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The Market: OCC prices in free fall

By Ken McEntee

Old corrugated container (OCC) prices went into free fall after peaking early in May, when some spot orders were reportedly moving above \$200 per ton FOB, seller's dock.

At the time the May 1, 2020 issue of *The Paper Stock Report* was published, one broker reported a \$200 sale, but noted that it wasn't the norm. In the following days, several other suppliers said prices in some transactions were topping that mark.

By mid-month, however, sources said prices had quickly tumbled - in some cases to half that price - with weakening markets particularly being noted in the Northeast U.S. and Eastern Canada. In the Midwest and Southern regions, some sources said, prices, in most cases, were sitting \$10 to \$30 below those reported in the May 1 issue of *The Paper Stock Report*. However, they said, orders were drying up, leading to speculation that June prices will drop further.

In the Northwest U.S., local media reported that Georgia-Pacific shut down its containerboard mill in Toledo, Ore. for a week - starting May 21 - due to lack of demand. The mill is expected to reopen on May 28.

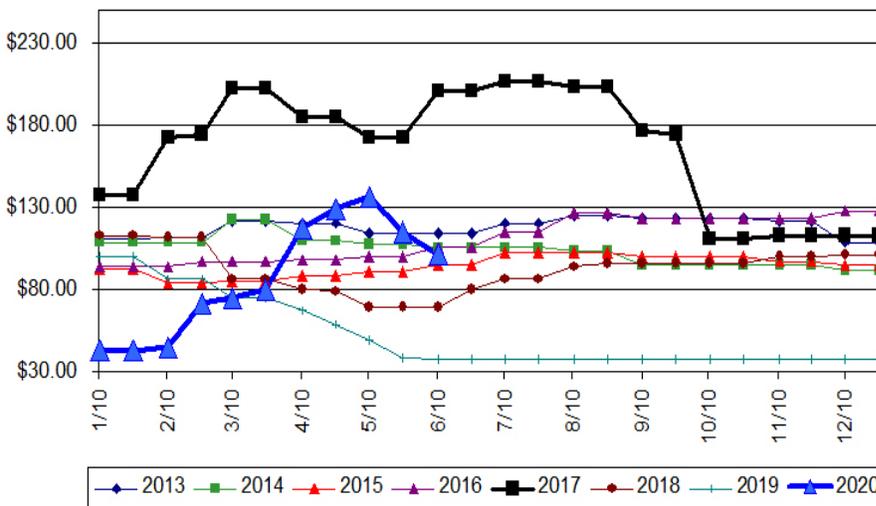
Most traders contacted stopped short of projecting a return to the low OCC prices of 2019, but they also didn't rule it out.

"With weakness in the order books and the seasonal slowdown coming into sum-

(See Free fall, page 4)

Average national OCC prices

Average national mill buying prices for OCC based on surveys by *The Paper Stock Report*, in dollars per short ton.



Greif shuts down Alabama recycling mill

By Ken McEntee

Greif Inc. said it has permanently closed its uncoated recycled board (URB) mill in Mobile, Ala. as part of its commitment to optimize its URB mill network. The closure of Mobile's No. 1 machine in October 2019 (about 65,000 tons), combined with the closure of the No. 2 machine (about 75,000 tons) removes about 140,000 tons of URB capacity from Greif's network, Grief said.

The company will transfer existing customer business to other mills in its system.

Greif's URB backlogs near the end of May were reported as steady, at about four to five weeks.

Meanwhile, during an earnings call to

discuss the company's second quarter 2020 financial performance, CEO Pete Watson noted that after a \$90 per ton run-up in the price of old corrugated containers (OCC) since January, he anticipated a \$30 decline in this month with possible further declines following that.

Overall, Greif executives said, the com-

(See Greif, page 4)

Highlights

- Current recovered paper prices
- Optimistic signs seen in rail
- Abu Dhabi prohibits waste paper exports

Recovered Scrap Paper Prices: Dealer/Processor Prices

These prices reflect the estimated value of recovered scrap paper accepted by or sold to paper stock dealers and/or recycling centers unless otherwise indicated. Prices are listed in dollars per short ton for loose (not baled) material in small quantities, unless otherwise noted. Negative values indicate a charge to accept the materials. Estimated prices are based on surveys of buyers and sellers and are not binding. Prices for grades marked "at generator's dock" indicate the estimated value for material picked up by a dealer from the place where material is generated. Prices for grades marked "at dealer's scale" indicate the estimated value of material brought to the dealer's plant or recycling center.

Grade	N.Y.	NewEng BOS	SEast ATL	PITTS/ CLEV	MWest CHIC	SWest Tex	L.A.	NWest SEAT
Mixed paper, at generator's dock:	-60/0	-60/0	-50/0	-55/0	-55/0	-50/0	-60/0	-60/0
Mixed office paper, generator's dock:	30/80	30/80	50/105	60/105	60/105	70/110	20/60	20/75
White ledger, at generator's dock:	90/130	90/130	90/120	110/140	110/140	105/140	90/130	80/140
Old newspaper, delivered to dealer:	-25/0	-25/0	-15/0	-15/0	-15/0	-15/0	-25/0	-25/0
Old corrugated containers, delivered to dealer:	25/50	25/50	25/50	25/50	25/50	25/50	25/60	20/50
Old corrugated containers, supermarket-sized bales	25/70	25/70	25/70	25/70	25/70	25/80	25/80	20/80
Old magazines, delivered to dealer:	0/40	0/40	0/40	0/40	0/40	0/50	0/50	0/45

Recovered Scrap Paper Prices: Mill Buying Prices

These figures are average prices paid by paper and board mills for the grades listed. Prices are listed in dollars per short ton, baled, FOB seller's dock (exclusive of freight), packed to PS-2017 specifications. Numbers in parenthesis are PS-2018 grade definition numbers.

Post-consumer grades:	Northeast	Southeast	Midwest	Southwest	LA	Northwest	Natl Avg	Last Issue	Last Month	Last Year
Mixed paper (54)	0/40	0/50	0/50	0/50	N/A	0/20	17.50	17.50	17.50	5.00
Sorted residential papers & news (56)	50/65	60/70	60/80	70/80	50/60	50/70	63.75	51.25	51.25	25.00
Sorted clean news (58)	95/115	100/115	90/110	100/115	75/90	65/100	97.50	86.67	86.67	75.83
Old corrugated containers (OCC) (11)	90/110	90/115	90/115	95/115	80/120	80/120	101.67	115.00	115.00	38.33
Sorted office paper (37)	180/210	180/210	180/210	180/210	150/200	150/190	187.50	196.67	196.67	146.67
White ledger, post-consumer (40)	250/290	260/290	250/280	260/290	200/220	200/230	251.67	251.67	251.67	260.83
Old magazines (10)	60/80	60/90	50/80	60/90	70/90	70/90	74.17	74.17	74.17	77.50
Industrial / Commercial grades	Northeast	Southeast	Midwest	Southwest	LA	Northwest	Natl Avg	Last Issue	Last Month	Last Year
Boxboard cuttings (4)	40/70	50/80	50/75	50/80	50/70	50/70	61.25	61.25	61.25	48.33
New double lined Kraft cuts (DLK) (13)	150/170	160/180	160/180	160/180	110/130	120/50	154.17	154.17	154.17	70.00
White news blanks (24)	200/250	220/250	210/250	220/260	200/220	200/220	225.00	225.00	225.00	275.00
Coated soft white shavings (28)	315/340	315/340	315/340	315/340	315/340	315/340	327.00	327.00	327.00	343.33
Hard white shavings (30)	380/420	380/420	380/420	380/420	380/420	380/420	400.00	400.00	400.00	460.00
White ledger, pre-consumer (41)	250/290	260/290	250/280	260/290	200/220	200/230	251.67	251.67	251.67	260.83
Coated Book Stock (43)	190/220	190/220	190/230	190/220	150/180	140/170	190.83	196.67	196.67	143.33
Coated groundwood sections (44)	70/100	70/100	60/90	70/100	90/100	70/95	84.58	84.58	84.58	79.58
Unprinted bleached sulfate (SBS) (47)	350/390	350/390	350/390	350/390	350/390	350/390	370.00	370.00	370.00	390.00
Weighted average national price							111.99	115.31	115.31	71.14

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The Paper Stock Report surveys scrap paper traders twice a month to obtain current, unbiased market prices.

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Weigh in...

Use the survey form to submit your observations about current scrap paper markets.



Transportation

Optimistic signs seen in rail traffic

Although U.S. rail traffic in May was down 28 percent compared to a year earlier, John T. Gray, senior vice president of the Association of American Railroads (AAR) said he sees encouraging signs.

"It is somewhat heartening to note that 11 of the 20 carload categories, including several major commodity areas, improved their showing versus 2019 when comparing their current loading rates to those we have seen the last four weeks," Gray said.

Gray noted that overall traffic levels last week were down from the prior week, as would be expected for a week which includes a national holiday.

However, he said, automobile loadings improved to about one-third the normal level as assembly plants began the intricate process of reopening after the Covid-19 lockdown.

"While this is still a long way from where we would like to be, it is far better than the 10 percent of norm of only two weeks ago," he said.

U.S. railroads originated 740,171 carloads in May 2020, down 27.7 percent, or 282,965 carloads, from May 2019. U.S. railroads also originated 912,922 containers and trailers in May 2020, down 13 percent, or 136,241 units, from the same month last year. Combined U.S. carload and intermodal originations in May 2020 were 1,653,093, down 20.2 percent, or 419,206 carloads and intermodal units from May 2019.

In May 2020, one of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with May 2019. It was farm products excluding grain, up 324 carloads or 10.6 percent. Commodities that saw declines in May 2020 from May 2019 were coal, down 127,201 carloads or 40.7 percent; motor vehicles & parts, down 49,341 carloads or 75 percent; and crushed stone, sand & gravel, down 18,196 carloads or 19.4 percent.

Excluding coal, carloads were down 155,764 carloads, or 21.9 percent, in May 2020 from May 2019. Excluding coal and grain, carloads were down 150,701 carloads, or 24.3 percent.

Total U.S. carload traffic for the first five months of 2020 was 4,713,757 carloads, down 14.7 percent, or 815,413 carloads, from the same period last year; and 5,186,630 intermodal units, down 11.3 percent, or 661,703 containers and trailers, from last year.

Total combined U.S. traffic for the first 22 weeks of 2020 was 9,900,387 carloads and intermodal units, a decrease of 13 percent compared to last year.

Week Ending May 30, 2020

Total U.S. weekly rail traffic was 395,714 carloads and intermodal units, down 17.3 percent compared with the same week last year.

Total carloads for the week ending May 30 were 179,973 carloads, down 24.2 percent compared with the same week in 2019, while U.S. weekly intermodal volume was 215,741 containers and trailers, down 10.6 percent compared to 2019.

Two of the 10 carload commodity groups posted an increase compared with the same week in 2019. They were miscellaneous carloads, up 555 carloads, to 8,794; and grain, up 410 carloads, to 21,246. Commodity groups that posted decreases compared with the same week in 2019 included coal, down 24,551 carloads, to 46,144; metallic ores and metals, down 8,470 carloads, to 12,637; and motor vehicles and parts, down 8,052 carloads, to 6,629.

North American rail volume for the week ending May 30, 2020, on 12 reporting U.S., Canadian and Mexican railroads totaled 264,612 carloads, down 22.8 percent compared with the same week last year, and 293,159 intermodal units, down 9.9 percent compared with last year. Total combined weekly rail traffic in North America was 557,771 carloads and intermodal units, down 16.5 percent. North American rail volume for the first 22 weeks of 2020 was 13,698,214 carloads and intermodal units, down 11.6 percent compared with 2019.

Canadian railroads reported 68,657 car-

loads for the week, down 17.8 percent, and 63,195 intermodal units, down 5.2 percent compared with the same week in 2019. For the first 22 weeks of 2020, Canadian railroads reported cumulative rail traffic volume of 3,059,717 carloads, containers and trailers, down 7.3 percent.

Mexican railroads reported 15,982 carloads for the week, down 26 percent compared with the same week last year, and 14,223 intermodal units, down 19.3 percent. Cumulative volume on Mexican railroads for the first 22 weeks of 2020 was 738,110 carloads and intermodal containers and trailers, down 9.3 percent from the same point last year.

The Market

Free fall

From page 1

mer most mills are quite full on OCC and all of the sky high premiums at the start of the month have disappeared," said a broker in the Northeast U.S.

According to a broker in the New York City area, "OCC is staggering in this area. Suppliers who sold at the end of April were in some cases getting \$200 or close to it, but many hoarders who waited for the May PPW, hoping for even higher prices, wound up selling at \$140 and most suppliers are lucky to get orders this week at any price."

He said mills in the Northeast were canceling pick-ups due to high inventories and a sharp drop-off in orders for rolls.

"The Dutch Tulip Craze that was the April OCC market ended the way bubbles always do - with a sudden collapse and lots of pain," he said.

Overall, the latest survey of OCC buyers and sellers by *The Paper Stock Report* indicated a national average mill buying price of \$115 per ton, down from about \$137 at the beginning of May, with prices in the Eastern portion of the U.S. ranging from \$100 to \$160 per ton, depending on the location.

At this time last year, OCC prices had dropped nearly to their low point - a national average mill buying price of about

(See Free fall, page 4)

Market

Free fall

From page 3

\$38 per ton - which generally held through January 2020.

Traders said prices of white deinking grades are showing signs of turning downward due to decreasing demand, but with businesses just beginning to open in Covid-19 lock-down states, generation is at least a few weeks away from getting back to a near-normal condition.

One broker projected unusually weak buying of toilet paper in the near future "judging by the stash at my house."

Abu Dhabi prohibits waste paper exports

The Abu Dhabi Department of Economic Development (ADDED) has issued a circular temporarily prohibiting all concerned and registered facilities in Abu Dhabi from exporting iron scrap, waste paper and cardboard. The decision is applicable for a period of four months starting May 15, 2020 which can be renewed following the decree issued by the United Arab Emirates (UAE)'s Ministry of Economy (MOE).

H.E. Rashed Abdul Karim Al Balooshi, undersecretary of ADDED, said the decision seeks to help local production facilities maintain business continuity and also promotes domestic products by ensuring that local producers have access to raw material supplies locally for their manufacturing operations. He noted that this is in line with ADDED's efforts to support local private companies in managing the challenges posed by the restrictions dealing with the Covid-19 pandemic.

Al Balooshi added that the department's decision is in line with the implementation of the MOE's decree to further diversify local sources of raw materials and production inputs for companies operating in the UAE and support the national economy. This move especially supports

small and medium enterprises (SMEs) whose importing capabilities to secure raw materials abroad had been impacted by the ongoing COVID-19 crisis.

Al Balooshi explained that the circular will help preserve iron, paper and cardboard resources which are essential supplies for many local manufacturing industries and will then help boost local products. He further cited data by the Abu Dhabi Customs which revealed that the emirate has exported more than 6,163 tons of iron scrap in 2019, compared to 1,590 tons in 2018. Meanwhile, 29,530 tons of paper waste were exported last year, compared to 2,230 tons in 2018.

He said these figures showed there has been a huge jump in the volume of exports of iron and paper waste. Following such increase, the UAE government has taken the steps to make best use of these waste to be recycled by national companies amidst the current circumstances brought about by the pandemic spread of COVID-19.

Al Balooshi raised the importance that all concerned facilities in Abu Dhabi must follow the new rule to avoid any violations that may lead to financial penalties or closure of facilities, in accordance with the articles of the Table of Economic Activities and Violations in Abu Dhabi.

He affirmed that Abu Dhabi supports the UAE government's directives to implement all decisions that would help protect local industries and ensure all commodities and raw materials are available in the local market to increase the country's level of self-sufficiency for raw materials in the industrial sector, especially those that are highly imported from abroad.

ADDED's undersecretary emphasized that scrap trade is considered a national wealth of all countries which aim to enhance their industries' resources such as iron, aluminium, copper, among others. He concluded that exporting iron scraps is a challenge for the Abu Dhabi's industrial sector and for companies importing them from abroad due to their high cost, especially amid the current increased demand for these materials.

Greif

From page 1

pany had net income of \$11.4 million during the quarter, compared to net income of \$13.6 million during the same period a year earlier. or \$0.23 per diluted Class A share.

However, said Larry Hilsheimer, chief financial officer, "We currently believe our fiscal third quarter will be our weakest volume quarter. We can't control how long this pandemic will last or determine what the ultimate impact will be to our global customers. That said, we have taken steps to prepare a portfolio for an economic downturn by identifying variable cost reduction actions, determining potential back office reductions or delays in hiring open positions and optimizing capital spending plans and working capital requirements. We believe our business today is significantly better positioned to weather a prolonged economic slowdown than it was in 2008."

Watson said sales for the company's Paper Packaging division fell by roughly \$16 million in the second quarter versus the prior year quarter, primarily due to lower published containerboard and recycle prices.

"Volumes were also negatively impacted by 24,000 tons of containerboard economic downtime taken in the second quarter," Watson said. "During the quarter, we announced a \$50 per ton price increase for all grades of uncoated and coated recycled board effective with shipments beginning May 13 of 2020, which we're continuing to implement. "Yesterday we announced the closure of our URB mill in Mobile, Alabama as part of our ongoing network cost optimization activities, and then further enhance our capital deployment efficiency. The total capacity of this mill was 140,000 tons, which includes a shutdown of our mills number one paper machine that was accomplished in October of 2019."

Regarding end markets for the Paper Packaging division, Watson said Greif's CorrChoice corrugated sheet feeder network consists of six state-of-the-art facilities east of the Mississippi River that service a mix of independent and integrated

corrugated box plants. During the quarter, sales to integrated customers were softer as they internalized some of the volumes previously outsourced to Greif in their own networks. Sales to independent customers were negatively impacted by lower durable goods demand, as a result of the slowing economic activity and all the automobile manufacturing closures.

"Similar to our Rigid Industrial Packaging business, our Tube and Core business serves a diverse mix of end markets," Watson said. "We estimate that roughly 40 percent of our top 10 Tube and Core customer markets were labeled as non-essential businesses during the health crisis in Q2, which dragged on our results."

During the quarter, Greif made two acquisitions. One was the acquisition of a minority stake in Centurion Container. The other was the completion of the sale of its Consumer Packaging Group to Graphic Packaging for \$85 million.

"We also consolidated two Rigid Industrial Packaging operations - one in Brazil and the other on the West Coast of the United States - as we examine ongoing our portfolio performance in that business," Watson said.

Other notable comments from the earnings call included:

- Watson: "Our Coated Recycled Board volume continues to be very steady, particularly in our Tama, Iowa and Sweetwater, Georgia facilities. We did take 5,000 tons of economic downtime in containerboard on the West Coast only."

- Watson: In the last eight days of May, Greif saw strong volume at CorrChoice. "I think that's reflective of the durable manufacturing businesses, such as the automotive plants starting to reopen and fill up their supply chain needs."

- Watson said the company is cautiously optimistic about the Paper Packaging business. "As the health crisis continues to recover, we can see improvement sequentially from May through the end of the third quarter in our paper business," he said.

- Watson said Greif's raw materials sourcing group sourced about \$7 million in raw materials costs relative to index prices. "Most companies would not need a sourcing group if you're going to be able

to buy at index prices," he said. "What you have them there for is to work the market and see if you can find opportunities in a dislocated market like we're in. Currently those opportunities surface more often."

Hilsheimer said OCC prices should trend downward "if we don't run into a spike," because shut down businesses are starting to open. "We think the demand side is probably a little weaker, just particularly if you look at export."

Verso idles two paper mills

Citing "unprecedented market decline" related to the government's Covid-19 shut-downs, Verso Corp. said it is indefinitely closing its printing and writing paper mills in Duluth, Minn. and Wisconsin Rapids, Wisc.

The company said it will explore viable and sustainable alternatives for both mills, including restarting if market conditions improve, marketing for sale or closing permanently.

"The decision to reduce production capacity is driven by the accelerated decline in graphic paper demand resulting from the Covid-19 pandemic," Verso said in a statement. "The stay-at-home orders have significantly reduced the use of print advertising in various industries, including retail, sports, entertainment and tourism."

Verso said North American printing and writing demand fell by 38 percent year-over-year in April, and operating rates are expected to drop well below 70 percent during the second quarter.

"It is critical that we maintain a healthy balance sheet and focus on cash flow, while balancing our supply of products and our customers' demand," said Adam St. John, president and CEO. "After a comprehensive review of post-pandemic demand forecasts and capacity, we made the difficult decision to idle the Duluth and Wisconsin Rapids mills. We expect the idling of these facilities to improve our free cash flow. The sell through of inventory is expected to offset the cash costs of idling the mills."

Verso expects to idle the Duluth mill by the end of June and the Wisconsin Rapids

Mill by the end of July, resulting in the lay-off of about 1,000 employees. The Duluth mill produced 270,000 tons of paper annually, while the Wisconsin Rapids mill produced 540,000 tons per year.

Verso will continue to supply graphic and specialty papers in roll and sheet form, as well as packaging papers and pulp. The company operates mill in Escanaba and Quinnesec, Mich.

Although Verso said re-opening or a sale of the mills is possible, Mark Wilde, industry analyst for BMO Capital Markets, said "the long-term decline in paper demand will leave a dark cloud of uncertainty hanging over both mills and their workers. Unfortunately, many other mills are also looking for new owners and new markets."

Wilde added that the idling at Duluth suggests that an earlier Verso proposal to convert the mill to a combination of recycled kraft paper and containerboard is off the table.

Vietnam's Xuong Giang Paper orders tissue machine

Xuong Giang Paper Mill, in Vietnam, has ordered a PrimeLineCOMPACT S 1300 tissue machine with stock preparation system from the Andritz Group. Xuong Giang is a subsidiary company of Bac Giang Import Export JSC.

The new line has a design capacity of 54 tons per day. It will process virgin pulp as raw material to produce high-quality facial and toilet tissue as well as napkins. Start-up is scheduled for the fourth quarter of 2020.

The stock preparation plant is split into separate short fiber and long fiber systems and also includes the approach flow system, fiber recovery and broke Xuong Giang has Andritz equipment already operating at the mill. Andritz said the machine is the third tissue machine it will have supplied to the Vietnamese market in recent years.

Recovered paper market prices

Independent coverage of the recovered paper markets since 1990



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