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INDUSTRY ALERT

Industry Update

Paper & Forest Products

Preliminary October printing & writing paper volumes: ugly

Focus stocks

AbitibiBowater Inc
 (ABH.N),USD1.33 Hold, Price Target USD2.00

Domtar (UFS.N),USD1.97 Hold,
 Price Target USD4.00

We've come to expect weak P&W shipment numbers in recent months, but preliminary October numbers were even worse than we anticipated.

Coated paper volumes went from bad to worse

Coated Mechanical (LWC) shipments fell 21.7% y/y in October (-6.9% YTD). Coated Free Sheet shipments have held up better than LWC in recent months, but still fell 16.3% y/y (-9.4% YTD). Weak demand for catalogues and magazines has plagued the coated paper market, but the issue appears to be getting even worse, likely driving the myriad of downtime announcements from NewPage, Kruger, Abitibi & others.

Uncoated shipments the worst we've seen this year

Shipments of Uncoated Free Sheet fell 10.5% y/y in October (-6.1% YTD). Domtar recently announced that it will end production at its Dryden mill, and Boise is idling two machines at International Falls. With pulp prices falling sharply, prices for UFS appear more vulnerable to price erosion in the near-term. Even Uncoated Mechanical was weak, with shipments falling 3.1% y/y (+10.6% YTD), the first decline in over a year.

Final October shipment numbers from the AF&PA are expected to be published Nov. 20 th

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