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FEBRUARY 2008

**WORLD-20
FORECAST**

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Special note: Uruguay is now part of World-20 (formerly World-19) statistics as of this report. All charts and analysis reflect the new format.

DIFFERENT YEAR, BUT THE MARKET IS STILL VERY TIGHT FOR HARDWOOD IN JANUARY

The hardwood market experienced very strong demand in December; reportedly this has continued into January, pushing producers' stocks down; as a result, many suppliers have announced price increases for all major markets as of February 1. The increases for BEKP and SBHK/NBHK range from \$20 in North America and Western Europe to \$30 in Asia. For NBSK, prices were adjusted by \$10 by Canfor in January in the U.S. market, and a handful of producers have announced increases in the Asian market — but nothing in North America and Western Europe.

SOFTWOOD AND HARDWOOD PRICE DIFFERENTIAL IS NARROWING

Despite incremental and restarted capacity out of Uruguay, Brazil, South Korea and Chile, hardwood prices have increased faster than softwood in recent months; February is no exception. Swing capacity from hardwood to softwood production is partially the issue. Also, hardwood demand has been very strong of late as consumers fight to maintain margins and market share, but downtime in 2007 in Indonesia, Scandinavia, South Korea, Chile and elsewhere has created a much tighter market balance today.

In September, the difference between NBSK and BEKP in the U.S. was \$95, and is expected to be only \$55 as of February 1. In the western European market, the difference in September was \$110, and likely \$80 as of February.

HARDWOOD CAPACITY TO INCREASE SIGNIFICANTLY IN 2008–2009 AND BEYOND

Although the market is tight right now (especially for hardwood), it is not likely to last much longer. First, Indonesian downtime due to fibre shortages appears to have been blown out of proportion. While there is some downtime, contacts very close to and working in the Indonesian pulp industry for APP and APRIL have pointed out that they are currently running as full as their equipments allows, and they do not foresee any short-term production problems. One producer has stated that it is still ramping up following debottlenecking projects in 2007, and has yet to reach design capacity (which is normal).

The overwhelming comment from those involved closely or indirectly with Indonesian hardwood kraft pulp producers is that it would be irresponsible for APP and APRIL — the largest players by far — not to produce as much as possible, even if it means importing chips, since they are sitting on a “gold mine.” APP's decision to buy Pope & Talbot's B.C. and Oregon mills means the company is paying twice the price of hardwood pulp in Asia; so they are buying softwood mills for the softwood. For the Indonesian pulp industry to replace two million tonnes of supply in addition to any shortfall on the integrated side would be extremely difficult and would lead to a significant rise in hardwood pulp prices, thus begging the question: “Why not source even high-cost chips within Asia to produce pulp at half the price of market-pulp imports from South America (BEKP)?”

Second, incremental capacity from South America alone will add another 2.0 million tonnes of BEKP in 2008, 1.1 million in 2009, 1.6 million in 2010 and 1.4 million in 2011. Softwood expansions are not absent (restarts, marketing of integrated tonnage, new lines), but are significantly less than their hardwood counterparts. Therefore, the reverse of what occurred to tighten the market — closures and unplanned downtime — is happening rather quickly, and in Q1/08 is doing so during a period of slower consumption, high pulp prices, rationalization among consumers and economic malaise in the U.S.

(continued)

While the above may appear to be overkill to make a point, the magnitude of incremental capacity should not a surprise. Closures and unplanned downtime tightened the market in a hurry, and incremental capacity will eventually cause it to loosen over a longer period of time.

PULP PRICES TO REMAIN HISTORICALLY HIGH

Even with the significant capacity additions over the next two years of this forecast, pulp prices are still expected to remain historically high since any declines would force the closure of high-cost mills, of which there are numerous in the fourth-quartile (many in Canada). Even with a loonie above \$0.90, it is much higher than the \$0.85 found a year ago, preventing owners from rebuilding their cash positions.

Hardwood's attractiveness as a lower-cost alternative to softwood is slowly waning but has not disappeared. Consumers have little choice but to pay or turn off their machines.

The final point we wish to make is that, as pulp prices continue to rise faster than those of paper, the attractiveness of selling once-integrated pulp into the market remains high. I-P at Bastrop, Domtar at Dryden and Baileyville, Boise Cascade and others are doing just that, as uncoated freesheet and linerboard paper prices are still too low and it is more profitable simply to sell the pulp. The only bright spot here for pure market-pulp producers is that paper-price increases (especially uncoated freesheet) will tend to drive demand and integrate market pulp.

The reality is that pulp prices have been rising due to closures, unplanned downtime, a weak U.S. dollar and strong demand. In the end, the market will find a balance, albeit at higher prices.

The main points and assumptions in our current **World-20 forecast** are as follows:

- More high-cost pulp mills will close or be converted to specialties or fluff production in the next three years; our short-list includes Nackawic (specialty), Port Wentworth and Panama City to fluff. Mills in Canada are likely to close as boilers age and other major equipment is not replaced.
- Restarts in Canada will not occur even with rising pulp prices due to the fact that the Canadian dollar is above parity with the U.S. currency; it would take a dollar consistently below \$0.80 for mills to consider such a venture (or a lot of public money and major union concessions on wages), but the pulp price would likely fall as supply rose.
- Restructuring of paper markets in the Western world continues; prices are finally rising, but they are still below where they should be given rising costs. As a result, we expect further rationalization to occur across all grades in the U.S. and western European markets. Due to paper-machine closures, integrated tonnage is increasingly entering the market. Domtar, I-P, Boise Cascade among others are doing so on a long-term/permanent basis in light of the fact that uncoated freesheet and linerboard markets are currently oversupplied.
- Paper producers are expected to take a higher-than-normal amount of downtime in 2008, as price increases remain difficult to implement without further rationalization and their margins are continuing to suffer. The largest affected sector has been and will continue to be coated paper; however, uncoated groundwood capacity is also in excess of current demand in mature markets.
- A slowdown in the U.S. economy appears to be on the horizon — if it isn't here already. Interest rates have been cut by 125 basis points.
- Indonesian downtime is expected to reach one million tonnes in 2008, double the level of 2007; however, capacity increased by 1.6 million tonnes year-over-year.

(continued)

- The Canadian dollar has dropped rather significantly — back to parity — and is expected to hover mainly in the \$0.95–\$1.00 range in 2008 (it is likely to start off the year above \$1.00) before falling to \$0.90–\$0.95 in 2009 and \$0.85–\$0.90 in 2010. The strengthening of the U.S. dollar is anticipated as central banks move to counter their rising currencies against the greenback. At the end of January, the loonie gained strength against the U.S. currency as a key interest rate was cut by the Federal Reserve to one full percentage point below the Canadian level.

NBSK was \$880 in Western Europe and the U.S. in December, while in China it was \$750–\$760; according to sources, price increases of late in China have lagged those in other markets. NBSK is expected to reach \$760–\$770 next month. SBSK was \$840–\$850 in Western Europe, and \$840 in the U.S.

BEKP was \$805 in the U.S., \$780 in Western Europe and \$720 in Asia. Other hardwoods rose as well, and increases of \$20–\$30 have been announced for February in all markets.

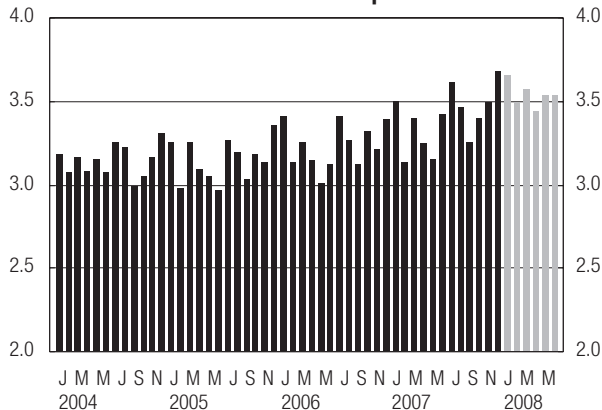
North American unbleached kraft pricing in China was down by \$40 to \$585 in January on slower demand for kraft papers.

While hardwood prices are set to rise, softwood levels in Western Europe and North America are expected to remain unchanged in February, with China being the only exception. Pulp prices are still likely to decline over the forecast period, and profitability levels should remain fairly consistent, as the U.S. dollar is anticipated to strengthen as soon as the flurry of interest-rate cuts is over (such cuts have been massive and introduced at unscheduled times).

Production

million tonnes

Forecast World-20* Pulp Production



FORECAST

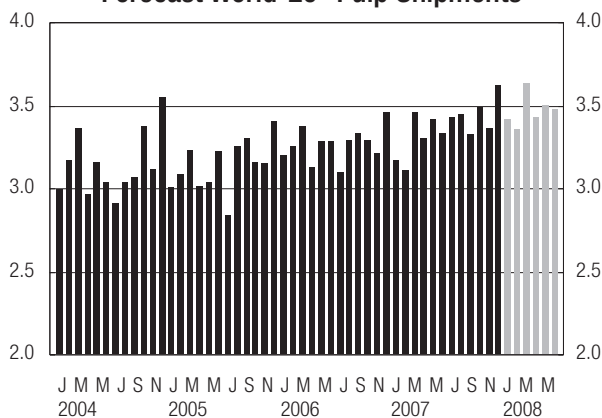
Jan	3.656
Feb	3.489
Mar	3.573
Apr	3.439
May	3.533
Jun	3.530

- Production is expected to continue expanding over the forecast period as incremental capacity and restarts add to supply. Botnia and Suzanno mills are ramping up, while Licancel and Donghae have restarted. Furthermore, integrated tonnage continues to enter the market.
- As pulp prices (mostly hardwood) continue to move up in February, producers are running as full as possible. Eventually supply will overtake demand. Fibre shortages are being reported, but production appears to be expanding anyway.

Shipments

million tonnes

Forecast World-20* Pulp Shipments



FORECAST

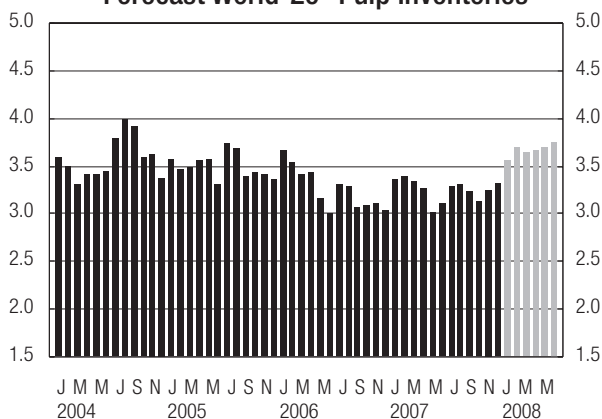
Jan	3.410
Feb	3.350
Mar	3.625
Apr	3.425
May	3.500
Jun	3.475

- Shipments should stay robust in early 2008, as consumers (with relatively low stocks) will need to buy most of what they consume (except where paper capacity has been rationalized).
- Consumers' increased use of hardwood will keep markets tight in the very short-term. Also, prices are unlikely to drop very far or very fast, as softwood closures would ensue rapidly; waiting for "fire sales" seems pointless.
- In Q2, shipments should stay at Q1 levels as buyers look to produce what they can at positive margins. This would lead to further downtime and reduced pulp consumption.

Inventories

million tonnes

Forecast World-20* Pulp Inventories



FORECAST

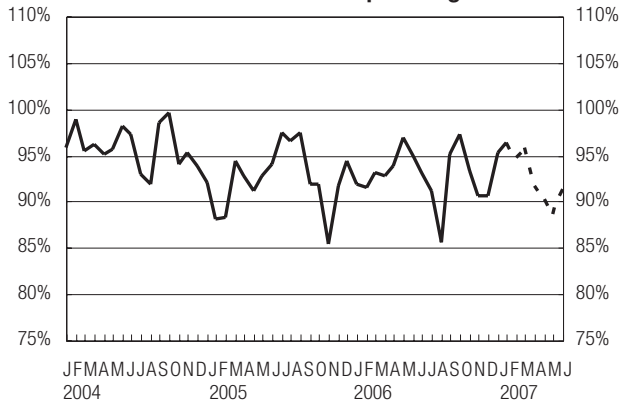
Jan	3.550
Feb	3.689
Mar	3.638
Apr	3.651
May	3.685
Jun	3.739

- World-20 stocks are projected to creep up over much of the forecast period as production rises faster than shipments. Most of the increase will be in Uruguay and Brazil in January and February, as the new mills owned by Botnia and Uruguay ramp up and the owners require expanded stock levels to properly serve customers.
- By the end of the June, World-20 stocks are expected to have climbed to 3.74 million tonnes, up from 3.3 million at the end of 2007.

Operating Rate

%

Forecast World-20* Operating Rate



FORECAST

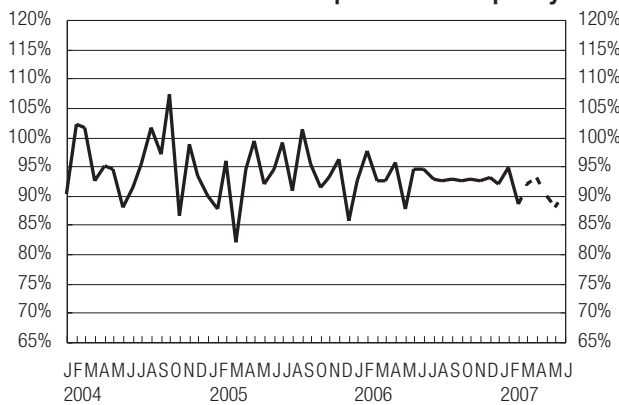
Jan	94.8%
Feb	95.9%
Mar	91.7%
Apr	90.2%
May	88.7%
Jun	91.6%

- The operating rate is anticipated to remain strong (in the mid-90s) during January–February before falling during the rest of the forecast period as many mills undertake maintenance repairs; this should help slow the rate of increase in producers' stocks.
- The pattern of operating rates over the forecast period is commensurate with averages witnessed in previous years, although the rate will tend to increase as new mills run full, idled mills restart and integrated pulp enters the market.

Shipments-to-Capacity

%

Forecast World-20* Shipments-to-Capacity



FORECAST

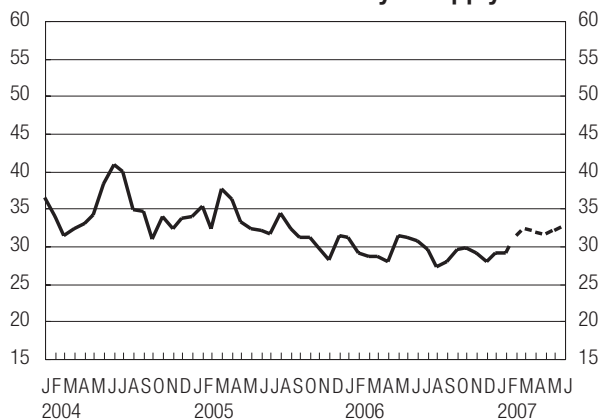
Jan	88.4%
Feb	92.1%
Mar	93.0%
Apr	89.8%
May	87.9%
Jun	90.2%

- The shipments-to-capacity ratio is likely to drop in January as several consumers take a wait-and-see attitude while restructuring their assets and buying mostly only contract volumes; spot volumes are expected to be down for both softwood and hardwood, as producers bumped up their prices to announced levels in January.
- In February and March, the rate is expected to increase modestly as consumers look to build stocks ahead of the strong consumption period — driven partially by higher paper prices. In addition, Chinese buyers are expected to return after the Chinese New Year, driving World-20 shipments.

Days' Supply

of days

Forecast World-20* Days' Supply

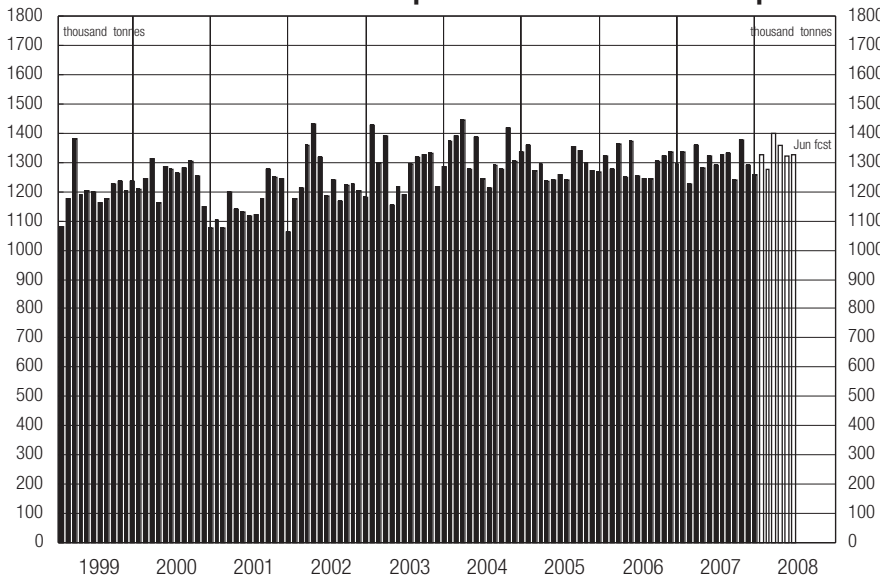


FORECAST

Jan	31.5
Feb	32.4
Mar	31.9
Apr	31.6
May	32.1
Jun	32.7

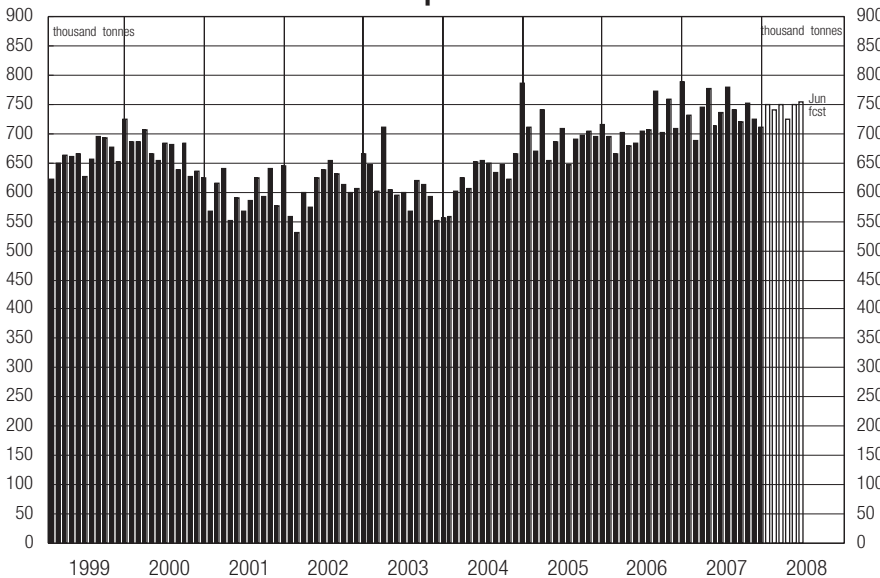
- Days' supply should rise very slowly over the forecast period as inventories tend to rise. Sitting at 29 days' supply going into January, we foresee the index reaching 32 days at the end of Q1, and then 33 by the end of Q2.
- While the index is not expected to rise very far or very quickly, the last time World-20 stocks were at 33 days' supply was in January 2006.

Forecast World-20* Shipments to Western Europe



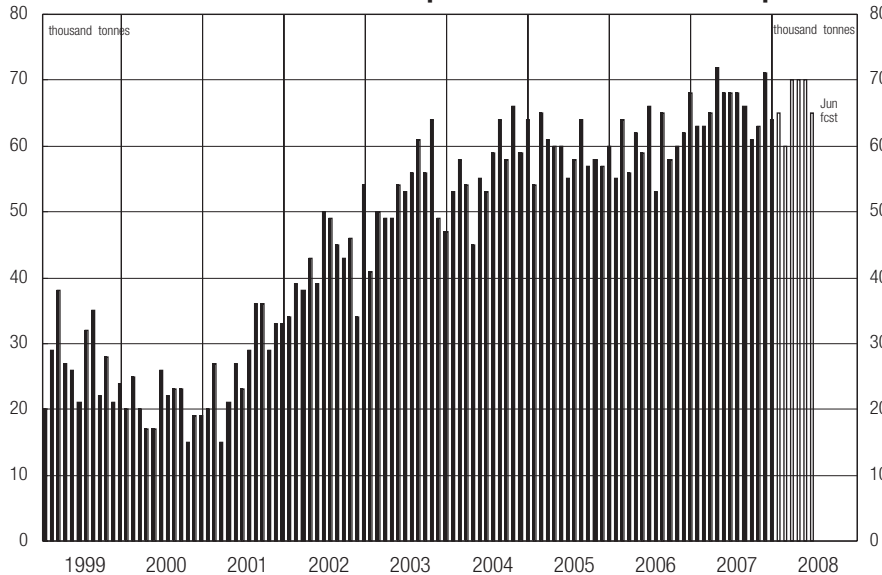
- World-20 shipments are forecast to increase modestly throughout Q1 following a slower period in late 2007, aided by stronger shipments from Latin America. Consumers should buy enough to run to orders, but not build inventories.
- In Q2, consumers will continue to purchase robust volumes, but high prices will linger and prevent many from rebuilding their stocks. We even foresee some major players looking to lower overall stocks going into Q3 during a slower consumption period, as producers' pulp stocks are likely to be rebuilt at ports during these times, essentially guaranteeing deliveries later on.

Forecast World-20* Shipments to North America



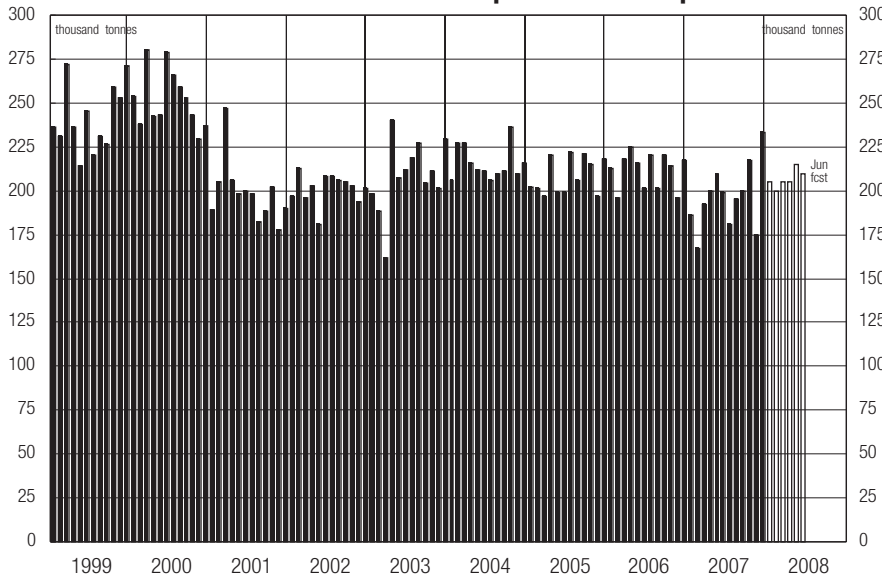
- After declining in November and December, we forecast a slight rise in shipments to moderate levels to this market from World-20 countries. Some of the increase will be made possible by integrated tonnage entering the market, and as producers' stocks tend to rise.
- In Q2, shipments should remain flat rather than increase, as reduced consumption is forecast due to the slowing economy. Prices are historically high and consumers are reeling...and vowing to fight the latest increases set to go through in February. U.S. buyers have been hit with the full force of the increases.

Forecast World-20* Shipments to Eastern Europe



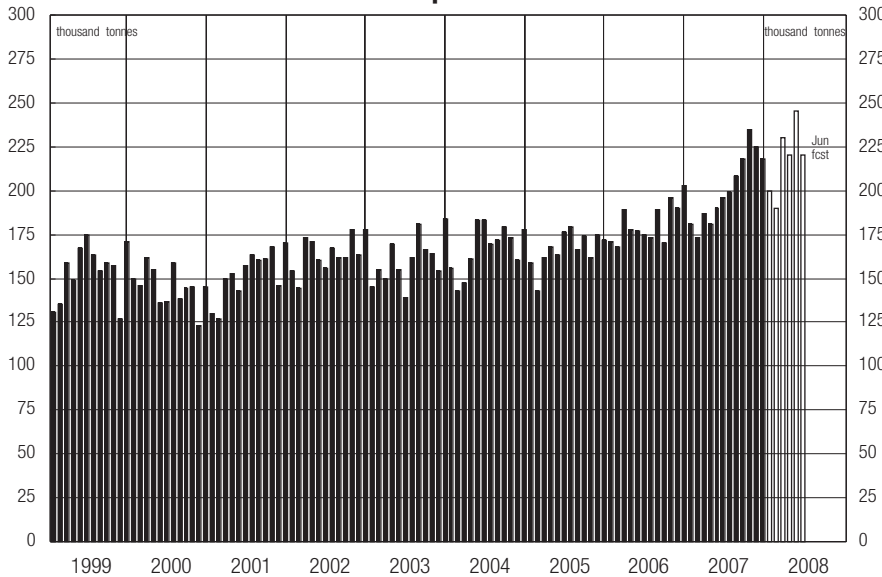
- Shipments are expected to continue their roller-coaster ride as buyers attempt to secure tonnage at affordable prices. However, supply issues (due to shipping problems) impacted levels in October and December, with an exceptional level being seen in November.
- Shipments are forecast to rise to strong levels in the March–May period as a result of strong seasonal demand. Production capacity in this region (that does not always have integrated pulps) continues to grow.

Forecast World-20* Shipments to Japan



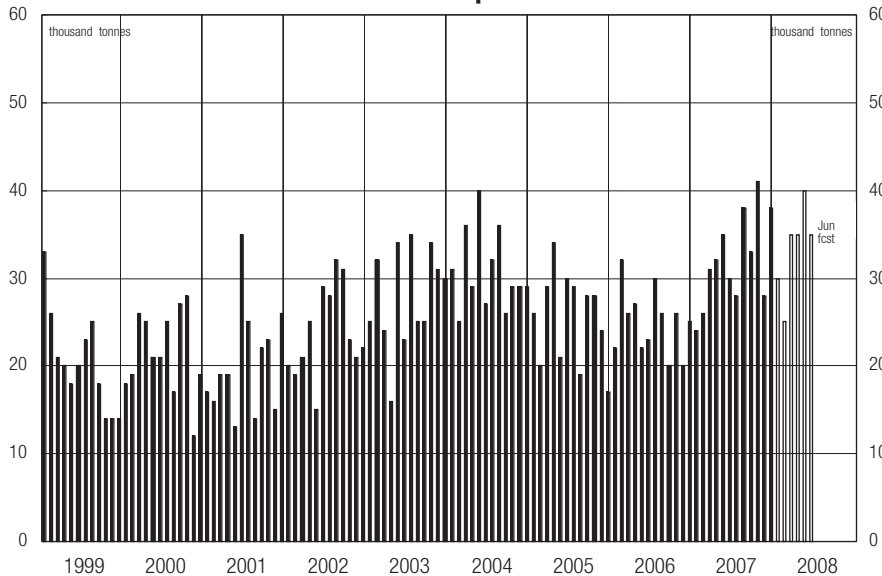
- While shipments to Japan are expected to be lower in all of Q1 and Q2 relative to December's very strong performance, levels are forecast to be higher during January–June in comparison to the year-ago levels.
- Shipments from Indonesia (non-World-20) in 2007 reached 150,000 tonnes (65% came from PT Tel — Barito), and very little increase is expected for 2008 even after debottlenecking projects, as fibre-related downtime will cap exports to Japan.
- We still expect integrated capacity to be maximized in 2008 (as it was in 2007).

Forecast World-20* Shipments to Latin America



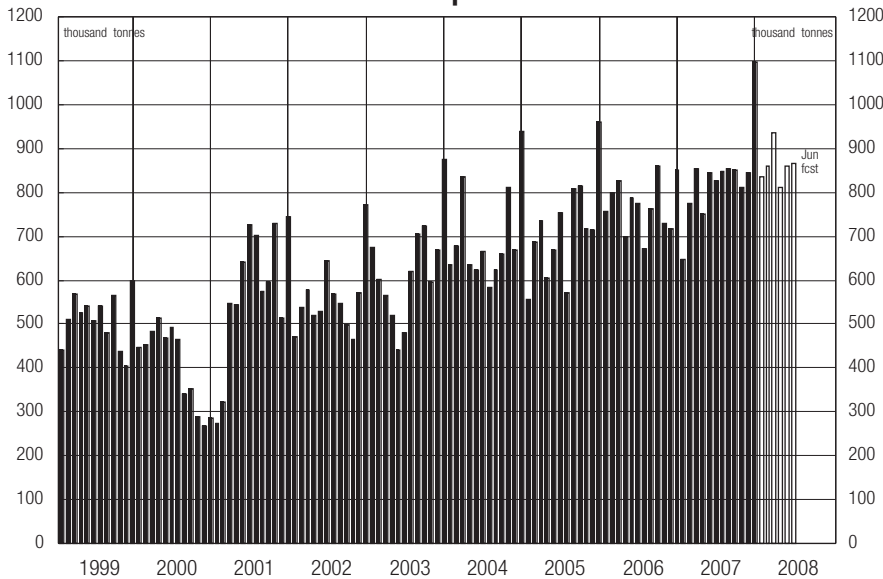
- Market-pulp customers are expected to take advantage of rising capacity levels in Brazil and Uruguay. Pulp producers are not battling it out for market share yet, as demand is very strong for BEKP (including from this market). Most of the incremental tonnage for the November 2007–February 2008 period is expected to be shipped offshore and originate from Suzanno’s operation; Uruguayan tonnage has been and continues to be destined mostly for Western Europe.

Forecast World-20* Shipments to Oceania



- Shipments are forecast to decline in January and February following a very strong December. However, they are expected to recover in March and in Q2 due to stronger consumption.
- Stronger pulp shipments in this market will be driven by minor increases in tissue and printing & writing capacity.

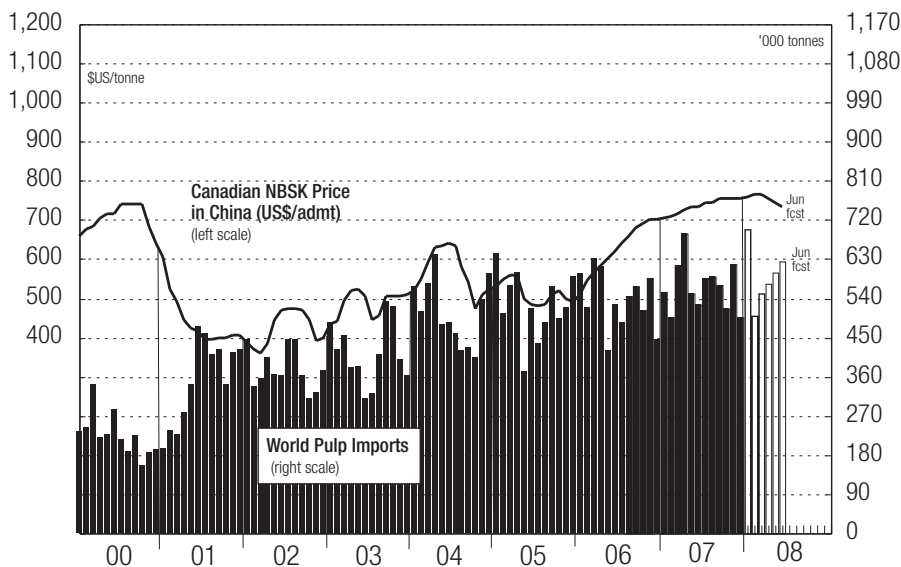
Forecast World-20* Shipments to Asia/Africa



- December's record-setting shipments to Asia/Africa (1,096,000 tonnes) were very unexpected. Consumers took advantage of advantageous pricing. However, in January, the Chinese New Year and higher prices are forecast to put a damper on World-20 shipments. Furthermore, tonnage from Indonesia appears to be flowing (based on reports), such that consumers will largely be able to source pulp in the short-term/forecast period. As Indonesian producers focus on acacia plantations, fibre supply may become an issue later in the year.
- Projects in this part of the world about going into 2008 in China, India and elsewhere. Chemical market pulp demand is forecast to grow by 2% in 2008 over 2007 (following a 1% decline from 2006).

to China

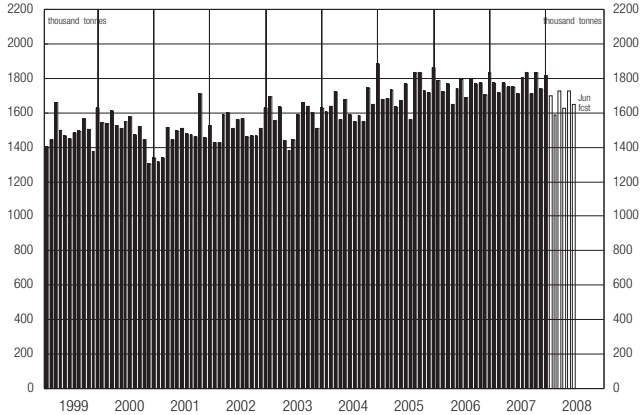
Chemical Market Pulp Imports to China vs. NBSK



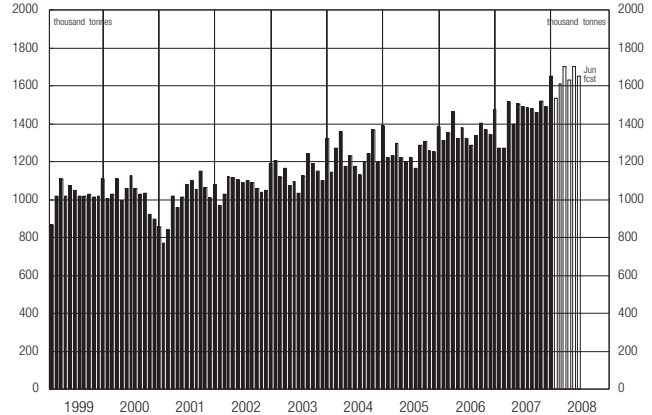
- World-20 shipments rose by 20% in 2007 over 2006, to 4,821,000 tonnes, on very strong consumption. December shipments achieved record status. However, signs of slower demand in the kraft paper market, although limited, are likely to reduce UKP demand for World-20 mills. Bleached softwood/hardwood kraft demand should remain strong over the forecast period; however, after December's record-level shipments, January imports should jump accordingly. In February, Chinese New Year celebrations should reduce volumes, followed by a modest rise (March/April). In Q2, volumes are likely to rise further, aided by better pricing and stronger consumption.
- Until now, higher discounts have been rather scarce, even with the Botnia mill start-up. Some of the discounts (2%–4%) have been offered for limited contract tonnage (1,000 tonnes per month).

SHIPMENTS BY GRADE

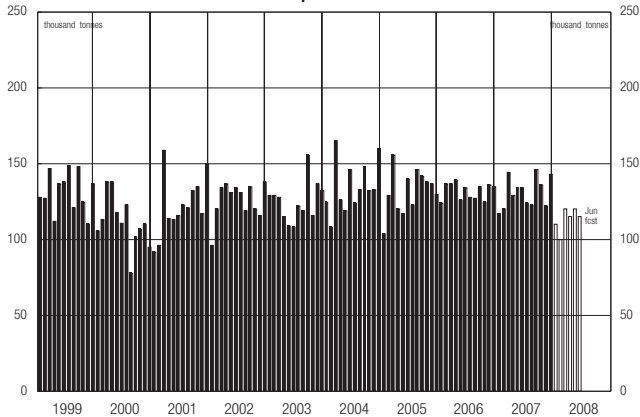
Forecast World-20* Shipments of Bleached Softwood Kraft



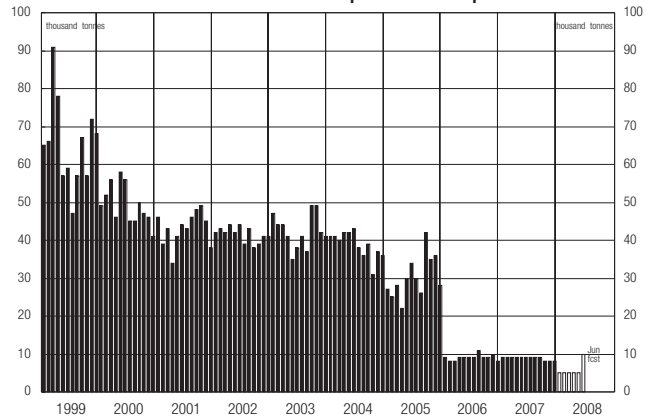
Forecast World-20* Shipments of Bleached Hardwood Kraft



Forecast World-20* Shipments of Unbleached Kraft

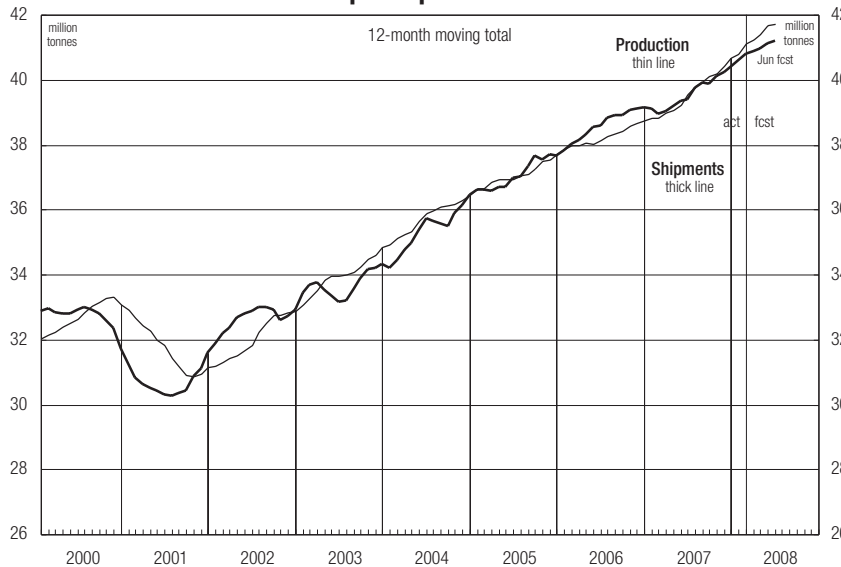


Forecast World-20* Shipments of Sulphite



- Bleached softwood kraft shipments are forecast to trend lower over the forecast period as consumers try to control costs, as seasonal demand declines initially, and as uncoated freesheet/woodfree paper production drops in key markets of North America and Western Europe. Incremental swing capacity has become less of an issue, as most mills that could swing have done so. Fibre-cost issues in B.C. and Eastern Canada have limited the amount of capacity able to make further swings from hardwood to softwood; however, in Scandinavia, there is still room in 2008 to move, especially as hardwood fibre prices rise.
- Bleached hardwood kraft shipments are anticipated to increase as supply rises rather quickly over the forecast period, and as pricing remains attractive versus that of softwood.
- Unbleached kraft shipments are expected to continue to decline as consumers work down their stocks, and due to the fact that supply from non-World-20 suppliers has increased temporarily following debottlenecking projects (Indonesia in particular, followed by Russia).

World-20* Pulp Shipments & Production

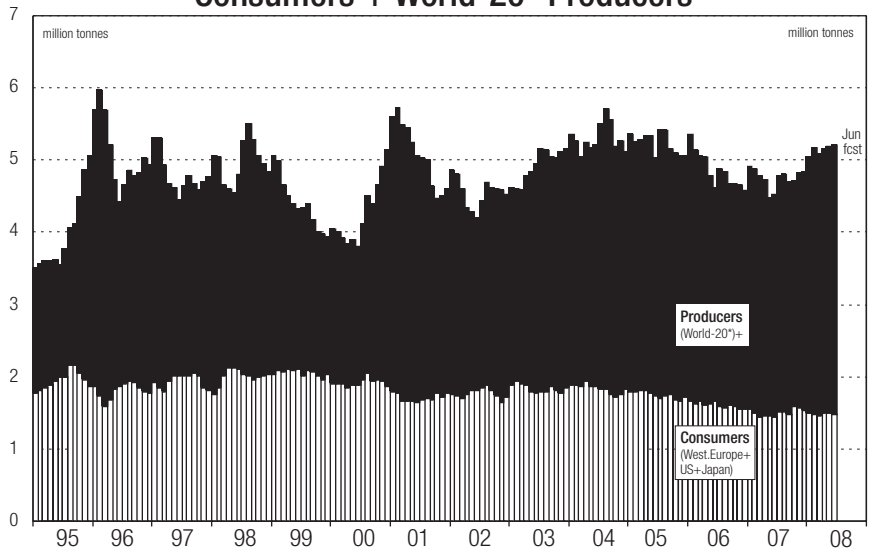


- Our forecast continues to show production rising faster than shipments, aided by incremental capacity from new and debottlenecked mills, and by integrated tonnage entering the market. With the addition of Uruguay into World-20, production (at least in the short-term) will exceed shipments as Botnia builds its working inventories. In addition, with Suzano ramping up its new mill, stocks will rise for the same reason.
- Over the forecast period, supply will be expanding rather significantly, for reasons already explained, while demand will be impacted by a slowdown in the U.S. economy and other markets that depend on it for exports (especially China).
- Production on a twelve-month moving-total basis is forecast to exceed shipments by 500,000 tonnes in May and June, the largest deficit since September and October 2004.

FORECAST AGGREGATE PULP INVENTORIES

Consumers + World-20* Producers

Forecast Aggregate Pulp Inventories, Consumers + World-20* Producers



- Aggregate pulp inventories are projected to continue rising as incremental supply from several sources and in different forms enters the market despite ongoing strong demand. Up until now, increases have been limited; now they are expected to gain momentum.
- At the end of 2007, aggregate stocks were estimated at 4.83 million tonnes, the highest level since February. World-20 and consumers' stocks should reach 5.2 million tonnes by the end of June. Our forecast calls for consumers to keep stocks relatively low, buying hand to mouth and looking for any spot tonnage from incremental capacity that may be considered a bargain.

EMERGING SUPPLIERS' FORECAST

Brazil, Chile, Germany, Spain, France & Belgium

000 tonnes	2007 JUL	AUG	SEP	OCT	NOV	DEC	2008 JAN	FEB	MAR	APR	MAY	JUN
OPENING INVENTORY	1,099	1,122	1,163	1,165	1,201	1,203	1,208	1,321	1,404	1,436	1,449	1,457
PRODUCTION	1,250	1,316	1,228	1,285	1,277	1,405	1,438	1,358	1,457	1,363	1,408	1,401
SHIPMENTS	1,227	1,275	1,225	1,250	1,275	1,400	1,325	1,275	1,425	1,350	1,400	1,400
CLOSING INVENTORY	1,122	1,163	1,165	1,201	1,203	1,208	1,321	1,404	1,436	1,449	1,457	1,458
INVENTORY CHANGE	23	41	3	35	2	5	113	83	32	13	8	1
OPERATING RATE	93%	96%	92%	93%	94%	97%	97%	98%	97%	93%	93%	96%
OPERATING RATE (3-month avg.)	91%	94%	94%	94%	93%	95%	96%	97%	97%	96%	95%	94%
SHIPMENTS-TO-CAPACITY	91%	93%	92%	91%	94%	97%	90%	92%	95%	92%	93%	96%
SHIPMENTS-TO-CAP. (3-month avg.)	94%	93%	92%	92%	92%	94%	93%	93%	92%	93%	93%	94%
DAYS' SUPPLY	28	29	29	29	29	28	30	32	32	32	32	32
SHIPMENTS-TO-INVENTORY RATIO	1.09	1.10	1.05	1.04	1.06	1.16	1.00	0.91	0.99	0.93	0.96	0.96
COMBINED CAPACITY, 000 tonnes	1,346	1,365	1,332	1,378	1,360	1,450	1,476	1,388	1,501	1,461	1,510	1,461

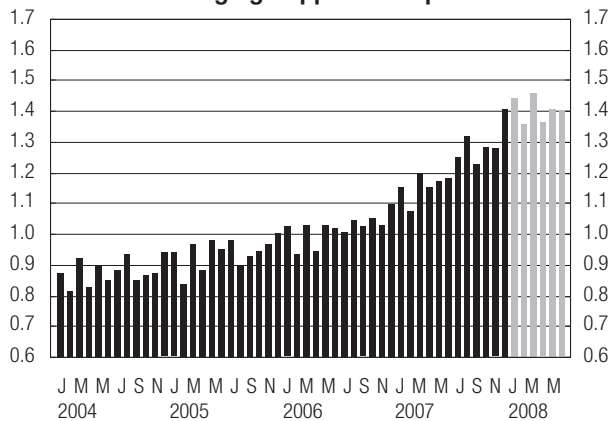
Production

million tonnes

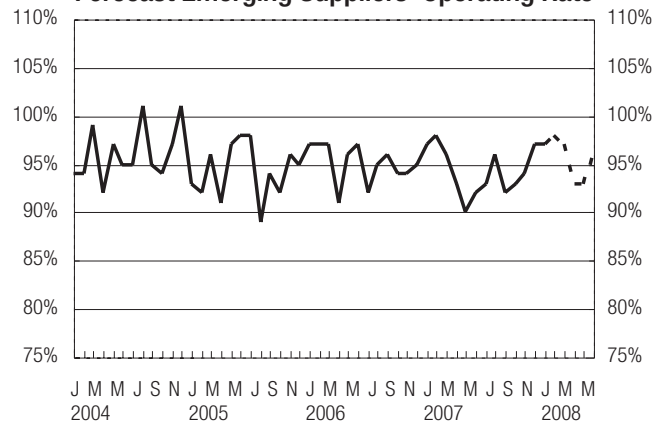
%

Operating Rate

Forecast Emerging Suppliers' Pulp Production



Forecast Emerging Suppliers' Operating Rate



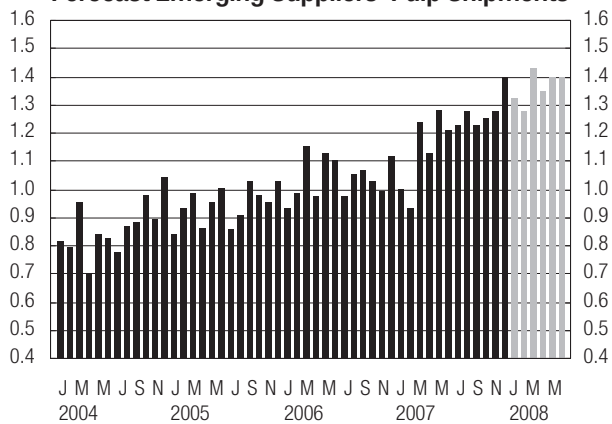
Shipments

million tonnes

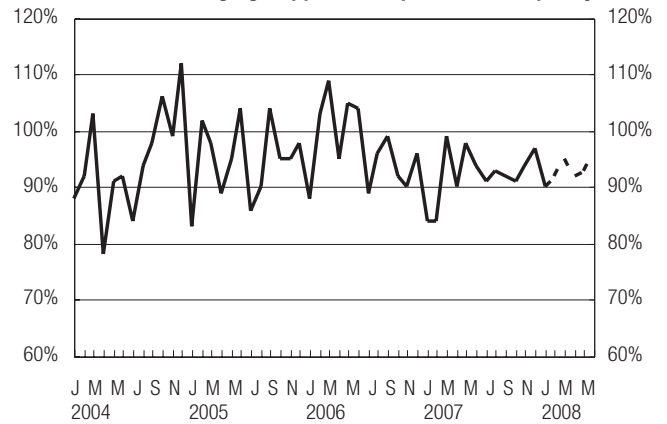
%

Shipments-to-Capacity

Forecast Emerging Suppliers' Pulp Shipments



Forecast Emerging Suppliers' Shipments-to-Capacity



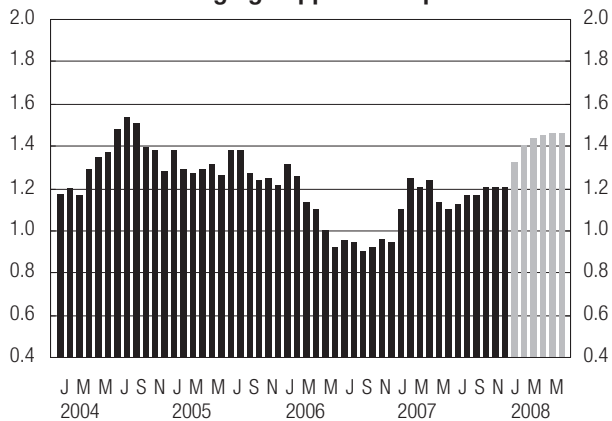
Inventories

million tonnes

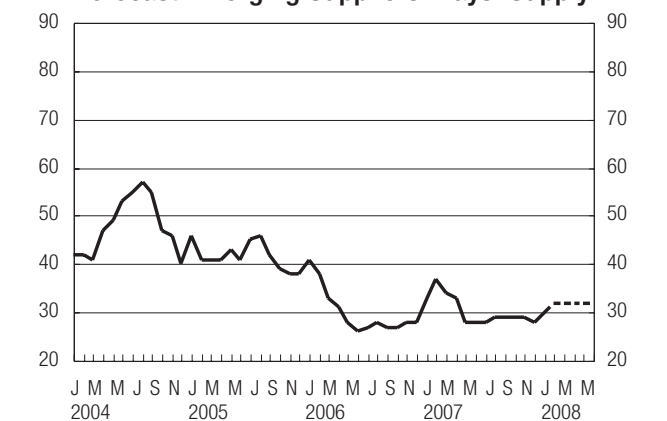
of days

Days' Supply

Forecast Emerging Suppliers' Pulp Inventories

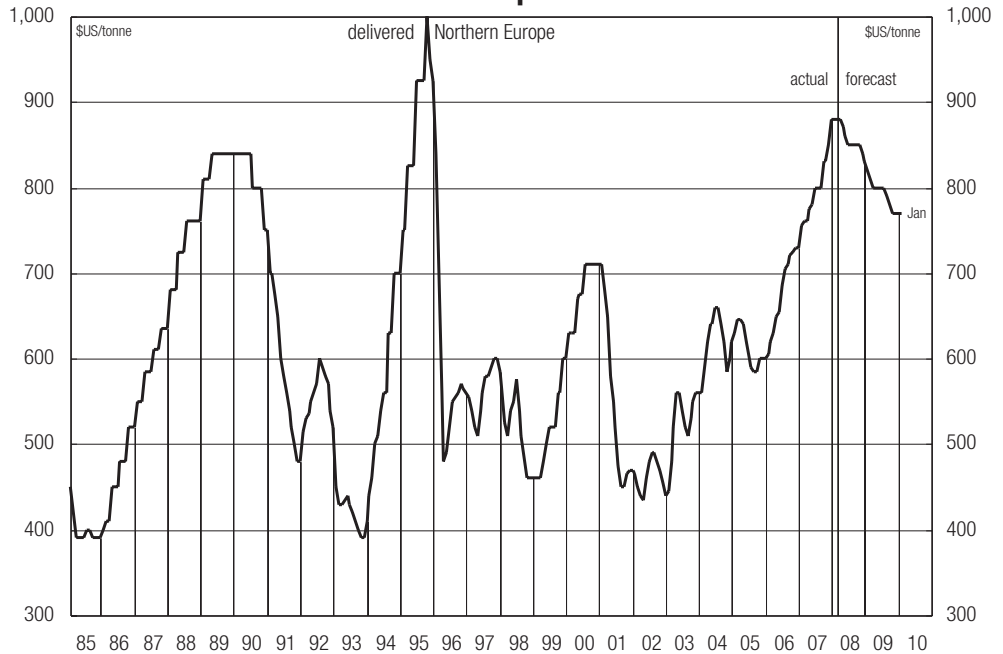


Forecast Emerging Suppliers' Days' Supply



- Pulp prices continued to rise in 2007 as supply issues prevented consumers from buying enough tonnage to rebuild their inventories at affordable prices. Going into 2008, pulp prices are on the move again, but this time the U.S. economy appears to be in recession, the greenback is at its weakest point in modern history, and supply from numerous sources is rising relatively quickly.
- Indonesia is a wild card for the industry, as potential fibre shortages (acacia) risk derailing many price forecasts from recent months. Our latest forecast takes into account the potential for downtime; however, according to sources, production levels are not currently being impacted to the extent that the Indonesian Pulp & Paper Association has indicated (i.e., that market-pulp production could reach 1.68 million tonnes on capacity of 3.8 million). What we have included in 2008 is one million tonnes of downtime (including debottlenecked capacity that producers would not be able to utilize fully).

NBSK Pulp Prices



- In January, NBSK in Western Europe and the U.S. were identical at \$880, while in Asia it was \$750–\$760.
- SBSK was \$840 in the U.S. and \$840–\$850 in Western Europe.
- BEKP was \$805 in the U.S. and \$780 in Western Europe, while in Asia it was as high as \$720 (\$710–\$720 for most tonnage).
- In February, NBSK in China is expected to increase by \$10 to \$760–\$770. Radiata pine is likely to rise in China by \$10 to \$750. BEKP is set to go up by \$30 in Asia (to as high as \$750), and by \$20 in both the

NBSK PULP PRICES

Historical and Forecast

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2004	560a	590a	620a	640a	640a	660a	660a	640a	620a	585a	600a	620a	
2005	630a	645a	645a	640a	620a	600a	590a	585a	585a	600a	600a	600a	
2006	605a	620a	630a	650a	655a	685a	705a	710a	720a	725a	730a	730a	
2007	755a	760a	760a	775a	780a	800a	800a	800a	830a	830a	850a	880a	
2008	880a	880	880	870	860	850	850	850	850	850	840	830	
2009	820	810	800	800	800	800	800	790	780	770	770	770	
2010	770												

PRICE FORECAST**SBSK del. Northern Europe US\$/ADMT**

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		715a	720a	720a	740a	740a	760a	770a	785a	790a	810a	815a	845a
2008		845a	845	845	835	825	815	820	820	820	820	810	800
2009		790	780	770	770	770	770	770	760	750	740	740	740
2010		740											

PRICE FORECAST**SBHK del. Northern Europe US\$/ADMT**

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		645a	650a	650a	650a	660a	680a	680a	705a	710a	730a	730a	760a
2008		760a	780	780	770	760	750	740	730	730	730	720	710
2009		700	690	680	680	680	680	680	670	660	650	650	650
2010		650											

PRICE FORECAST**NBHK del. Northern Europe US\$/ADMT**

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		655a	660a	660a	660a	665a	680a	680a	705a	715a	740a	740a	770a
2008		770a	790	790	780	770	760	750	740	740	740	730	720
2009		710	690	680	680	680	680	680	670	660	650	650	650
2010		650											

PRICE FORECAST**Brazilian Eucalyptus del. N. Europe US\$/ADMT**

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		670a	670a	670a	670a	675a	700a	700a	720a	720a	750a	750a	780a
2008		780a	800	800	790	780	770	760	750	750	750	740	730
2009		720	700	690	690	690	690	690	680	670	660	660	660
2010		660											

PRICE FORECAST**Radiata Pine del. Northern Europe US\$/ADMT**

a = actual	MONTH												
	YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		715a	720a	720a	740a	740a	760a	770a	785a	790a	810a	815a	845a
2008		845a	845	845	835	825	815	820	820	820	820	810	800
2009		790	780	770	770	770	770	770	760	750	740	740	740
2010		740											

U.S. (to \$825) and Western Europe (to \$800). Other hardwoods are set to rise by the same amounts. However, softwood levels in Western Europe and the U.S. are not expected to increase in February, causing the differential between both main grades to narrow considerably given that hardwood demand was strong going into 2008. Suppliers were reporting low stocks, and some consumers were concerned they would not receive all their allotment for the month.

- Going forward, the market is very different in early 2008 versus a year ago, in that closures are not an issue (with the exception of Kemijarvi in Q2). On the contrary, pulp-mill restarts at Licancel and Donghae, and the marketing of integrated tonnage, are increasing supply for consumers and giving them hope that prices might begin to ease. Meanwhile, the U.S. economy and others that usually depend on strong American consumer spending are expected to cause pulp demand to soften in 2008.
- Our current forecast shows pulp prices beginning to ease in Q2. The declines are forecast to be minor, only because significant ones would quickly push marginal, high-cost Canadian mills to close temporarily (or potentially for even longer). In addition, part of the decline in the price of chemical market pulp in general will be affordability for consumers, especially in the eurozone. As the U.S. dollar in our scenario gathers strength against the euro, most consumers in Western Europe will feel price increases without producers making announcements. Therefore, pulp prices are expected to trade in a narrow range, bordered by currency on one side and affordability on the other.
- In the current market, supply is rising and demand is under threat from a slowdown in economic activity in the U.S. Indonesia is the wild card that could derail any forecast (including this one) should fibre shortages be more serious than assumed. By the same token, a prolonged downturn in global economic activity has the potential to negate supply-side shocks.