

Two years back not one person out of the 7 billion people on this planet could have predicted the position we are in today.

I personally feel we are in the middle of a 'STAGNATION'.  
This is when there is unprecedented inflation but there is very low demand.  
This sounds very contradictory in economic terms but there is something like this mentioned by the economic gurus.

We are also in the middle of a commodity super cycle and now to add fuel to fire that we thought was dying down the conflict between Russia and Ukraine.

Like we had mentioned earlier there were 4 main factors that were driving the price of paper in India.

1. The shortage of containers which has led to an abnormal increase in shipping cost.
2. Cascading effect of the pandemic
3. Increase in self consumption of waste paper in Europe and USA.
4. Ban of waste paper by a technical error from the EU from 1st November 2021.

Now add the conflict to the above and we have a deadly concoction of inflation and soon shortages.

Recently there have been 3 important developments that have created a scenario where we might see a panic like situation.

1. Coal prices again increased by Rs 2500-3000 PMT directly effecting the producers of both boxes as well as paper mills.
2. Starch has further increased taking the total increase to Rs 12000 pmt again directly affecting both producers.
3. Most importantly because imported waste paper did not decrease in December and January and demand in India was very low most mills in India did not book waste paper from USA ( Europe was banned anyway)( India gets 40% of its imported waste from Europe)This has now created a situation where the mills have run out of Imported waste and they have started refusing orders of 22 BF and above.

The local waste has touched Rs 28000 PMT and imported waste from USA has touched USD 400 and even at these prices quantity required is not available for both imported as well as local.

The mills are already running at 50% capacity. Coupled with coal and underutilisation costs a lot of mills have started shutting down too.

We expect that by 15th March the prices are going to increase by an additional Rs 2000 PMT taking the total increase from 15th December till date to about Rs 12000 pmt.

Moreover availability of higher BF paper (22-24-28) is going to become extremely difficult. All the mills have stopped taking orders larger than 50 MT at a time and are ready to take the next order only after delivering the old order.

Payment terms from the mills have shrunk drastically and bad paymasters are finding it difficult to source paper.

Our take on the above situation is as follows.

1. Paper availability will become a major concern for the next 2 months minimum.
2. Prices will go up further and will remain strong for the coming quarter.
3. Increase in crude prices which will be passed on after the elections will add more pain to this situation pushing up prices on all fronts further.
4. The described scenario is when there is very poor demand. Once the new financial year starts and demand picks up it's scary to even predict what will happen.

Sir please brace your selves for one of the worst quarters in terms of prices as well as supply chain disruptions. This is a time where it's important to focus more on maintaining a smooth supply chain corridor and less on pricing.

The proof to the above described scenario is in a market where there is a 100% over capacity of both paper and box manufacturers both have started refusing supplies even after committing orders and if you have not already experienced this very soon you will.

Till the next update.

Goodbye.

Manish Gupta.