

# China Packaging Paperboard Report

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## I. Global Review

**US containerboard** market slowed down in the last two months of 2012, after completion of holiday orders by mills and box plants. Data from AF&PA showed US linerboard production dropped slightly by -1.4% from October to 2.87 million/ton in November. However, this was still up +1% from a year ago. Combined mill and box plant inventories totaled 2.05 million/ton, with much of the 37,000/ton rise from box plants. Linerboard shipment fell below 28.58 billion/feet<sup>2</sup>, -11% from October and -1.2% from a year ago. Exports net at 294,000/ton in November, +3.9% from October, but -3.2% from 12 months ago. YTD shipment totaled 330.86 billion/feet<sup>2</sup>, +0.2% from that of 2011.

Industry news said 42 lb. (200g/m<sup>2</sup>) kraft-top liner continued to list at US\$600-610/ton and 26 lb. (127g/m<sup>2</sup>) semi-chemical medium at US\$560-570/ton in Eastern USA. Though already high for 2 months, the possibility for suppliers' attempting a new price increase may not be ruled out in the 1<sup>st</sup> Quarter 2013.

**In Europe**, linerboard demand softened in December too. Except kraft-top linerboard which stood firm under tight supply, price of testliner slipped and may continue the decline into January when market enters into its traditional low season.

FOEX said kraft-top linerboard was listed at €584.03/tonne on December 27<sup>th</sup>, up €2.09/tonne from end-October and €49.05/tonne from January 2012. Testliner, however, showed the opposite. List price lost €0.72/tonne from end-November to €426.44/tonne on December 27<sup>th</sup>. And this was a loss of €14.41/tonne from January 2012. Market observers believed the negative performance was the result of excessive capacity expansion in recent years.

## II. China Mainland Market

While the buying spree in the final months of a year became a memory of the good old days, Chinese industrial packaging paperboard market managed to stay steady and mainstream producers kept their machines in normal runs till the last week of December. In Southern and Eastern China markets, corrugating medium suppliers were even able to elbow up a RMB50/tonne price rise. This was very much envied by linerboard, coated duplex board and coated SBS board producers who had to lump with either stagnant sales or even struggled to keep sales from further declines. With the Chinese New Year coming on February 10<sup>th</sup> and news of general low stocks of paperboard at the converters and printers revived hope of packaging board producers to improve sales in January.

**Production & Consumption.** Preliminary data released by China Paper Association (CPA) showed China's industrial packaging paperboard production reached 54.90 million/tonne in 2012, +3.39% from that of 2011. Consumption in 2012 was estimated at 55.70 million/tonne, +3.42% from 2011.

**Mergers & Acquisition.** Ji-An Paper and Shanying Paper unveiled the definite deal on the merger of the two companies on December 22<sup>nd</sup>. Under the agreement, Shanying Paper – a publicly listed company at the Shanghai Stock Exchange – will merge entirely with Ji-An Paper. With the latter's assets of roughly RMB3.05 billion, the new company will receive funding from no more than 10 designated private investors to cover 25% of the transaction (estimated at RMB1.02 billion). Sources believe the private investors are from Ji-An Paper. The merger, once approved by the authorities, will

expand paper and board production capacity of the new company from 900,000/mtpy to 2.25 million/mtpy and box converting capacity from 600 million/m<sup>2</sup> per year to 1 billion/m<sup>2</sup> per year. This will significantly enhance the company's position in the China market.

**Linerboard market** appeared to be well positioned for the coming Chinese New Year. Thanks to growing orders from mainstream box plants and flute makers in Eastern and Southern China who began to build linerboard stocks for holiday converting, most linerboard mills were able to keep active sales and shipment and reduce mill inventories. And in regional markets, producers were even able to elbow up the price. In Eastern China, for example, Longchen Paper (Zhejiang) successfully added RMB50-100/tonne (US\$8.06-16.13/tonne) to its testliner. However, the company had to keep price unchanged for its kraft-top liner in exchange for more orders. At end-December, the company was delivering its 140g/m<sup>2</sup> B1 testliner at RMB3,400-3,450/tonne (US\$548.39-566.45/tonne) and 140g/m<sup>2</sup> S-Class testliner at RMB3,500-3,550/tonne (US\$564.52-572.58/tonne). For 170g/m<sup>2</sup> kraft-top liner, price remained unchanged for nearly five consecutive months at RMB3,750-3,800/tonne (US\$604.84-612.90/tonne) at delivered terms. Because of smooth sales and shipment, mill inventories at Longchen Paper (Zhejiang) were reduced to 16 days of supply at end-December, which was 5 days less than the previous month.

As most suppliers in Eastern China interpreted the current activeness in the market as a short-term holiday buying, no one would venture a major change in the price. Nine Dragons (Taicang) would keep the price of its 140g/m<sup>2</sup> testliner unchanged from the previous month at RMB3,100-3,150/tonne (US\$500-508.06/tonne).

In Southern China, market also appeared busy under active demand. Still, producers

were cautious not to spoil sales and shipment with price increases. In fact, some producers, including Lee&man (Hongmei), cancelled the RMB50/tonne (US\$8.06/tonne) price increase of the previous month.

Thanks to smooth sales and shipment, together with the lifting of the RMB50/tonne (US\$8.06/tonne) price rise, Lee&man (Hongmei) was able to postpone the planned maintenance downtime of its PM15. By end-December, the mill's product inventories reduced to 17 days of supply, down 6 days from the previous month.

**New Capacity.** Shenglian Paper in Fujian Province, Southeast China reported of a smooth trial run of its PM#6 linerboard machine from mid-December. At the designed capacity of 400,000/mtpy, the machine expands the company's overall industrial packaging board capacity to more than 1 million/mtpy which secures the company the No. 1 position in packaging paperboard production in the province.

China Containerboard Price Watch - 2013					
(In RMB/MT)	Origin	Substance	Early-Jan.	Early-Dec.	Change%
<b>Linerboard</b>					
Georgia Pacific	USA	175gsm	5,300	5,250	1%
Weyerhaeuser	USA	175gsm	5,300	5,250	1%
Bratsky	Russia	180gsm	5,100	5,050	1%
Jingxing (Kraft-top)	Zhejiang	150gsm	3,700	3,750	-1%
Nine Dragons (Kraft-top)	Dongguan	150gsm	3,700	3,700	0%
Lee&man (Kraft-top)	Dongguan	150gsm	3,700	3,700	0%
<b>Medium</b>					
Nine Dragons Class A	Dongguan	100gsm.	2,950	2,900	2%
Jinzhou Paper Class A	Dongguan	105gsm.	2,950	2,900	2%
Shun Yu Paper Class A	Dongguan	100gsm.	2,950	2,900	2%
Lee&man Class A	Changshu	105gsm.	2,950	2,900	2%
Luping Yongfa Class A	Shandong	110gsm.	2,680	2,650	1%
Changfeng Class A	Jiangsu	105gsm.	2,820	2,800	1%

*Note: For reference only. Price varies in transaction.*

**Corrugating medium** market also revived under holiday demand. Mainstream producers in Eastern and Southern China took advantage to add RMB30-50/tonne (US\$4.84-8.06/tonne) to the sales price.

In Eastern China, Longchen Paper (Wuxi) was able to keep its two medium machines at full gear runs in December. After the RMB50/tonne (US\$8.06/tonne) price increase, the company was delivering its 100g/m<sup>2</sup> medium to customers at RMB2,950-3,000/

tonne (US\$475.81-483.87/tonne). Active sales and shipment reduced mill inventories to 14 days of supply, down 5 days from the previous month.

In Southern China, Shunyu Paper in Dongguan ran its 4 machines at high speed to entertain growing orders and active shipment. Still, mill inventories reduced 8 days from the previous month to equal 9 days of supply at end-December. After the RMB50/tonne (US\$8.06/tonne) increase, price of the company's medium reached RMB2,950-3,000/tonne (US\$475.81-483.87/tonne).

**Coated recycled board** producers had to envy containerboard producers. Any rise from holiday demand would be quickly swallowed by ample supplies.

In Southern China, Lee&man (Hongmei) applied uniformed price at RMB3,400/tonne (US\$548.39/tonne) for all grades to allow its 600,000/mtpy coated duplex board machine to run in full speed. And because of the strategy, the company was able to keep consistent sales and shipment and reduce mill inventories to 10 days of supply by end-December.

Nearby, Nine Dragons (Dongguan) also held its coated duplex board price unchanged from the previous month. For January, the company announced a RMB50/tonne (US\$8.06/tonne) price increase. To the interpretation of most market observers, however, this was more of a desire than action.

In Eastern China, Changjiang Paper switched 20% of their machine times to run play card board. With less production of coated duplex board and consistent sales price of its core 250g/m<sup>2</sup> coated duplex board in roll at RMB3,800-3,850/tonne (US\$612.90-620.97/tonne), the company was able to keep shipment and reduce mill inventories to 30 days of supply, down 3 days from the previous month.

Also in Eastern China, Nine Dragons (Taicang)

began its holiday promotion. For an order at or over 2,000/tonne and at cash payment for its 250g/m<sup>2</sup> coated duplex board, the company would give a special price at RMB2,900/tonne (US\$467.74/tonne).

Coated Carton Board Price Watch - 2013					
(In RMB / MT)	Origin	Substance	Early-Jan.	Early-Dec.	Change%
<b>Coated Newsback Board</b>					
APP Ningbo Zhonghua	Ningbo	250 gsm (In rolls)	4,050	4,050	0%
Changjiang Paper	Jiangsu	250 gsm (In rolls)	3,830	3,850	-1%
Jianhui Paper	Dongguan	250 gsm (In rolls)	4,050	4,050	0%
Nine Dragons	Dongguan	250 gsm (In rolls)	4,000	4,000	0%
<b>Coated SBS Board</b>					
Sun Paper	Shandong	230gsm (In rolls)	5,350	5,500	-3%
Bohui Paper	Shandong	230gsm (In rolls)	5,350	5,500	-3%
APP Ningbo Zhonghua	Ningbo	230gsm (In rolls)	5,300	5,400	-2%
Hengxing Paper	Henan	230gsm (In rolls)	5,150	5,350	-4%
Meili Paper	Ningxia	230 gsm (In rolls)	5,100	5,300	-4%

*Note: For reference only. Price varies in transaction.*

**Market for Coated SBS Board** remained inactive as well. Throughout December, most mills were able to secure limited orders. News of 2 million/mtpy of greenfield capacity start-ups in the next 3 months slowed down the pace of distributors and converters in placing new orders.

In upper Eastern China, Sun Paper had to abandon the RMB50/tonne (US\$8.06/tonne) price increase planned for December. Until the last day of December, Sun Paper was delivering its core coated SBS board to customers' warehouse at the price of RMB5,050-5,100/tonne (US\$814.52-822.58/tonne). Nearby, Chenming Paper kept the price of its 250g/m<sup>2</sup> coated SBS board at RMB5,200-5,250/tonne (US\$838.71-846.77/tonne) in December. As a result of inactive sales and shipment, mill inventories rose 1 day from the previous month to 36 days of supply at end-December. Huajin Paper was perhaps the most aggressive, who lowered the sales price of its 250g/m<sup>2</sup> coated SBS board to RMB4,700/tonne (US\$758.06/tonne) at FOB Mill.

**Imports & Exports.** China's linerboard imports slipped to 59,900/tonne in November, -18.5% from October and -7.1% from a year ago, according to China Customs. Some market observers blamed the price rises demanded by

US suppliers for the decline. At the same time, China's corrugating medium imports fell to 9,830/tonne in November, -10.6% from October and -41.4% from 12 months ago.

Surprisingly, China's coated SBS board imports rose to 60,440/tonne in November, +29.1% from October, though -10.0% from a year ago.

On the other hand, China shipped 8,190/tonne of linerboard to overseas markets in

November, though -7.9% from October, +42.1% from 12 months ago.

In November, China's corrugating medium exports declined in November. Only 5,330/tonne were shipped to overseas, -9% from October and -9.8% from November 2011.

The country's coated SBS board exports in November managed to edge up +0.24% from October to 69,970/tonne. But this was off by -9.1% from 12 months ago.

### III. Statistics

China's Linerboard Imports & Exports						
(In US\$000/000mt)	Nov-12	Nov-11	Change%	YTD 2012	YTD 2011	Change%
<b>Exports</b>						
<b>Total Value</b>	<b>8,447.53</b>	<b>13,791.28</b>	<b>-38.75%</b>	<b>117,926.02</b>	<b>98,650.37</b>	<b>19.54%</b>
<b>Total Volume</b>	<b>8.19</b>	<b>5.76</b>	<b>42.13%</b>	<b>73.73</b>	<b>115.57</b>	<b>-36.20%</b>
<b>Key Destinations:</b>						
Indonesia	1.88	1.09	71.96%	12.06	10.75	12.12%
VietNam	1.06	0.27	299.56%	6.62	3.94	67.82%
Iran	0.72	0.83	-12.84%	3.97	31.39	-87.35%
<b>Imports</b>						
<b>Total Value</b>	<b>46,332.73</b>	<b>50,197.27</b>	<b>-7.70%</b>	<b>603,484.75</b>	<b>684,675.84</b>	<b>-11.86%</b>
<b>Total Volume</b>	<b>59.96</b>	<b>64.55</b>	<b>-7.11%</b>	<b>827.78</b>	<b>902.23</b>	<b>-8.25%</b>
<b>Key Origins:</b>						
USA	19.90	20.82	-4.45%	283.67	374.41	-24.24%
Russia	14.00	10.99	27.40%	144.90	137.88	5.09%
Sweden	5.91	4.84	22.10%	61.90	49.02	26.28%
Source: China Customs Administration/Chinapaperonline						

China's Medium Imports & Exports						
(In US\$000/000mt)	Nov-12	Nov-11	Change%	YTD 2012	YTD 2011	Change%
<b>Exports</b>						
<b>Total Value</b>	<b>9,088.47</b>	<b>6,074.94</b>	<b>49.61%</b>	<b>68,945.72</b>	<b>34,763.31</b>	<b>98.33%</b>
<b>Total Volume</b>	<b>5.33</b>	<b>5.91</b>	<b>-9.83%</b>	<b>57.09</b>	<b>56.05</b>	<b>1.86%</b>
<b>Key Destinations:</b>						
USA	2.05	0.19	1002.75%	8.50	2.05	313.76%
Hongkong	0.83	1.54	-46.01%	12.09	13.10	-7.67%
Malaysia	0.37	0.02	2318.66%	0.51	2.77	-81.40%
<b>Imports</b>						
<b>Total Value</b>	<b>4,361.01</b>	<b>7,294.67</b>	<b>-40.22%</b>	<b>60,874.73</b>	<b>66,754.08</b>	<b>-8.81%</b>
<b>Total Volume</b>	<b>9.83</b>	<b>16.77</b>	<b>-41.40%</b>	<b>132.68</b>	<b>146.13</b>	<b>-9.20%</b>
<b>Key Origins:</b>						
Taiwan	5.42	4.64	16.72%	61.13	53.62	14.00%
Korea	1.58	0.02	9254.96%	9.09	11.62	-21.73%
Spain	1.48	2.09	-29.00%	12.78	11.69	9.28%
Source: China Customs Administration/Chinapaperonline						

<b>China's Coated SBS Board Imports &amp; Exports</b>						
(In US\$000/000 mt)	<b>Nov-12</b>	<b>Nov-11</b>	<b>Change%</b>	<b>YTD 2012</b>	<b>YTD 2011</b>	<b>Change%</b>
<b>Exports</b>						
<b>Total Value</b>	<b>61.62</b>	<b>62,125.09</b>	<b>-99.90%</b>	<b>817,958.72</b>	<b>975,500.06</b>	<b>-16.15%</b>
<b>Total Volume</b>	<b>69.97</b>	<b>64.13</b>	<b>9.12%</b>	<b>955.15</b>	<b>1,064.72</b>	<b>-10.29%</b>
<b>Key destinations:</b>						
USA	6.87	3.54	94.04%	75.43	46.39	62.61%
Taiwan	6.63	3.99	66.00%	58.74	57.86	1.52%
Turkey	5.17	3.06	69.25%	59.56	72.32	-17.65%
<b>Imports</b>						
<b>Total Value</b>	<b>69,411.23</b>	<b>74,375.76</b>	<b>-6.67%</b>	<b>801,286.74</b>	<b>831,231.94</b>	<b>-3.60%</b>
<b>Total Volume</b>	<b>60.44</b>	<b>67.14</b>	<b>-9.97%</b>	<b>710.23</b>	<b>778.52</b>	<b>-8.77%</b>
<b>Key origins:</b>						
Sweden	23.96	19.54	22.61%	252.10	247.94	1.68%
USA	10.76	13.49	-20.26%	132.37	139.76	-5.29%
South Korea	6.43	5.88	9.26%	84.18	94.87	-11.27%
Source: China Customs Administration/Chinapaperonline						