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US containerboard mills look for strong fourth quarter, with only slight impact from hurricane in September

OAKLAND, CA, Oct. 20, 2017 (PPI Pulp & Paper Week) - The North American containerboard market has been "quiet" after last month's attempted \$50/ton fall price hike attempt by two producers failed to gain support from other major players. But box demand remains strong moving into the fourth quarter and containerboard supply remains balanced and even tight for some grades, according to contacts.

"I don't know of a single independent converter that is not busy or extraordinarily busy," one containerboard seller said.

Two recent hurricanes seemed to have only a "muted effect" on September industry statistics. US box shipments declined 1.0% on an actual basis to 31.790 billion ft² in September, but average-week increased 4.0% from a year ago, when adjusted for one less shipping day in the latest month, the Fibre Box Association (FBA) reported.

Analysts noted that on a "blended basis," box shipments grew 1.5%, averaging the change in actual and average week. They also noted last month's shipments were against a difficult September 2016 "comp," when both average and actual shipments were up 2.3% from the prior year.

"It's hard to see much impact from the hurricane on box shipments since the South Central region was one of the strongest in September, while the Southeast was one of the weakest, but it has been that way all year," one contact said.

Another strong fourth quarter? "Major integrated producers expect box demand in the fourth quarter to be a mirror image of last year, but up 1-2% from a year ago," one contact said.

That would be a strong performance since fourth-quarter 2016 average-week box shipments spiked up 4% from a year ago, driven by a surge of e-commerce buying before the holiday season. Last year box shipments began to pick up strength in August and the higher level of shipments has continued through this year, which analyst attribute to the "Amazon effect," and rebound of agriculture and strong overall economy in the West.

Year-to-date box shipments through September were up 2.3% on an actual basis and 3.4% higher average-week, adjusted for two less shipping days in 2017, or up 2.9% blended.

'Extra' tons hard to find. Major integrated producers in some cases are oversold and still pulling tonnage out of the export market to supply their own box plant systems and independent customers. In addition, three or four major producers are purchasing paper from each other for needed grades at their box plants, including one that is said to be "buying big time" to supply its rapidly growing box plant system.

Contacts describe linerboard as being in "balanced" supply, with three- to four-week order lead times, while corrugating medium is "fairly tight," particularly in the West, according to contacts.

"Independent converters are in good shape and not worried about supply," one trader said. "Nobody is quaking in their boots and overly concerned about getting enough tons."

But an integrated producer noted, "It's hard to buy extra tons of any brown grades over contractual amounts."

"We needed to buy a large amount of medium for an unexpected reason, but couldn't find any extra supply, even [while] offering to pay list price," the contact said.

Price hike post mortem. The lack of support for last month's \$50/ton price hike attempt by Georgia-Pacific and KapStone was probably fortunate for producers, according to some contacts.

"Major box customers were already defiant about a third price increase in a year and there would have been chaos with the plunge in OCC (old corrugated container) in October," one contact said. "Maybe International Paper and WestRock talked to their box divisions and they were vociferous in saying if this goes through, producers will have to back down."

"The increase really got the ire up of major box buyers and the drop in OCC prices made any chance of pushing through a price increase untenable," he added,

Waiting for China? The US average OCC price plunged \$55/ton – the biggest drop ever – following a plunge in export prices to China after the government stopped issuing new permits to mills in that country to import recovered paper.

"US producers believe the drop in OCC prices will be short-lived and prices will go back, but maybe not as high as last summer," one contact said. "But it's all about what happens in China."

OCC demand and prices could surge in December if the Chinese government begins issuing new permits in November for 2018 (see related story on p. 2).

First-quarter price hike? Most contacts expect North American box demand to remain strong going into next year and for major producers to make another attempt at raising containerboard prices in the first quarter, particularly with any surge in OCC costs.

Price levels this month remained relatively unchanged, with kraft linerboard around \$700/ton at the high end of the range, recycled linerboard in the \$620-640/ton range, and medium around \$560-590/ton.

One contact said there could be some downward pressure on recycled containerboard prices from second- and third-tier mills in the seasonally-slow January/February period unless there is a rebound in OCC prices.

Another said there may already be some slight erosion in recycled linerboard prices because of 100% recycled mills swinging more production to linerboard from medium because of the roughly \$60/ton price gap between the two grades. Year-to-date production of recycled linerboard production was up 5.2%, but recycled medium output was only 1.8% higher.

"Mills are closely watching their fiber systems and only making the grades or selling in the markets which get the best return," one contact noted.

Inventories drop 14,000 tons. Containerboard inventories at box plants and mills declined to 2.379 million tons in September, down 14,000 tons from the previous month, the FBA and American Forest & Paper Association (AF&PA) reported. This compares to relatively flat inventories for the month of August over the past decade, according to analysts.

Weeks of supply declined to 3.6 weeks in September, from 3.8 weeks in August. "This was the second lowest weeks-of-supply level for the month of September in 10 years (with 2012 being lower at 3.5 weeks)," noted Vertical Research Partners analyst Chip Dillon.

Operating rates depressed. Containerboard operating rates in September dropped to 95.9%, down from 97.2% in August and a year-to-date average of 97.0%. Linerboard mills ran at 94.8% and medium mills at 98.7% in September, the AF&PA reported.

"Operating rates would have probably been 1.5% higher in September without the impact of the two hurricanes," one contact said. "The small decline in inventories was positive given the large drop in containerboard exports."

The two storms caused curtailments at about five containerboard mills in the South, resulting in the estimated loss of 65,000 to 100,000 tons of potential containerboard production, according to RISI estimates.

The hurricanes added to logistical problems, particularly in the Southeast, with truck and rail car availability going from "bad" to "worse," one contact said.

US containerboard production in September totaled 3.0 million tons, down 0.2% from a year ago, but still up 2.9% year-to-date. Among major grades, kraft linerboard production was up 1.4% in September, semichemical medium down 5.0%, recycled linerboard down 7.8%, but recycled medium up 5.7%.

Containerboard export production dropped 13.6% in September to 407,000 tons from a year ago, but year-to-date export production was still up 2.2%.

An Illinois federal judge on Oct. 17 signed off on a settlement that could see International Paper pay up to \$354 million to resolve claims that they colluded to suppress production of containerboard to drive up prices, according to a report in Law360. At a hearing in the Chicago courthouse, US District Judge Harry Leinenweber granted final approval to a deal ending claims against IP and two companies it acquired, Temple-Inland and Weyerhaeuser's packaging division.