

China Printing & Writing Paper Report

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I. Global Review

North America. AF&PA said US printing and writing paper shipment fell -4% from a year ago in November. Coated freesheet was the only grade that grew +1% to 330,800/tonne. Uncoated freesheet shipment, in reverse, fell -2% to 705,500/tonne, and so were coated and uncoated mechanical which lost -24% and -5% respectively.

NewPage survived from starting the Chapter 11 process as the bankruptcy hearing allowed the company to hold from immediate turn-over of ownership to first-lien lenders in December. NewPage has been battling against bankruptcy and liquidation with efforts to improve its full-year financials. These included the restart-up of the 395,000/mtpy mill at Port Hawkesbury in November.

In Europe, coated freesheet shipment fell to 625,000/tonne, -1.3% from a year ago. According to EUROP-GRAPH, shipment to continental Europe dropped -2.7% to 526,000/tonne, in spite of the +7.4% growth in export. For uncoated freesheet, overall shipment in November reduced to 618,000/tonne, -2.0% from 12 months ago. At the same time, coated mechanical paper shipment fell to 686,000/tonne, -8.8% as a result of the -9.8% declines in shipment to continental Europe. For uncoated mechanical paper, shipment in November rose +4.7% to 210,000/tonne, thanks to active exports.

In Asia, Mitsubishi Paper in Japan announced on December 19th to shut down PM#3 at its Hachinohe Mill, which will reduce the company's fully coated paper capacity by 146,000/mtpy. The mill runs 6 fine paper machines at the combined capacity of 849,000/mtpy.

II. China Mainland Market

Production & Consumption. Based on preliminary data from China Paper Association (CPA), China's fine paper production in 2012 was estimated at 25.45 million/tonne, which would be an increase by +3.7% from 2011. Consumption could reach 23.50 million/tonne, +2.8% from that of 2011.

Market Overview. China's PMI remained the same as November at 50.6% in December. Among the 11 indexes that form the PMI, purchase price index rose to 53.3%. Analysts are elated by the indicators, though cautioning of the time span and uncertainties to produce positive impacts on the country's paper industry.

Nevertheless, there was no further price erosion on fully coated paper in the 4th Quarter and in fact price edged up a little in December as a result of the improvement in operation of the printers and publishers.

Printing Market. Boosted by holiday printing business, printers in upper China began to expand orders for fine paper. And news of planned price increases by APP further expanded orders for fully coated paper.

The conclusion of school teaching material printing season was immediately followed by the national book show, which stabilized market for mid-to-low end offset printing paper. More mills, especially those in central and eastern China, began to gear up running and suppliers were able to hold on or even raise the price slightly to cover the rising production and freight cost.

Market in Southern China was not as positive, however. Most printers and converters complained of shrinking holiday

business. Some would suffer as much as 15% loss in export orders. Still, this was within expectation by market analysts. At a closer look, printing market for gift packs and paper bags fared better than others and price stood steady since November.

Nationwide, operating rate for mainstream printers went up to 65%, with some topped 70% for the first time in 12 months. At end-December, paper stocks at large printers stayed around 6-10 days of consumption, up slightly from the previous month. But mid-to-small operators would rather keep zero stocks to ease cash flow burden.

Fully coated paper market, though still under the pressure of excessive supplies, has finally seen the light at the end of the tunnel. In December, APP actualized its first price increase by RMB100/tonne (US\$16.13/tonne) after three unsuccessful attempts in the past. While price of its heavy weight fully coated paper from the Hainan Island mill went beyond RMB5,000/tonne (US\$806.45/tonne), price of products from the company's mills in East China exceeded RMB5,150/tonne (US\$830.65/tonne). Convinced of revived sales on prime grades, the company began to reduce production and shipment of mid-to-low end products, which spurred at least RMB100/tonne (US\$16.13/tonne) price rise for such products as well.

Oji Paper (Jiangsu) followed by terminating price discounts to distributors, which was interpreted as a price increase no less than RMB100/tonne (US\$16.13/tonne) in the market.

In upper Eastern China's Shandong Province, Chenming Paper and Sun Paper also told their customers of plans to raise price in January 2013.

So far, market showed reasonable acceptance to the price increases, given the

fact that most producers had been struggling to breakeven since July. However, more market observers would believe that price could not rise too much and could only last till the end of the 1st Quarter.

Fully Coated Freesheet Price Watch - 2013				
(In RMB/MT)	Origin	Early Jan.	Early Dec.	Change%
APP Jindong Grade A	Jiangsu	5,550	5,500	0.9%
APP Jindong Grade A2	Jiangsu	5,450	5,400	0.9%
Stora-Enso (Suzhou)	Jiangsu	5,550	5,550	0.0%
Sun Paper	Shandong	5,500	5,500	0.0%
Dawoo (Mudanjiang)	Heilongjiang	5,500	5,350	2.8%
Chenming Paper	Shandong	5,000	4,900	2.0%
Tralin Paper	Shandong	5,000	4,950	1.0%

Note: For reference only. Price varies in transaction.

Also, some market observers would question APP's strategy to reduce production of low-end products to boost demand for mid-to-high end products. While sale price going up, orders could fall as cost reduction is also a top priority of the consumers.

Imports & Exports. China imported 17,643/tonne of fully coated paper in November 2012, -6% from October. From January to November 2012, shipment arrivals totaled 252,000/tonne, -10% from that of 2011, according to China Customs. South Korea remained as the top supplying origin, accounting for 21.7% of China's overall coated freesheet imports in the eleven months. This was followed by USA (19.3%), Taiwan (13.5%), Japan (12.1%) and Germany (6.1%).

In November 2012, China exported 132,704/ tonne of fully coated paper in November, +13% from October. From January to November, Chinese shipment to oversea markets came close to 1.60 million/tonne, +15% from the corresponding period of 2011. The top-5 destinations were Japan, accounting for 23.9% in China's overall coated paper exports in the period, followed by India (6.8%), Hong Kong (6%), Thailand (4.5%) and Brazil (4.3%).

Lightweight Paper market hitch-hiked the revival of the fully coated paper market and price stopped from further erosion in

December.

Survey to mainstream printers in upper and eastern China showed holiday printing increased demand for coated lightweight paper by as much as 10%, which was rare in the past few quarters.

In an effort to build customer relationship, Chenming Paper assured its key accounts of the company's intention to keep LWC price steady. The move was appreciated by the customers and helped reduce speculative deals in the market.

Long term, however, China's LWC producers have to worry about the aggressive growth of electronic media, which has rapidly encroached on subscription and advertising business once dominated by traditional hard copy magazines. And short term, the price of LWC will not go up very much and can drop quickly once fully coated and uncoated paper market weakens.

Lightweight Coated/Uncoated Paper* Price Watch - 2013				
(In RMB/MT)	Origin	Early Jan.	Early Dec.	Change%
Chenming Paper				
Coated (56-60gsm.)	Jiangxi	5,550	5,550	0.0%
Uncoated (60gsm)	Jiangxi	5,500	5,530	-0.5%
Uncoated (60gsm)	Wuhan	5,500	5,520	-0.4%
Yueyang Paper				
Coated (56-60gsm.)	Hunan	5,550	5,550	0.0%
Uncoated (60gsm)	Hunan	5,500	5,530	-0.5%
Huatai Paper				
Uncoated (60gsm)	Shandong	5,500	5,520	-0.4%

*Note: For reference only. Price varies in transaction.*Low-end/mixed fiber based.*

Imports & Exports. In November, China's LWC imports tumbled. According to China Customs, only 780/tonne were shipped into the country, -40.91% from October and -63.78% from a year ago. However, imports in the first eleven months of 2012 reached 24,710/tonne, +22.74% from the same period of 2011.

China's LWC exports also suffered in November. Shipment to overseas markets fell to 2,430/tonne, -8.99% from October and -79.43% from 12 months ago. From January to November, exports to overseas reduced to 52,870/tonne, -36.97% from that of 2011.

Offset Printing Paper market remained

flat, contrary to the revival in fully coated paper market.

Initiating a RMB100/tonne (US\$16.13/tonne) price increase for virgin wood fiber based offset paper at the start of December, APP Goldhuasheng was only able to hit half of the target and stayed alone in the market without immediate rallies from other mainstream producers. The good news was that Sun Paper would go for a price increase for its fully coated paper, which could also lift up the price of its offset printing paper. With more than one tier-one producers heading for price increases in the market, UPM (China) may likely join the price hike.

Market for mid-end offset paper may be misled by the transitional products from PM#3 of APP Goldeast. Though low in price, the product was not ideal for mid-end market overtime.

Market for low-end grades, once under the pressure of price erosion as a result of the change into cash payment terms by mid-to-small producers in Henan, central China, seemed to regain strength and producers stood firm on their prices since late November. Market observers believe a new round of price increase may take place soon when more and large producers join in to seek price changes.

At end-December, inventories at most mainstream producers and distributors stayed around 30 days of supply, relatively steady from the previous month.

Uncoated Offset Printing Paper Price Watch - 2013				
(In RMB/MT)	Origin	Early Jan.	Early Dec.	Change%
UPM (Changshu)	Jiangsu	6,400	6,400	0.0%
APP Gold Huasheng	Jiangsu	6,500	6,450	0.8%
Sun Paper	Shandong	6,400	6,400	0.0%
Chenming Paper	Shandong	5,800	5,800	0.0%
Tralin Paper	Shandong	5,500	5,500	0.0%
Yin-Ge Paper	Henan	5,400	5,300	1.9%

Note: For reference only. Price varies in transaction.

Imports & Exports. China Customs said the country's offset paper imports in November stood the same from October at

16,140/tonne. However, imports in the first eleven months of 2012 fell to 252,000/tonne, -8.9% from the corresponding period of 2011. The top-5 supplying origins were Indonesia (51.4%), Japan (11.9%), Taiwan (11.1%), Thailand (4.2%) and USA (3.9%).

On the other hand, China shipped 95,259/tonne of offset paper to overseas destination in November, +22% from October.

From January to November, China's offset paper exports totaled 793,000/tonne, +17.2% from the same period of 2011. Japan stayed at the top of the 5 largest markets, accounting for 12.8% in China's overall offset paper exports in the period. This was followed by Australia (9.4%), Hong Kong (7.8%), Iran (6.3%) and USA (5.9%).

III. Statistics

China's Fully Coated Paper Imports & Exports						
(In US\$000/000 mt)	Nov/12	Nov/11	Change%	YTD2012	YTD2011	Change%
Exports						
Total Value	122,830.05	133,667.47	-8.11%	1,312,019.60	1,177,212.52	11.45%
Total Volume	132.70	135.09	-1.77%	1,373.55	1,252.14	9.70%
Key destinations:						
Japan	27.61	49.65	-44.39%	347.47	310.72	11.83%
India	12.20	9.33	30.81%	84.74	116.99	-27.56%
Hongkong	8.35	8.40	-0.56%	91.77	90.73	1.14%
Imports						
Total Value	27,691.97	27,050.79	2.37%	311,394.91	329,943.27	-5.62%
Total Volume	22.89	21.79	5.05%	262.07	280.25	-6.49%
Key origins:						
Taiwan	4.65	3.34	39.07%	35.00	33.16	5.55%
Korea	4.03	2.96	36.34%	58.49	50.85	15.03%
USA	3.56	5.04	-29.39%	46.03	40.63	13.29%
Source: China Customs Administration/Chinapaperonline						

China's Lightweight Coated Paper Imports & Exports						
(In US\$000/000 mt)	Nov-12	Nov-11	Change%	YTD2012	YTD2011	Change%
Exports						
Total Value	2,074.29	10,131.19	-79.53%	45,991.59	69,970.11	-34.27%
Total Volume	2.43	11.80	-79.43%	52.87	83.88	-36.97%
Key destinations:						
Japan	1.86	10.17	-81.67%	43.64	40.00	9.11%
Hongkong	0.06	0.17	-66.10%	1.81	5.37	-66.29%
Thailand	0.01	0.23	-97.79%	0.71	2.34	-69.51%
Imports						
Total Value	641.06	1,874.37	-65.80%	20,016.95	16,562.63	20.86%
Total Volume	0.78	2.15	-63.78%	24.71	20.14	22.74%
Key origins:						
Finland	0.24	0.63	-61.98%	4.43	5.30	-16.37%
Germany	0.22	0.62	-63.79%	11.84	5.05	134.41%
Japan	0.09	0.22	-57.11%	4.14	3.36	23.11%
Source: China Customs Administration/Chinapaperonline						

China's Uncoated Printing & Writing Paper Exports						
(In US\$000/MT000)	Nov-12	Nov-11	Change%	YTD 2012	YTD 2011	Change%
Total Value	99,444.95	77,094.73	28.99%	867,941.74	758,560.30	14.42%
Total Volume	104.94	57.11	83.75%	890.67	751.77	18.48%
Key destinations:						
Japan	11.49	13.17	-12.80%	138.21	112.14	23.25%
USA	11.13	2.42	360.01%	52.30	31.00	68.69%
Iran	9.25	1.19	676.89%	52.37	30.40	72.29%
Source: China Customs Administration/Chinapaperonline						