

DMM, Inc. Paper Market Update: August 2018

Paper markets remain very tight with almost no exceptions, and this will only intensify as we near the busy fall printing season. Nine Dragon's acquisition of Catalyst's Rumford ME and Biron WI mills has been finalized. July brought with it price increases for newsprint, uncoated groundwood MF and SC, directory, and coated grades. In early August, we saw the U.S. DOC final determination for the tariffs imposed upon Canadian newsprint and uncoated groundwood producers.

Recent News

- **Nine Dragons Paper's** subsidiary ND Paper, has completed its \$175 million acquisition of Catalyst's Biron, WI, and Rumford, ME, coated and specialty printing and writing paper mills. The two US mills will continue running as is under the same brands – and company CEO Ken Liu said he saw the "potential of these mills to do more."
- **Kruger** announced they will not sell newsprint into the U.S. in August, due to the U.S. tariffs. Financial returns are better in other regions for Kruger.
- **Members of Congress** criticize US tariffs on Canadian uncoated groundwood paper, notably newsprint, saying the duties jeopardize US newspapers, note newsprint demand has dropped 75% since 2000 but blame the tariffs for newspaper job losses.
- **U.S. Dept. of Commerce (DOC)** is revoking the countervailing duty order on supercalendered (SC) paper from Canada, retroactive to August 3, 2015. Collection of cash deposits on imports of SC paper from Canada will cease, and all cash deposits that have been collected from importers of record since August 3, 2015 will be returned with interest.
- **Shortage of Trucks:** The load-to-truck ratio is up 45% to 10 van loads per truck, tying the record high set in January. The June ratio was 76% higher than it was in June 2017.

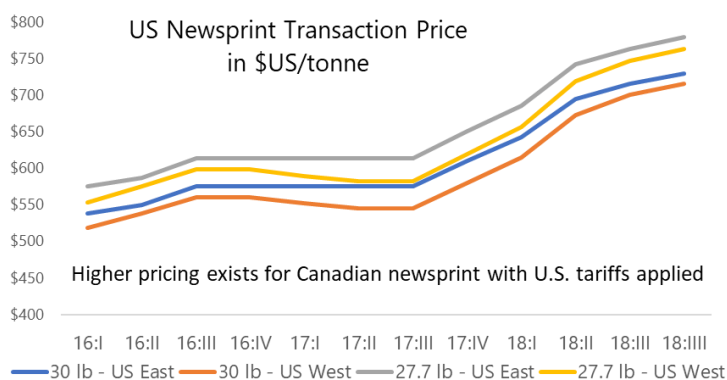
Market Drivers

- **Wood pulp prices** increased another \$10/tonne in June, for a total of 10% YTD in 2018.
- **Mill costs** continue to escalate in 2018, between 2.5% and 3.2% depending upon paper grade.
- **US Dollar currency exchange:** The euro is currently at 1.17 and trending flat. The Canadian dollar is currently at 0.76 and trending upward. Euro is down 7% from Feb. peak.

Forecast for:	Q4-18	Q1-19	2018	2019
Magazine Ad Pages	-3.0%	-4.2%	-11.5%	-7.5%
Catalogs Mailed	-1.1%	-0.4%	-3.3%	-3.1%
Printing Shipments	-0.8%	0.0%	-1.9%	-1.4%
Newspaper Ads \$	<i>(includes digital) ...down 10% in Q1-18</i>			
For the month:	Jun '18	May '18	Jun '17	% yr/yr
Crude Oil	\$74	\$70	\$45	63.5%
NBSK Pulp	\$1,330	\$1,320	\$1,100	20.9%
EUR/USD	\$1.16	\$1.18	\$1.12	3.2%
CAD/USD	\$0.76	\$0.78	\$0.75	0.2%

Paper Grade Review

- **Coated** - markets are tight as capacity is down 14% in 2018, while operating rates are averaging 100% for CGW and 93% for CFS thus far in 2018. Prices increased July 1 by \$2/cwt for all coated grades. ND Paper has acquired the Rumford, ME and Biron, WI paper mills from Catalyst...and will continue to produce paper under the same brand names that Catalyst used, while seeking to "improve capabilities" at the mills. Mill order lead times out to 14 weeks.
- **Uncoated freesheet** – market is now showing improved demand and tightness, with rising prices. Demand is down by only 1.7% YTD in 2018, best performance by any publication grade. Operating rates are 3% higher than last year. Increased fiber, transportation, and energy costs have also contributed to rising prices. Prices have risen about \$4.50/cwt thus far this year, 10% YTD. Mill order lead times remain out to 16 weeks.
- **Uncoated groundwood** (including SC) – market remains very tight. Price increase of \$30/ton on machine finish Hi-Brite grades announced for July 1 and \$40/ton on SC grades announced for July or August depending on mill. Mill order lead times remain out to 16 weeks.
- **Newsprint** – the June price increase was fully implemented, and a tight market is leading to another price increase for July. Since 2017 lows, prices are up at least \$175/tonne (45gsm) through July. Pricing variation remains within the market. Mill order lead times remain out to 16 weeks.



Paper Grade	Mill Inventory			Shipments			Avg Order Lead Time
	May '18	Apr '18	May '17	May '18	Apr '18	May '17	
Newsprint	199	193	252	341	324	367	14 to 16 weeks
Uncoated Groundwood	154	141	182	78	75	104	12 to 16 weeks
Uncoated Freesheet	635	653	725	630	618	632	14 to 16 weeks
Coated Groundwood	87	92	162	153	154	176	10 to 14 weeks*
Coated Freesheet	377	371	538	278	271	293	8 to 12 weeks

*This paper is currently under allocation through early November press dates. New orders for the fall, even if placed beyond the current lead times, may not be accepted by the mill if the machine time has not been already allocated to the buyer.