



PSR The Paper Stock Report

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Market Intelligence
An independent, American-owned company

Sonoco expects OCC prices to stabilize this quarter

By Ken McEntee

After coming down from transacted prices that sometimes exceeded \$200 per ton in May, old corrugated container (OCC) markets are expected to stabilize at current levels, at least through the third quarter, Sonoco executives said.

Speaking recently at the company's second quarter earnings call, CEO Howard Coker said he expects OCC to "firm up" in the near term.

"Firm up is the operative word," Coker said. "We're sitting at about \$70 (per ton) right now and that's what we're modeling out at this point in time. Maybe we could see another \$10, but right now, our models are holding at that \$70 range."

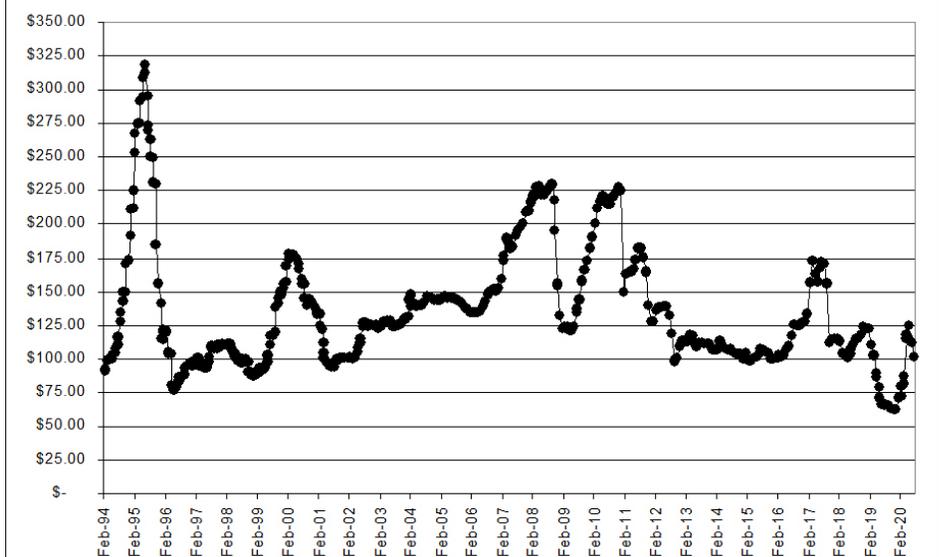
While Coker quoted a published price, traders generally report that contracted premiums and a smaller degree of spot sales put the more common transacted price between \$85 and \$100 per ton in the Southeast U.S.

"Our price/cost was extremely negative during the (second) quarter, impacting segment operating profits by \$24 million, as OCC prices rose to \$125 in May and then eased in June and July," Coker said. "While we forecast that OCC prices will stabilize in the near term, we do expect our

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Average national scrap paper prices

The mean weighted prices paid by paper mills for 17 commonly-traded grades of scrap paper across the U.S. Prices are per short ton, FOB seller's dock, based on bi-weekly surveys conducted by The Paper Stock Report



Paper opportunity exists in 'hot spots'

By Nick Ince and Tom Hayden

If you're at all familiar with the graphic papers market, then you've been hearing for years that it's in a decline – and that's true. On average, the global market has been dropping by roughly 3.2 percent CAGR (compounded annual growth rate) for the last five years.

However, the good news is that there are "hot spots" where potential growth opportunities exist in this declining market.

First, it's important to consider the top, most viable paper machines. These are the assets that will operate long-term, providing good, stable business.

The Fisher Viability Index Ranking Value chart shows all the graphic paper

producers in the world, with the higher value also being the greater risk. The machines in red are at high risk of being shut down or converted to more financially stable paper grades. The most viable machines will typically be the modern, large machines that are the lowest cost and most efficient to operate. However, smaller

(See Opportunity, page 3)

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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:	20/50	20/50	30/60	30/60	30/60	30/60	0/60	0/65
White ledger, at generator's dock:	50/90	50/90	50/90	50/85	50/85	55/95	30/65	50/110
Old newspaper, delivered to dealer:	-10/20	-10/20	0/20	0/20	0/20	0/30	0/20	0/20
Old corrugated containers, delivered to dealer:	0/25	0/25	0/30	0/30	0/30	0/35	0/45	5/45
Old corrugated containers, supermarket-sized bales	15/50	15/50	20/60	15/45	15/45	20/60	25/65	20/75
Old magazines, delivered to dealer:	0/50	0/50	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	0/40	0/40	0/40	N/A	0/30	15.83	15.83	17.50	5.00
Sorted residential papers & news (56)	50/65	60/70	60/80	70/80	50/60	50/70	63.75	63.75	63.75	25.00
Sorted clean news (58)	95/115	100/115	90/110	100/115	75/90	65/100	97.50	97.50	97.50	70.42
Old corrugated containers (OCC) (11)	75/90	85/100	65/80	85/100	80/130	90/140	93.33	93.33	90.42	37.92
Sorted office paper (37)	130/150	130/140	130/140	130/140	120/180	130/150	139.17	139.17	171.67	123.33
White ledger, post-consumer (40)	200/230	210/230	200/220	210/240	180/200	200/230	212.50	212.50	231.67	254.17
Old magazines (10)	60/90	70/95	60/90	70/95	70/90	70/90	79.17	79.17	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	35.83
New double lined Kraft cuts (DLK) (13)	110/140	120/150	100/140	120/150	120/140	130/170	132.50	132.50	131.67	72.50
White news blanks (24)	210/260	230/260	220/250	230/260	200/230	200/240	232.50	232.50	225.00	200.00
Coated soft white shavings (28)	300/325	300/325	300/325	300/325	300/325	300/325	312.50	312.50	312.50	313.33
Hard white shavings (30)	340/380	340/380	340/380	340/380	340/380	340/380	360.00	360.00	380.00	430.00
White ledger, pre-consumer (41)	200/230	210/230	200/220	210/240	180/200	200/230	212.50	212.50	231.67	254.17
Coated Book Stock (43)	130/150	130/140	130/140	130/140	120/180	130/150	139.17	139.17	166.25	125.00
Coated groundwood sections (44)	80/115	80/115	70/110	80/115	90/110	80/100	95.42	95.42	84.58	79.58
Unprinted bleached sulfate (SBS) (47)	330/360	330/360	330/360	330/360	330/360	330/360	345.00	345.00	357.50	390.00
Weighted average national price							99.27	99.27	101.61	65.99

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Financial

Sonoco

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industrial segment to have a negative price/cost relationship compared to the third quarter of last year. Having said that, we expect this negative earnings impact to be about half of what we experienced in the second quarter of this year. Overall, we assume that global economic conditions will gradually improve from second quarter lows although demand recovery is likely to be tempered by virus hotspots which could slow the reopening of additional business activity."

Overall, Sonoco reported that net sales for the second quarter 2020 decreased 8.4 percent to \$1.245 billion, compared with \$1.36 billion for the same period last year. The decrease reflects volume declines and lower selling prices in many of the company's businesses as well as unfavorable changes in foreign currency exchange rates.

Other highlights of the conference call included:

- "Our Consumer Packaging segment produced record results due to strong demand for food packaging driven by consumers' stay-at-home eating habits," Coker said. "I'll remind you that 80 percent of the revenue produced from our Consumer Packaging segment is for food products with the rest serving medical and specialty markets such as adhesives and sealants. During the second quarter, we produced record results from our Rigid Paper Containers business, with sales volume up approximately 8 percent globally."
- "If you look more closely at some of the markets we serve, you'll see volume growth far beyond levels we have ever experienced. For instance, refrigerated dough sales volume was up more than 60 percent during the quarter in North America and up 33 percent in Europe as consumers were baking more at home. Juice concentrate a segment which has been in decline for years was up 40 percent in North America; while miscellaneous food products were up 20 percent

and snacks up 8 percent." - Coker

- "Demand for fresh foods such as berries and eggs also improved year-over-year during the quarter. However, we are still working through production inefficiencies in our perimeter of the store operations on the West Coast. We pointed out in April that we expected the second quarter would be very difficult for our Paper and Industrial Products business due to the pandemic impact on demand along with a significant negative price/cost relationship due to rising OCC prices." - Coker
- "On the URB (uncoated recycled paperboard) side of our business, we saw sales volume growth in the lightweight board, which serves tissue and tire markets which were up 14 percent during the quarter, but this was more than offset by declines in heavyweight board serving our industrial converted markets." - Coker
- Sonoco permanently closed its Trent Valley, Ont. mill and the No. 3 machine in Hartsville, S.C. during the second quarter in an effort to right-size its production capacity and push tons into its lower-cost mills.
- "To reduce inventories we also took commercial downtime during the quarter - roughly 19,000 tons - and we've ran a fair amount of recycled pulp, particularly from our corrugated medium machine. Total pulp production was approximately 29,000 tons in the quarter." - Coker
- "As we enter the quarter, our system is currently running at full, but we expect to have to run recycled pulp to supplement machine demand. Tube and core volume in North America and Europe was down 13 percent and 7 percent respectively, as each of our served markets experienced contraction due to the slowdown in graphic paper, textiles and even film markets, which we feel was more likely timing versus actual demand." - Coker
- Albrecht said Sonoco's Consumer Packaging segment volume was up \$14 million or almost 2.5 percent during the second quarter. The most notable growth was in global rigid paper containers which saw volumes grow by about 8 per-

cent. However, this strong growth was muted by very weak volumes in the industrial end-use market within Sonoco's plastics business.

- Display and packaging volume was well below last year down \$19 million or almost 14 percent due to lower demand in domestic displays, paper amenities, and retail security packaging.
- Volume in Paper and Industrial Converted Products was down \$51 million or just over 10 percent due to weak paper and tube and core volumes globally, as well as much lower demand across Sonoco's Conitex operations, which was driven by very weak global textile markets.
- "Selling prices were lower year-over-year by \$12 million. This impact was split about 60-40 between our Industrial and Consumer segments due to lower market indices, with industrial also being negatively impacted by weaker market pricing in certain areas." - Albrecht
- "As we've seen during the first half of the year, we expect our Consumer Packaging segment to continue to do well in the third quarter as sales of food packaging should continue to benefit from consumer stay-at-home, although volumes may not be as strong as the second quarter." - Albrecht
- "Our Paper and Industrial Converted Products segments should continue facing a negative price/cost relationship during third quarter due to higher year-over-year fiber cost and lower market pricing." - Albrecht

Financial

Opportunity

From page 1

machines producing higher value specialty grades are also viable.

Second, it's important to understand that not all segments of this market are equal. While the market as a whole is declining, there are growing sub-segments. For example:

- Newsprint: -7.5% CAGR
- Graphic Papers: -1.5% CAGR

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Market

Opportunity

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- Specialties: +1.3% CAGR
- Digital Print: +16.4% CAGR

The digital print market, especially, should be a target segment. This includes the new, high-speed, roll-fed, inkjet printers and HP Indigo printing.

The number of pages printed on these have been growing at more than 20 percent annually.

The advent of new printing techniques requires changes in paper properties, and both high-speed inkjet and HP Indigo printing require paper with specific surface treatments to ensure the highest print quality.

To address this need, Solenis has developed a new line of imPress paper additives, with imPress IJ technologies for high-speed inkjet printing and imPress ID technologies for HP Indigo printing. These additives help paper producers achieve the necessary print quality and printer runnability for their end customers.

It's also important to understand and align with market needs, especially in the areas of cost reduction, development of new grades and machine conversions. The lowest-cost producers will always be more viable, so it's important to work on cost-reduction projects while continuing to maintain paper quality.

Also, remember that being a low-cost producer does not mean using low-cost additives - bigger savings can be realized in higher-spend areas, such as energy reduction, fiber optimization and improving machine efficiency.

Solenis is helping producers lower operating costs with the development of new technologies, such as:

MicroSolSM advanced retention and drainage solutions for reduced energy consumption and fiber loss;

Spectrum™ XD1878 microbiocide to help improve machine efficiency.

Even within a declining market, there are opportunities to launch new products or differentiate offerings to grow market share. Specialty chemical companies that

are experienced in paper production, such as Solenis, can support paper producers in developing these new grades. For example, we helped a specialty paper mill seeking to expand into the fast-growing HP Indigo printer paper market. This specific paper requires special additives to improve Indigo printer performance and the paper used on these printers needs to be certified by HP. The testing includes ink adhesion to the paper, printer runnability and print blanket compatibility. We recommended adding Solenis imPress ID-115 to the mill's standard size press solution. The results exceeded expectations with near-perfect results in all categories. Fol-

lowing this trial, the mill received 3-star certification – the highest rating possible.

Ultimately, if a machine is no longer viable to produce printing and writing paper, there could be opportunities to convert the equipment to produce alternative grades. While this can be a significant investment, a company like Solenis can help by collaborating on a market analysis to ensure the right grades are selected for production before deciding to convert a machine. Once a decision has been made, Solenis can also help design a wet-end chemistry program to accelerate the project's start-up curve.

For paper producers seeking to increase





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The Market: Weak pulp market drags white grades

By Ken McEntee Although a couple sources reported that Sorted Office Paper (SOP) was beginning to show improvement this month, prices for the grade generally trickled further downward. The average national domestic mill buying price...

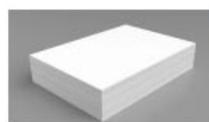
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When will the paper markets get going again?

The latest quarter maintained the same momentum as its predecessor – demand is flat and the reel market has failed to mirror its level of 2018, reported Jean-Luc Petithuguenin, of the Paprec Group, of France,...



CAPACITY OCTOBER 2, 2019

Domtar to reduce uncoated freesheet capacity

Domtar said it will permanently shut down two of its uncoated freesheet machines. The closures will take place at the Ashdown, Ark. pulp and paper mill and the Port Huron, Mich. paper mill. These measures...



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Closed Loop Partners acquires stake in Balcones

Closed Loop Partners, a New York based investment firm focused on building the circular economy, has acquired a stake in Texas-based Balcones Resources through its private equity fund, the Closed Loop Leadership Fund. Balcones Resources...

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growth, it's important to work with suppliers and technology providers that can offer a broad array of capabilities for specific applications. As a leading global chemical supplier for the printing and writing market, Solenis is equipped with a long history of delivering both the technology and experience to help keep machines viable, even in a declining market.

Nick Ince is Solenis' marketing director, Asia Pacific and Tom Hayden is global market director, graphic & specialties and pulp. Solenis is a global producer of specialty chemicals for water-intensive industries, including the pulp, paper, oil and gas, petroleum refining, chemical processing, mining, biorefining, power and municipal markets.



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