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# Paper & Packaging

## Dr. Paper's Pulse on Pricing

Periodical

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### Lumber

The Random Lengths composite was essentially flat, down \$1/mbf, to \$199/mbf. Demand is extremely weak with housing starts continuing to decline - - - January touched a new low of 466K units (seasonally adjusted annual rate), down 16.8% m/m and 56.2% y/y. All the major producers (Tembec, Canfor, West Fraser, Tolko and Weyerhaeuser) continue to take extensive downtime to balance supply with extremely weak demand. It appears that wood products results for many companies will decline q/q in Q1. DB will be hosting a series of investor discussions on the timberland & wood products markets in early April

### Uncoated Free Sheet

Prices on most grades declined \$10-25/ton in February. This follows declines of \$5-10/ton in January. With consumption soft, pulp costs off sharply, coated producers "lifting" their coaters and the US\$ rising . . . it could be much worse. Offset market appears weakest with a sharp decline in commercial printing and competition from coated mills. Cutsized market is more balanced, primarily due to capacity shutdowns. There are, however, reports of more aggressive prices on a deal-by-deal basis. Preliminary January shipments were off 20.1% y/y. Downtime continues in Q1. Growing imports from Indonesia, China, Brazil, Portugal, Mexico & other European producers could place more pressure on the market in the months ahead.

### Containerboard

PPW estimated prices declined \$10/ton in February - the 3rd straight \$10/ton decline. Prices are reported to have slipped further on the export side. With extremely weak demand, lower input costs and a stronger US\$, the modest erosion in domestic pricing appears a victory for producers. Production discipline has kept inventories in check and limited domestic pricing erosion. January box ship's fell 9.4% y/y on a "blended" basis (-11.7% y/y in Dec). All major (and many smaller) producers have announced downtime for Q1. The big wildcard? Impact of Smurfit's Ch. 11 filing. Estimates of potential Smurfit mill & box plant closures are surprisingly large. Moreover, many trade sources suggest that the battle over box customers could be intense and that box prices could come under pressure. We are watching carefully for any evidence on "de-coupling" between board & box prices.

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# PAPER & FOREST PRODUCT PRICING

DR. PAPER'S PULSE ON PRICING

2.23.09



| GRADE   | CURRENT COMMENTARY  | DATE  | PRICING INITIATIVES  | CURRENT PRICE  |  |
|---|---|---|--|--|--|
| <b>LUMBER</b><br><i>Affects: TIN, WY</i>  | The Random Lengths composite was essentially flat, down \$1/mbf, to \$199/mbf. Demand is extremely weak with housing starts continuing to decline -- January touched a new low of 466k units (seasonally adjusted, annual rate), down 16.8% m/m and 56.2% y/y. All the major producers (Tembec, Canfor, West Fraser, Tolko and Weyerhaeuser) continue to take extensive downtime to balance supply with extremely weak demand. Tembec announced downtime for approx. eight weeks starting Feb 9, at its BC & Ontario sawmills. Canfor plans to take further downtime at its BC & Alberta sawmills for two weeks starting Feb 9th. It appears that wood products results for many companies will decline q/q in Q1. DB will be hosting a series of investor discussions on the timberland & wood products markets in early April.  |   |  | (\$1) \$199  |  |
| <b>PANELS</b><br><i>Affects: WY, LPX</i>  | Though demand remains extremely weak, extensive curtailments and closures helped to keep the Random Lengths Panel composite steady at \$258/mbf. According to APA, structural panel output declined 20% y/y in 2008 and 29% from the peak in 2005. Canadian OSB was the worst hit, down 40% y/y. LPX recently announced restructuring moves designed to reduce LPX's "cash burn" by \$235MM/yr from the pace seen in 1H08. S&P recently downgraded LPX and Moody's placed LPX under review for downgrade. The rapid decline in the CNS is altering the North American playing field by improving the competitive position of CN OSB mills.  |   |  | \$0 \$258  |  |
| <b>MARKET PULP</b><br><i>Affects: ABH, UFS, WY</i>                              | Pulp prices declined for the sixth consecutive month -- NBSK list price for February fell \$30/mton to \$675/mton, a decline of \$210/mton from its August peak. Hardwood grades fell \$30/mton, with BEK now at \$815/mton. Fluff pulp declined \$30/mton to \$820/mton. List prices are misleading as the discounts from list have widened to unprecedented levels. Spot prices on NBSK are around \$470-\$520/mton, and NBHK/SBHK around \$400-\$440/mton. At these levels, prices are below cash cost for most Northern Hemisphere mills. Sodra has announced NBSK price of \$590/mton in Europe, effective Mar 1. Mill closures & downtime continue -- Terrace Bay Pulp plans to curtail 35K mton of NBSK for six weeks beginning Monday at its Ontario mill, ABH plans to curtail 7.5K mton of NBSK between Mar 22 - Apr 4 at its Fort Frances Ontario mill, Tembec recently announced closure of its 196K tpy NBSK mill at Marathon, ON from Feb 28. Fraser Papers plans to take an up-to-eight weeks of downtime at its 250K tpy NBHK mill in Thurso, QE from Mar 2. There are reports that other BC pulp mills will be closing in the near future.           | 2/1/2009 MARKET PULP<br>11/2009 MARKET PULP<br>12/1/2008 MARKET PULP<br>11/1/2008 MARKET PULP<br>10/1/2008 MARKET PULP<br>9/1/2008 MARKET PULP<br>7/1/2008 MARKET PULP  | DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>INCREASE             | (\$30) MTON<br>(\$35) MTON<br>(\$55) MTON<br>(\$50) MTON<br>(\$25) MTON<br>(\$15) MTON<br>\$5 MTON       | \$675<br>\$705<br>\$740<br>\$795<br>\$845<br>\$870<br>\$885          |
| <b>NEWSPRINT</b><br><i>Affects: ABH</i>   | Market remains oversupplied - both from falling domestic demand and weaker exports. Newsprint price decline accelerated in February, with list prices down \$20/mton. In the prior three months, list prices declined \$10/mton/month. Domestic newsprint consumption fell 19.5% y/y in December (-23.5% @ US dailies). Declining fiber, energy, and transportation costs, as well as a weaker CS, are providing newsprint makers "wiggle room" on price. Publishers remain under pressure. This weekend, the Journal Register and the Philadelphia Newspapers, Inc. both filed for bankruptcy. In 4Q, Gannett, the largest newspaper publisher in USA, cut newsprint consumption by 19%, and expects to use even less in 1Q. Lee Enterprises cut by 24%. Other newspapers (including both Detroit dailies) are cutting publication back from 7 days. Producers are responding with widespread downtime. ABH initially announced newsprint curtailments for 2009 - 830K mtons with 590K mtons in Q1. ABH will also idle its 703 mton/day newsprint mill in Grenada, MS, for the month of January. SP Newsprint, Kruger, Catalyst and Tembec are also taking downtime. | 2/1/2009 STANDARD 30-LB NEWSPRINT<br>1/1/2009 STANDARD 30-LB NEWSPRINT<br>12/1/2008 STANDARD 30-LB NEWSPRINT<br>11/1/2008 STANDARD 30-LB NEWSPRINT<br>10/1/2008 STANDARD 30-LB NEWSPRINT<br>9/1/2008 STANDARD 30-LB NEWSPRINT<br>8/1/2008 STANDARD 30-LB NEWSPRINT<br>7/1/2008 STANDARD 30-LB NEWSPRINT | DECREASE<br>DECREASE<br>DECREASE<br>INCREASE<br>INCREASE<br>INCREASE<br>INCREASE<br>INCREASE | (\$20) MTON<br>(\$10) MTON<br>(\$10) MTON<br>(\$10) MTON<br>15 MTON<br>15 MTON<br>15 MTON<br>20 MTON     | \$735<br>\$755<br>\$765<br>\$775<br>\$785<br>\$750<br>\$735<br>\$720 |
| <b>UNCOATED GROUNDWOOD</b><br><i>Affects: ABH</i>                               | List prices on the offset grades fell for the third straight month in February -- down \$20-\$40/ton, following weakness in UFS grades. SC papers list prices remained at January levels. Preliminary January shipment data shows volumes down 39.0% y/y (\$24.4% y/y in December, -6.8% y/y in November).  | 2/1/2009 35-LB MF OFFSET, 65 BRIGHT<br>1/1/2009 35-LB MF OFFSET, 65 BRIGHT<br>1/1/2009 SUPERCALENDERED (35-LB, SC-A)<br>12/1/2008 35-LB MF OFFSET, 65 BRIGHT<br>12/1/2008 SUPERCALENDERED (35-LB, SC-A)   | DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE                                     | (\$20) TON<br>(\$20) TON<br>(\$10) TON<br>(\$15) TON<br>(\$15) TON                                       | \$740<br>\$760<br>\$880<br>\$780<br>\$890                            |
| <b>UNCOATED FREE SHEET</b><br><i>Affects: UFS, GLT, IP, WPP</i>                 | Prices on most grades declined \$10-\$25/ton in February. This follows declines of \$5-\$10/ton in January. With consumption soft, pulp costs off sharply, coated producers "lifting" their coaters and the US\$ rising... it could be much worse. Offset market appears weakest with a sharp decline in commercial printing and competition from coated mills. Cutsie market is more balanced, primarily due to capacity shutdowns. There are, however, reports of more aggressive prices on a deal-by-deal basis. Preliminary January shipments were off 20.1% y/y (-12.8% y/y in December, -8.0% for FY08). Downtime continues in Q1 -- Domtar plans to shut PM5 at its Plymouth, NC mill (293K tpy) by end of Feb. Growing imports from Indonesia, China, Brazil, Portugal, Mexico & other European producers could place more pressure on the market in the months ahead. Portucel will expand US sales when a 500Ktpy machine starts up this summer. IP recently noted that it plans to export 100% output from its new 200K tpy Tres Lagoas mill in Brazil.  | 2/1/2009 UNCOATED PAPER-REPRO BOND<br>2/1/2009 UNCOATED PAPER-OFFSET<br>1/1/2009 UNCOATED PAPER-REPRO BOND<br>1/1/2009 UNCOATED PAPER-OFFSET<br>12/1/2008 UNCOATED PAPER-REPRO BOND<br>12/1/2008 UNCOATED PAPER-OFFSET<br>11/1/2008 UNCOATED PAPER-REPRO BOND   | DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE             | (\$10) TON<br>(\$25) TON<br>(\$5) TON<br>(\$10) TON<br>(\$10) TON<br>(\$15) TON<br>(\$10) TON            | \$1,075<br>\$895<br>\$1,085<br>\$920<br>\$1,050<br>\$930<br>\$1,100  |
| <b>COATED GROUNDWOOD</b><br><i>Affects: ABH, UFS, VRS</i>                       | List prices in February held steady at \$920/ton, after declining \$15-\$45/ton in January and \$35-\$70/ton in December. With consumption likely to remain weak and the US\$ rising, producers will remain at battle stations through 2009. Preliminary January shipments fell 31.3% y/y (-24.2% y/y in December, -9.5% for FY08). The key issues are weak demand from catalogers & magazines as well as inventory reduction efforts along the supply chain. Quad/Graphics plans to shut equipment at 9 facilities and R.R. Donnelley plans to idle a book printing plant in Jefferson City, MO for at least 8 weeks, in addition to closure of Spencer, IA plant by mid-March. Early predictions for '09 sound grim. Verso has announced 100K tons on 09H1 downtime and Newpage will take 150K tons of coated paper downtime in Q109. ABH plans to curtail production at its Catawba, SC, mill between Mar 1 - Apr 1, removing around 14K tons of capacity.   | 1/1/2009 COATED GROUNDWOOD<br>12/1/2008 COATED GROUNDWOOD<br>9/1/2008 COATED GROUNDWOOD<br>8/1/2008 COATED GROUNDWOOD<br>7/1/2008 COATED GROUNDWOOD<br>4/1/2008 COATED GROUNDWOOD   | DECREASE<br>DECREASE<br>INCREASE<br>INCREASE<br>INCREASE<br>INCREASE                         | (\$35) TON<br>(\$55) TON<br>\$5 TON<br>\$5 TON<br>\$20 TON<br>\$75 TON                                   | \$920<br>\$955<br>\$1,000<br>\$995<br>\$995<br>\$975                 |
| <b>COATED FREE SHEET</b><br><i>Affects: SPP, VRS</i>                            | After falling \$60/ton in January and \$30/ton in December, list prices in February remained at January levels. Preliminary January shipments were off 26.5% y/y (-19.5% y/y in December, -8.4% for FY08). Reports suggests CFS producers are "lifting" their coaters and selling in the UFS market. NewPage announced 150K tons of Q1 downtime. The same pattern exists in Europe. Sappi, Lecta, Myllykoski and other have announced extensive Q1 outages.   | 1/1/2009 COATED FREE SHEET<br>12/1/2008 COATED FREE SHEET<br>11/1/2008 COATED FREE SHEET<br>8/1/2008 COATED FREE SHEET  | DECREASE<br>DECREASE<br>INCREASE<br>INCREASE   | (\$60) TON<br>(\$30) TON<br>\$5 TON<br>\$5 TON   | \$1,000<br>\$1,060<br>\$1,090<br>\$1,085                             |
| <b>KRAFT PAPER</b><br><i>Affects: TIN, SSCC</i>                                 | Prices continued to slide in February. List price on 30lb grocery bag slipped an additional \$20/ton, after declining a similar amount in January. However, list price on 70lb grocery sack paper remained steady at \$780/ton. Trade reports have been suggesting a softer market and pointing to weakness in offshore markets as well. Producer backlogs have diminished, as customers hold off on purchases. Longview Fibre, a major West Coast producer, has increased its planned downtime.  | 1/1/2009 KRAFT PAPER, 70lb GROCERY<br>12/1/2008 KRAFT PAPER, 70lb GROCERY<br>11/1/2008 KRAFT PAPER, 70lb GROCERY<br>8/1/2008 KRAFT PAPER, 70lb GROCERY<br>3/1/2008 KRAFT PAPER, 70lb GROCERY  | DECREASE<br>DECREASE<br>DECREASE<br>INCREASE<br>INCREASE                                     | (\$10) TON<br>(\$20) TON<br>(\$20) TON<br>\$50 TON<br>\$40 TON   | \$780<br>\$790<br>\$810<br>\$830<br>\$780                            |
| <b>CONTAINERBOARD</b><br><i>Affects: SSCC, IP, TIN, PKG, GEF, RKT, GEF, PKG</i> | PPW estimated prices declined \$10/ton in February - the 3rd straight \$10/ton decline. Prices are reported to have slipped further on the export side. Indeed, many export markets appear to be a mess. With extremely weak demand, lower input costs and a stronger US\$, the modest erosion in domestic pricing appears a victory for producers. Production discipline has kept inventories in check and limited domestic pricing erosion. Indeed, inventories fell 57K tons m/m in January against a typical 138K tons increase. January box ship's fell 9.4% y/y on a "blended" basis (-11.7% in Dec). All major (and many smaller) producers have announced downtime for Q1. The big wildcard? Impact of Smurfit's Ch. 11 filing. Estimates of potential Smurfit mill & box plant closures are surprisingly large. Moreover, many trade sources suggest that the battle over box customers could be intense and that box prices could come under pressure. We are watching carefully for any evidence on "de-coupling" between board & box prices.  | 2/1/2009 LINERBOARD<br>2/1/2009 MEDIUM<br>1/1/2009 LINERBOARD<br>1/1/2009 MEDIUM<br>12/1/2008 LINERBOARD<br>12/1/2008 MEDIUM<br>7/1/2008 LINERBOARD<br>7/1/2008 MEDIUM  | DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>DECREASE<br>INCREASE<br>INCREASE | (\$10) TON<br>(\$10) TON<br>(\$10) TON<br>(\$10) TON<br>(\$10) TON<br>(\$20) TON<br>\$55 TON<br>\$55 TON | \$580<br>\$550<br>\$590<br>\$560<br>\$600<br>\$570<br>\$610<br>\$590 |
| <b>BLEACHED BOARD / SBS</b><br><i>Affects: IP, MWV, RKT</i>                     | Perhaps the strongest grade at the moment, one of the few in which prices remain stable. The industry pushed through 4 rounds of price hikes in '08. However, YTD through early February, operating rates have declined to 84.1%, unmade orders at 212620 tons for the week ended Feb 4 is at the lowest levels since at least the early 1980's. Further, with polyethylene costs coming down rapidly, we think some price cuts are possible in the coming months. On the converting side, Graphic Packaging announced it will close 4 carton plants by end of September -- Tuscaloosa, AL, by end of 2Q, Morris, IL, and Muncie, IN, and a multi-wall bag packaging facility in Cantonment, FL by end of 3Q. MWV recently announced it will close or restructure 12-14 plants.   | 10/1/2008 BLEACHED PAPERBOARD<br>9/1/2008 BLEACHED PAPERBOARD<br>7/1/2008 BLEACHED PAPERBOARD<br>6/1/2008 BLEACHED PAPERBOARD<br>4/1/2008 BLEACHED PAPERBOARD   | INCREASE<br>INCREASE<br>INCREASE<br>INCREASE<br>INCREASE                                     | \$40 TON<br>\$60 TON<br>\$20 TON<br>\$20 TON<br>\$10 TON   | \$1,050<br>\$1,010<br>\$950<br>\$930<br>\$910                        |
| <b>UNBLEACHED KRAFT BOARD</b><br><i>Affects: MWV</i>                            | February list prices held steady at \$875/ton after slipping \$5/ton in January. An attempt to raise the price by \$40-\$50/ton in November had fizzled earlier. '08 saw two hikes on folding carton grades and one on beverage carrier grades. Graphic Packaging announced closure of its 100K tons/yr PM 2 machine at its West Monroe, LA mill to control inventory.  | 1/1/2009 UNBLEACHED KRAFT FOLDING CARTON<br>8/1/2008 UNBLEACHED KRAFT FOLDING CARTON<br>4/1/2008 UNBLEACHED KRAFT FOLDING CARTON  | DECREASE<br>INCREASE<br>INCREASE   | (\$5) TON<br>\$30 TON<br>\$30 TON  | \$875<br>\$880<br>\$830  |
| <b>RECYCLED BOARD</b><br><i>Affects: CSA, RKT</i>                               | List prices fell \$10/ton for the second straight month in February, after holding flat in December. This decline seems quite modest in the face of weak demand and lower costs. Credit industry consolidation & rationalization. US CRB mill operated at 92.8% in January (69.8% in December) with backlogs of 104K tons. US URB mill operated at 82.6% in January (62.7% in December) with unmade orders of about 181K tons, down from the recent peak of 235K tons. The industry collectively announced the closure of 600K+ tpy of capacity last summer, and a new round of capacity closure announcements has started, with announcements by Newark Group, Caruaru, Rock Tenn, Sonoco, and Graphic Packaging. As in corrugated box market, we have received reports suggesting that folding carton pricing is under more pressure than the modest dip in cartonboard prices would imply.   | 2/1/2009 RECYCLED BOARD, COATED<br>1/1/2009 RECYCLED BOARD, COATED<br>8/1/2008 RECYCLED BOARD, COATED<br>6/1/2008 RECYCLED BOARD, COATED<br>4/1/2008 RECYCLED BOARD, COATED<br>4/1/2007 RECYCLED BOARD, COATED  | DECREASE<br>DECREASE<br>INCREASE<br>REVISED<br>INCREASE<br>INCREASE                          | (\$10) TON<br>(\$10) TON<br>\$35 TON<br>\$0 TON<br>\$20 TON<br>\$40 TON                                  | \$770<br>\$780<br>\$790<br>\$755<br>\$755<br>\$735                   |

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

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# Appendix 1

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### Equity rating key

### Equity rating dispersion and banking relationships

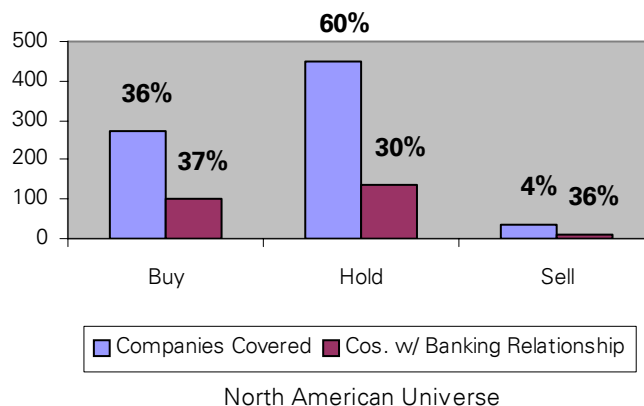
**Buy:** Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

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