced a \$60/mton price hike for 3Q. May prices for 30-lb newsprint rose \$20/mton to \$680/mtons. Another \$20/mton increase is expected for June. On the demand side, consumption @ US dailies fell 13.7% y/y in April (-13% YTD) and further cutbacks at papers like the Chicago Tribune appear in the pipeline. At the same time, last week, the World Association of Newspapers noted that worldwide daily newspaper circulation increased 2.6% last year.	9/1/2008 STANDARD 30-LB NEWSPRINT 8/1/2008 STANDARD 30-LB NEWSPRINT 7/1/2008 STANDARD 30-LB NEWSPRINT 6/1/2008 STANDARD 30-LB NEWSPRINT 5/1/2008 STANDARD 30-LB NEWSPRINT	PROPOSED PROPOSED PROPOSED PROPOSED INCREASE	\$20 M/TON \$20 M/TON \$20 M/TON \$20 M/TON \$20 M/TON	\$760 \$740 \$720 \$700 \$680
<b>UNCOATED GROUNDWOOD</b> <i>Affects: ABY, BOW</i>	Directory paper rose another \$10/ton in May, but the prices on other uncoated groundwood grades remained flat in May after the price hikes of April. In April, 35-lb MF offset (65 bright) and 45-lb 83/84 bright offset substitute each rose \$40/ton. ABH's capacity closures are also affecting UCGW grades, as the firm closed 400K tpy of capacity in Q1. Katahdin's recent decision to close a 180K/tpy SC machine should tighten that segment of the market. High-bright grades which compete with uncoated free sheet have been benefiting from the uptick in UFS prices.	4/1/2008 45-LB 83/84 BRIGHT OFFSET SUBS 4/1/2008 HIGH BRIGHT NEWSPRINT 1/1/2008 SUPERCALENDERED (35-LB, SC-B) 11/1/2007 HIGH BRIGHT NEWSPRINT	INCREASE INCREASE INCREASE DECREASE	\$40 TON \$10 TON \$30 TON \$25 TON	\$830 \$730 \$740 \$720
<b>UNCOATED FREE SHEET</b> <i>Affects: UFS, GLT, IP, WPP</i>	Following initial announcements by Boise, Domtar, International paper and several other producers have come out with \$60/ton price hikes on cut-size and offset rolls for June and July. This would be the second price hike in '08 on uncoated grades --- the result of significant cost increases in energy, chemicals, transportation and fiber. However, demand remains lackluster. Shipments declined 9.6% y/y in March and preliminary data suggests that April was similarly weak (down -10% in the US). Difficult comp's could May look challenging as well.	6/9/2008 UNCOATED PAPER-OFFSET 6/9/2008 UNCOATED PAPER-REPRO BOND 4/1/2008 UNCOATED PAPER-OFFSET 4/1/2008 UNCOATED PAPER-REPRO BOND 3/1/2007 UNCOATED PAPER-OFFSET 3/1/2007 UNCOATED PAPER-REPRO BOND	PROPOSED PROPOSED INCREASE INCREASE INCREASE INCREASE	\$60 TON \$60 TON \$20 TON \$10 TON \$30 TON \$50 TON	\$960 \$1,110 \$900 \$1,050 \$880 \$1,040
<b>COATED GROUNDWOOD</b> <i>Affects: BOW, UFS,</i>	A host of players, domestic and offshore, have announced coated paper increases over the past 2 weeks. In the US, Verso announced a series of \$50/ton price increases for June 1 on light-weight coated (LWC) and other coated grades. AbitibiBowater and others have also announced hikes. In Japan, Nippon and Oji have both announced \$100/ton hikes on export LWC. Q1 US shipments rose an impressive 10.3%. With rising costs & weak US\$, it creates an interesting dynamic. There is growing evidence that demand is weakening. As we have noted, contacts in the printing distribution community are reporting that high paper prices and a slower economy are triggering reductions in some cataloging budgets. Late last week in announcing 25K of market downtime, NewPage pointed to rising inventories at a number of printers as well as slower demand from advertisers.	6/1/2008 COATED GROUNDWOOD 4/1/2008 COATED GROUNDWOOD 1/1/2008 COATED GROUNDWOOD 10/1/2007 COATED GROUNDWOOD 9/1/2007 COATED GROUNDWOOD 8/1/2007 COATED GROUNDWOOD	INCREASE INCREASE INCREASE INCREASE INCREASE INCREASE	\$50 TON \$75 TON \$60 TON \$40 TON \$10 TON \$35 TON	\$1,025 \$975 \$900 \$840 \$800 \$790
<b>COATED FREE SHEET</b> <i>Affects: SPP</i>	Verso has announced a series of \$50/ton price increases for June 1 on coated free sheet and other coated grades. Sappi NA has announced \$60/ton on many of its products. Europeans are also making moves. In Europe, Lecta announced that it would trim production by over 15% between May-August. M-Real has announced a minimum increase of E50 on all of its CFS grades. In North America, we are watching for evidence of any pull-back by catalogers and magazines publishers as well as signs of any inventory build-up by printers/end-users. Last week's comment from NewPage (see above) suggest that both elements are occurring.	6/1/2008 COATED FREE SHEET 4/1/2008 COATED FREE SHEET 1/1/2008 COATED FREE SHEET 10/1/2007 COATED FREE SHEET	INCREASE INCREASE INCREASE INCREASE	\$50 TON \$60 TON \$30 TON \$20 TON	\$1,110 \$1,060 \$1,000 \$970
<b>KRAFT PAPER</b> <i>Affects: TIN, SSSC</i>	No price changes in May. The next potential price move is a \$50/ton price hike initiative for June 1 on extensible multiwall sack grades. The price of grocery bag and natural multi-wall sack grades rose \$30/ton in March. Globally, demand for kraft paper could surprise on the upside over the next few years as pressure on plastic bags increases. Plastics bans (or taxes) are mounting on a state & local level in the US.	3/1/2008 KRAFT PAPER, 70lb GROCERY 5/1/2007 KRAFT PAPER, 70lb GROCERY 6/1/2006 KRAFT PAPER, 70lb GROCERY 3/1/2006 KRAFT PAPER, 70lb GROCERY	INCREASE INCREASE INCREASE INCREASE	\$30 TON \$50 TON \$25 TON \$40 TON	\$770 \$740 \$690 \$665
<b>CONTAINERBOARD</b> <i>Affects: SSSC, WY, IP, GEF, PKG</i>	Major producers (70% of NA capacity) have announced a \$55/ton price hike for July 1 and Smurfit has now followed with a box hike. In light of rising costs, high op rates and outage at IP's Vicksburg mill, none of this is a surprise. The big obstacle will be making prices 'stick' in the wake of sluggish box demand. The cost story is mixed. While energy costs continue to surge, rising export freight rate and problems finding shipping space have put pressure on OCC pricing since Q1.	7/1/2008 LINERBOARD 7/1/2008 MEDIUM 8/1/2007 LINERBOARD 8/1/2007 MEDIUM	INCREASE INCREASE INCREASE INCREASE	\$55 TON \$55 TON \$40 TON \$40 TON	\$610 \$590 \$555 \$535
<b>BLEACHED BOARD / SBS</b> <i>Affects: IP, MIWV, RKT</i>	IP, MeadWestvaco and Pottlatch fell behind Rock-Tenn in announcing a \$40/ton price hike for late May/early June on folding carton grades. On cupstock grades, prices increased \$50-65/ton in May (or about 20% since June '06). The increase was driven by stable domestic demand and strong export demand.	6/1/2008 BLEACHED PAPERBOARD 4/1/2008 BLEACHED PAPERBOARD 3/1/2008 BLEACHED PAPERBOARD 8/1/2007 BLEACHED PAPERBOARD	PROPOSED INCREASE INCREASE INCREASE	\$40 TON \$10 TON \$20 TON \$30 TON	\$950 \$910 \$900 \$880
<b>UNBLEACHED KRAFT BOARD</b> <i>Affects: MIWV</i>	CUK prices stayed flat in May after increasing \$30/ton in April, achieving most of the \$40/ton price hike initiative. Operating rates averaged nearly 100% during 4Q07, with domestic demand up 10.7% y/y in 2007. According to RISI, price increases for all major folding carton grades have been announced over the last few weeks. We caution that much CNK tonnage is sold under long-term contracts, so earnings at companies like MWV and GPK won't move as quickly as trade paper prices.	4/1/2008 UNBLEACHED KRAFT FOLDING CARTON 4/1/2006 UNBLEACHED KRAFT FOLDING CARTON	INCREASE INCREASE	\$30 TON \$40 TON	\$830 \$800
<b>RECYCLED BOARD</b> <i>Affects: CSAR, RKT</i>	CRB prices stayed flat in May after increasing \$20-25/ton in April, reflecting a majority of the \$40/ton price hike initiative for March. Recent trade reports suggest some producers have been lenient on pricing to maintain volume. URB prices remained flat in May, despite a \$40/ton price hike initiative. On the URB side, demand appears to be so weak that even sharply higher input costs are not being passed along to customers. Conditions are better on the CRB side, but the market appears to be easing there as well. Unmade orders are down by about a third from last year's levels.	3/1/2008 RECYCLED BOARD, COATED 4/1/2008 RECYCLED BOARD, COATED 4/1/2007 RECYCLED BOARD, COATED 2/1/2007 RECYCLED BOARD, COATED	PROPOSED INCREASE INCREASE INCREASE	\$40 TON \$20 TON \$40 TON \$30 TON	\$780 \$755 \$735 \$695

SOURCE: Deutsche Bank Securities, Inc. estimates, Pulp &amp; Paper Week, and Random Lengths, American Forest and Paper Association

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# Appendix 1

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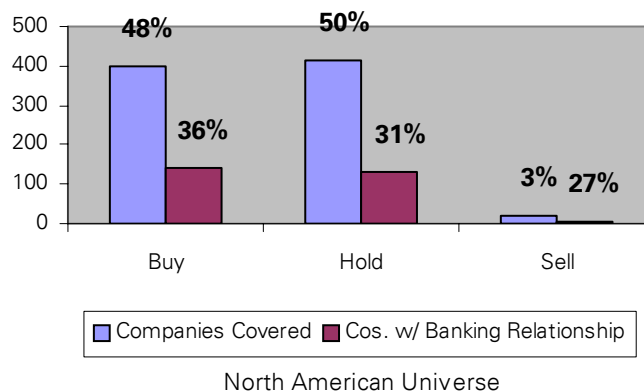
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