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INDUSTRY ALERT

Industry Update

Paper & Forest Products | October Global Pulp Shipments

Focus stocks

International Paper (IP.N), USD25.39
 Buy, Price Target USD32.00

Domtar (UFS.N), USD78.69 Hold,
 Price Target USD60.00

Wausau Paper Corp
 (WPP.N), USD8.30 Buy, Price Target
 USD13.00

According to data released today by the Pulp & Paper Products Council, October global pulp shipments fell both on a m/m & y/y basis. Hardwood mkts appear much weaker than softwood, with shipments down -16.1% m/m & -10.5% y/y. Inventories rose by 2 days to 34 days of supply. Overall, these numbers are slightly weaker than we expected.

Global pulp shipments fell 7.5% m/m & 3.5% y/y to 3,356K mtons (we were expecting low to mid-single digits m/m decline). Most of the m/m decline is a return to a more normalized trajectory after a sharp rise in Sept shipments, +14.4% m/m. In October, China was down 9.6% m/m & 2.8% y/y, NA -4.2% m/m & -7.0% y/y and W. Europe -8.4% m/m & -0.3% y/y.

Producer stocks rose from 32 to 34 days of supply on an actual basis. We were expecting inventories to rise by 1 day. Hardwood inventories rose sharply, up by 5 days of supply to 43. Softwood fell by 1 day to 26 days of supply.

List prices are off \$30-50/mton in the domestic mkt and down more sharply in mkts like China. We think the Chinese are sourcing more pulp from domestic & Indonesian mills (not included in this data). On a recent tour of China, it appeared to us that Chinese mills were carrying ample pulp inventories and, in some cases, had tremendous excess inventories of finished paper. With shipments down and inventories up sharply, we expect hardwood prices to remain under increasing pressure in the coming months. Softwood fundamentals appear better, though prices are likely to come under some pressure in the seasonally slower winter months.

Among our coverage, falling pulp prices would reduce earnings at Domtar and International Paper - particularly, Domtar. On the other side of the equation, Wausau Paper is a significant net buyer of pulp and could see improved margins for its tissue and paper businesses.

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