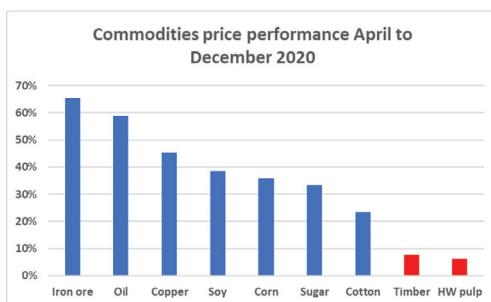


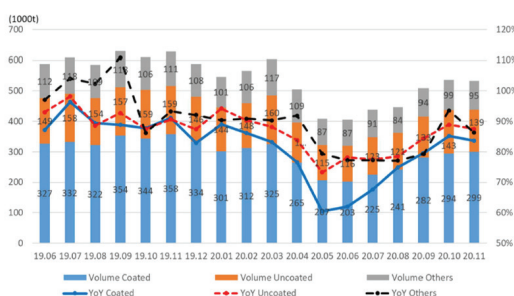
International timber and pulp prices have lagged behind compared to other major commodity price recoveries after the initial reaction to the economic effects of the Covid 19 pandemic.



International pulp and paper market: Japan

- Japan's economy has bounced back from Covid 19 effected recession with growth of 5% in the third quarter of 2020 after the economy shrunk by 8.2% the previous quarter. This turnaround is the fastest pace on record for Japanese economic growth.
- A rise in domestic demand, as well as exports, have helped drive economic growth in Japan.
- The government is forecasting a 4% economic growth for the next fiscal year starting April 2021, on the back of its latest stimulus package aimed at speeding up the recovery following the damage wrought by the coronavirus pandemic. The government, expects the economy will return to pre-COVID-19 levels by January-March 2022.
- This should have a positive impact on the demand for paper and paper packaging products.

**International pulp and paper market: Japan
Printing and writing paper sales : Jun 2019 to Nov 2020**

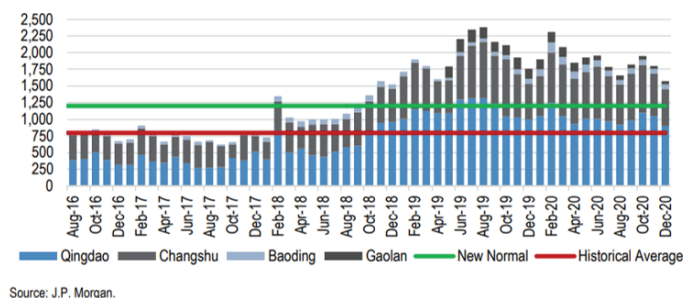


Printing and writing paper sales have started recovering from the lows of May and June, but are unlikely to fully recover due to new norms of digitization resulting in less paper usage, following Covid 19 outbreak.

International pulp and paper market: China

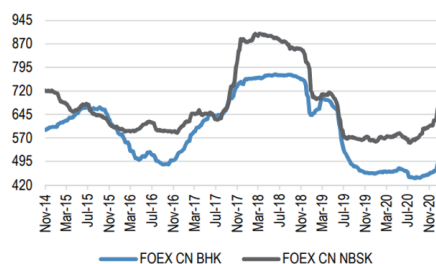
- China's economy expanded by 2.3% in 2020, roaring back from a historic contraction in the early months of the year to become the only major world economy to grow in what was a pandemic-ravaged year.
- The IMF is forecasting a 7.9% year on year growth for 2021.
- Paper consumption was solid in 4Q20.
- As from January 2021, China has banned all imports of recovered paper. Imports have reduced from 28.4 million tons in 2017 to 5 million tons for 2020.
- Virgin-based paper board market in China (also named coated ivory board) has done well from a demand perspective (6% YTD) as it continues to gain market share from the recycled-based duplex board (-18% due to restriction on recovered paper imports) which is used for the production of the duplex board.
- Most of China's coated ivory board operations are integrated with pulp machines (BCTMP) that consume woodchips.
- China December pulp inventories were down to the lowest level since Dec-2018 with excess inventories representing only 5 days of domestic consumption. This is partly due to buyers stocking up before the Chinese New Year in Feb and solid paper consumption in Q4 2020.

Pulp stocks at Chinese ports



Source: J.P. Morgan.

Good news is that HW pulp prices for sale to China had unexpectedly started increasing during the last quarter of 2020 with December sales at over \$500/t and with some late January sales already at \$600/t, up from the lows of \$420 with indications of continued price momentum for H1 2021.

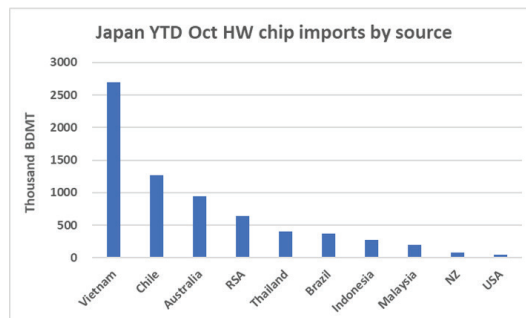
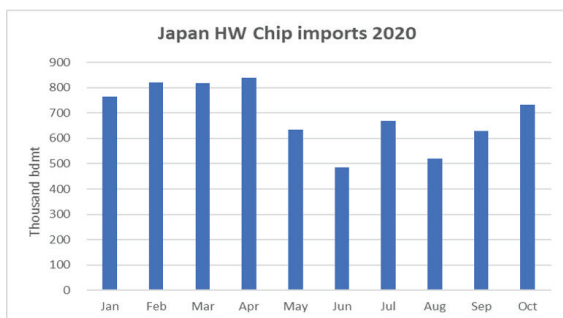


Source: FOEX, RISI, J.P. Morgan

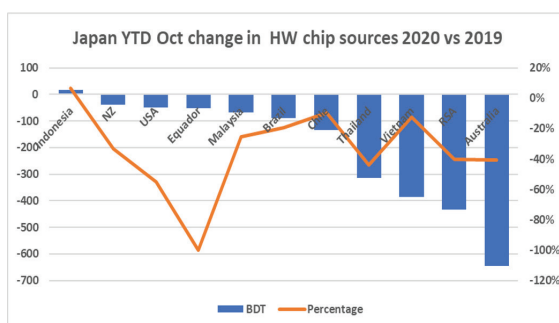
International Woodchip Markets

Japan

- YTD through to October 2020, Japan's hardwood chip imports were down 24% compared to the same period last year.
- Monthly import volumes have however shown a positive increase from the low in June.



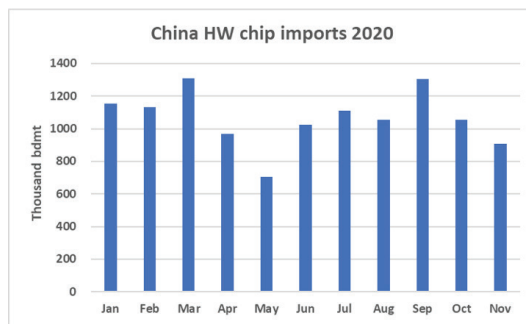
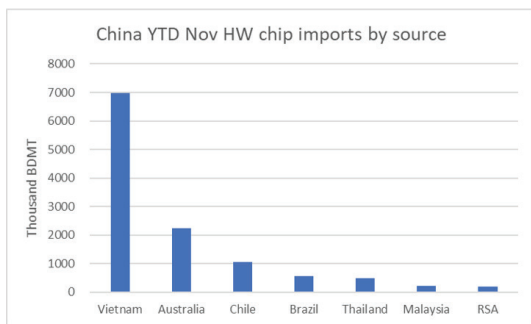
- Forecast volume for the year is 8.3 million bone dry ton (bdt) which is 2.5 million bdt (23%) less than in 2019.
- Significant volume reductions from a further distance and higher cost sources as can be seen from the volume reductions from Australia and South Africa.
- Expectations are that woodchip imports will increase by 6% in 2021.



International Woodchip Markets

China

- YTD November, China HW chip imports were 2% up compared to the same period in 2019 and is on target to reach a record 13 million bdt of HW chip imports for 2020.
- China has substituted 1 million bdt chips from Australia with chips from Vietnam.
- Most of China's pulp production is integrated with paper and producers are incentivized to keep running their pulp mills in order to provide steam and energy for the paper machines.



- New pulping capacity has been installed in China in recent months (Bohui and Chenming) consuming more wood chips.
- Woodchip prices are down nearly 20% y/y in RMB (Chinese currency), which significantly reduced domestic producers' pulp cash cost (by \$50-100/t).
- Japan had cut woodchip orders in a significant way, leaving an oversupplied market for the Chinese to negotiate.

Woodchip demand outlook and pricing

- Demand is set to increase in 2021 due to:
 - The improved economic outlook for Japan and China.
 - New pulp capacity coming online in China in Q4 2021 that will require an additional annualized 2.3 million bone dry tons, of mostly imported woodchips.
- The following factors support a woodchip price increase for 2021:
 - HW pulp price in China increasing \$420 to \$600 per ton. (+43%).
 - Significant strengthening of supplier currencies vs USD from when chip prices were settled in 2020 (Rand 20%, Australian \$ 20%, Chilean Peso 15%).
 - Significant strengthening of buyer currencies vs USD (Yen 4%, Chinese Yuan 8%).
 - Tighter woodchip supply/demand balance.
 - The positive economic outlook for 2021 based on the rollout of Covid 19 vaccines.

Domestic Markets

- Eucalyptus Pulpwood

Demand from Sappi at both their Saiccor and Ngodwana mills improved during Q4 2020 having reduced significantly during the first half of the year and the improved demand is forecast to continue for 2021 in particular after the completion of their expansion project which is scheduled for completion in July 2021 whereby they will increase their dissolving pulp production capacity by 110 000 tons per year.

Sappi's Ngodwana mill has had to temporarily shut down its pulp production in late January due to the unavailability of oxygen for their pulp process due to oxygen supplies being prioritized to hospitals for Covid 19 treatment.

Board plants are running at full capacity except for the PG Bison plant in Piet Retief where a capacity expansion project is underway.

- Mining Timber

The outlook for mining timber remains positive as demand from the gold and platinum mines have improved. E Grandis and Grandis related species are higher in demand than CTE's, although some platinum mines prefer higher density fibre.

The dunnage (6 – 10cm) market remains strong and can be supplied in E/Gra, E/Dunnii, GxN and GxU species.

- Pine sawlogs

Demand has increased substantially as the market for structural and industrial timber has improved in recent months.

- Poles

The building and fencing market has shown a good recovery and the future demand seems to be positive.

- Charcoal

Bulk supply to Silicon smelters has been volatile for the past three years, primarily as a result of Eskom load shedding and electricity price increases, significantly impacting on their production at their various smelting plants. Demand will be slow...