LUMBER HAS GONE THROUGH A CRAZY CYCLE, BUT HOW ARE OTHER MARKETS PERFORMING?

Lumber prices have been on a wild ride this past year, with SPF 2x4s touching an incredible price of $655 per thousand board feet in June, only to embark on a historic collapse during the summer. Lumber demand continues to improve and supply growth is constrained, so lumber should remain quite strong going forward; wild price swings notwithstanding. As lumber markets stay strong, what is happening in the other markets of the forest products industry?

In short, they are all looking pretty good too. Close to home, log markets have been very solid, thanks to steady demand from Asian markets coupled with growing domestic demand. Although BC log export volumes are down, prices have been excellent. However, as robust as BC log export markets have been, log prices in the Pacific Northwest are even stronger. Much of this demand strength centres around China, where the economy continues to grow in a country that needs to import a large percentage of its fibre needs (including logs, chips, lumber, pulp, recovered paper, etc.).

As influential as China has been on the log and lumber markets, Chinese demand has been even more impactful on global pulp markets. In conjunction with various operational problems at many pulp mills, recent Chinese policy changes to the import of recovered fibre (old cardboard boxes, newspapers, and magazines) have served to drive pulp prices to record-high levels in 2018. In both US and Canadian dollar terms, pulp prices are currently amongst the highest levels ever witnessed. As such, BC pulp mills are doing extremely well even as some costs have been rising. Looking forward, there is almost no new pulp capacity being built anywhere over the 2019–20 period, so, barring a global recession, these currently high pulp prices are expected to persist for another couple of years.

Turning to the paper grades, those record-high pulp prices have led indirectly to some higher paper prices, as strong pulp prices pushed several North American (and global) paper mills to close last year. With a raft of mill/machine closures, supply has shrunk faster than demand, and paper prices have now embarked on a robust price rally throughout North America and, frankly, almost every global market.

Low prices and weak demand forced nearly 20 per cent of North American newsprint capacity to close last year, and the reduction in supply has been the impetus for a 25+ per cent jump in North American newsprint prices since the summer of 2017. Following newsprint, pricing for all other higher-value paper grades (those made by Catalyst and others) is experiencing a strong upward cycle that will not see any weakness until 2019. Frankly, there is not a paper grade in the market that is not enjoying a strong price rally at the moment.

However, high paper prices are not all good news, either. Tariffs/duties have taken their toll on some Canadian producers; by the time you read this, tariffs on newsprint and other groundwood grades may have been affirmed by the US International Trade Commission (ITC) or they may have been revoked. Revoking them is the only common-sense move—the US desperately needs Canadian newsprint, remember—but it seems that common sense is not all that common these days, especially when it comes to international trade.

Keeping on the international theme, the big story to continue watching is China. The US–China trade spat could benefit Canadian paper and forest products producers, but it will also add volatility, and volatility is always tough to manage. However, the longer-lasting (and likely larger) aspect of the Chinese story is the country's massive fibre shortage. Last year, Chinese authorities put restrictions on the import of recovered/recycled papers (the required input for tens of millions of tonnes of paper and packaging grades in the country), and now the country is looking to ban those imports completely, ostensibly for environmental reasons but also to bolster their domestic recycling sector. Such drastic moves by the Chinese government have left domestic producers scrambling to find secure fibre supply. It led Nine Dragons to buy Catalyst's US mills, and a host of Chinese companies are searching the globe for other assets to buy that will provide them with some fibre security. The Chinese already own substantial assets in Canada and we may see more mills change hands in the coming years. When China makes such drastic policy moves, repercussions are felt around the world.

Markets remain strong for now, but we all know that such cycles do not last. This latest rally still has some legs, so all eyes should be focused on how developments on the trade front unfold in the short term.

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