

This edition of the paper trends update is in quick succession to the previous one in December 2021 as we have started to see the change as predicted in the last update but only that the changes are quicker than expected and more aggressive.

This is the last quarter of this financial year and as expected demand has started picking up across all industries. The worrying factor is the heavy demand in the US markets where containerboard production has increased by a whopping 5.9% which in absolute numbers is very huge. This is due to the fiscal stimulus of 3 trillion dollars the US government gave out as dolls to the people as well as overall growth. The increase in container board (Kraft paper) production has increased the percentage of recycled content in the paper and therefore the US is now exporting lesser quantity of waste paper and self-consuming more year after year.

Shipping lines are breaking all records. Did you know that the shipping industry as a whole made more money last year than Apple and Microsoft combined? That is a nett profit of 109 Billion USD. After tasting blood why should they bring down prices till they can control it. During the first wave in 2020 a lot of ships and containers that were 25-30 years old were scrapped before time as maintaining a stationary ship is very expensive. This brought down the available capacity of shipping. Moreover, pre pandemic the shipping lines had 2 models of business, Standard time with optimum speed of sailing which gave good fuel efficiency but more delivery time and the other was faster speeds with higher turnaround time but lower fuel efficiencies. The shipping industries charged accordingly.

Now they have combined the best of both and have one standard model where they run in economy mode in terms of speed and charge higher freights citing shortage of inventory. This way they are able to control both cost of operations as well as control supply to maintain prices.

The biggest factor is that earlier there was a balance of movement where China used to import a lot of scrap like steel , plastic , paper , nonferrous metals , plastic etc recycle them and use them for internal consumption and the containers taking these items used to carry back finished goods for export to all the parts of the world.

From 1st January 2020 China has banned the import of most of the scrap and this has disturbed the balance of movement of containers. Today Chinese exporters are paying higher prices for the containers as the shipping lines are sending empty containers to China to fulfil their demand.

In the above circumstances both consumption of waste as well as shipping costs are going to remain strong in 2022. The price of AOCC will remain strong at least for the first 2 quarters of 2022 which will continue to put pressure on the local waste paper in India as mills are trying to use more of local waste than AOCC to offset the cost. This has created a surge in demand for local waste which as increased by over Rs 4000 PMT in the last 4-5 weeks.

Mills who did not import waste thinking the price will soften further like in November are running short of raw materials now. All in all, the price of kraft paper has increased by Rs 4000 PMT in the last 5 weeks from the November 2021 end levels and today are at par or slightly higher than the peak prices of October 2021.

Coal a major raw material for papermills has increased by Rs 3000 PMT this month due to a sudden ban by Indonesia from where India gets a major portion of its imported coal. Like I had mentioned the last time starch has increased by 20% and is holding on strong.

Most mills are talking about further increases in the month of February which can be quite substantial.

We feel supplies will be tight especially for higher qualities like 24 and 28 bf as mills are very low on imported waste inventory and prices will remain strong for this whole quarter. We will continue to see volatility in the pricing as with governments coming out with notifications on No Lockdowns and

limited time of home isolation there is an acceptance of the Covid virus among the general public and the initial fear is gone. This variant is very contagious and we personally feel that India should achieve herd immunity by March – April which might bring things back to normal and also bring another surge in demand.

If the pandemic continues then it will affect supply chains and prices will increase and if the virus subsides then demand will revive and prices will increase.

So overall we see a strong pricing scenario in the coming months and will keep you informed as usual.

Warm regards.

Manish Gupta