Unpack growth from global trade and e-commerce

Pulp and paper must not be mixed up with the wood sector as the latter depends more on demand from construction. The downstream sector of pulp and paper has more weight. It also depends mainly on household consumption. That is why world paper output increased +0.8% y/y to 410 million tons in 2017. Asia accounts for the bulk of the market with near half global output (and consumption) of paper and board. The paper sector which has been under severe pressure from electronic media may have entered 2018 on better conditions after significant capacity withdrawals continued throughout the industry in recent years. More specifically in North America, the US paper market is benefiting from a positive impact from USD weakness on industry trade, and also from higher import duties for imports from Canada. Pulp prices as much as downstream corrugated paperboard ones have been rising again for two years as a result, and led to margin expansion across the sector. However, it shall be insured that contractions in paper output brought on by digitalization do not outstrip the rise in demand caused by ever more e-commerce packaging provided plastics does not stand in for paper. Overall, the paper’s era has not come to an end.
Key Players

<table>
<thead>
<tr>
<th>Country</th>
<th>Role</th>
<th>Sector Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>#1 producer</td>
<td><img src="#" alt="red" /></td>
</tr>
<tr>
<td></td>
<td>#1 consumer</td>
<td><img src="#" alt="red" /></td>
</tr>
<tr>
<td>United States</td>
<td>#2 producer</td>
<td><img src="#" alt="red" /></td>
</tr>
<tr>
<td>Japan</td>
<td>#3 producer</td>
<td><img src="#" alt="red" /></td>
</tr>
</tbody>
</table>

Strengths

- Growing needs for (cardboard) packaging, in line with manufacturing and skyrocketing e-commerce activities
- New market outlets stemming from rising middle class in emerging markets
- Rising demand for hygiene products

Weaknesses

- High sensitivity to feedstock costs (i.e. pulp)
- Ability to face high investments costs to ensure future growth
- Plastics in competition against cardboard in the packaging outlet depending on variations of ethylene price vs. pulp (NBSK) price

Subsectors Insights

**Newsprint and printing papers:** Digitalization has been eating away at this range of papers

**Corrugated paper(board)s:** It depends on the packaging outlet which is itself dependent a lot on e-commerce and retail growth rates

**Tissue papers:** These high-added-value paper products appear to be a market segment enjoying strong enough margins

Recent Sector Risk

- Sweden (Q4 2017)
- No significant recent downgrades

DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2018 Euler Hermes. All rights reserved.