

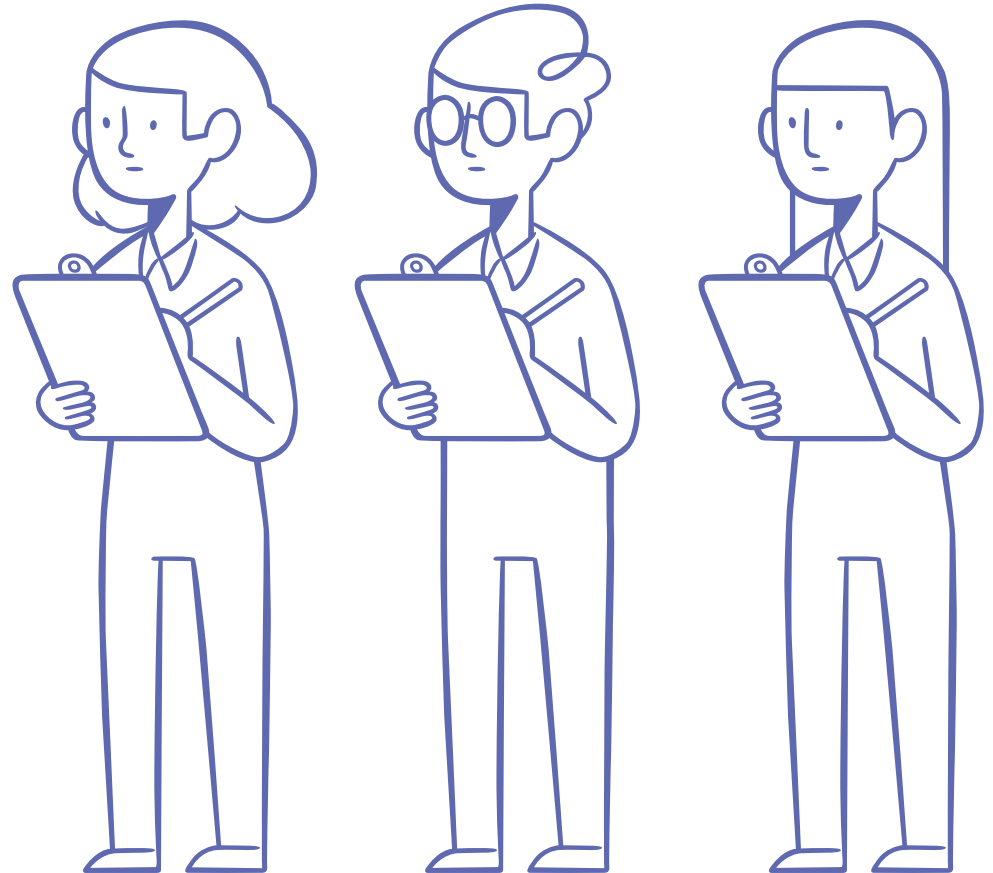
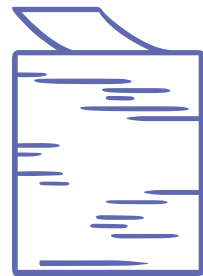
**Ball & Doggett**

# Supply Chain Update

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**June 2022**

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# Supply Chain Update

## June 2022

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Wow, what a year! We all hoped things would return to 'normal' in 2022. We are now more adaptive and nimble as the world becomes more unpredictable.

The drivers we have detailed previously continue to come together and result in further supply chain disruptions.

This document is designed to explain some of the underlying drivers impacting pricing and to assist the messaging through the supply chain.



# Supply Chain disruption continues to throw cloud over inventory availability

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China's stringent rules to curb COVID-19 are about to unleash another wave of chaos on supply chains between Asia, the US and Europe.

As recently reported on April 26, 2022 by Brendan Murray, Ann Koh and Kevin Varley in the Sydney Morning Herald.

Beijing's zero-tolerance approach amid an escalating virus outbreak brings the pandemic full circle, more than two years after its emergence in Wuhan upended the global economy. Shipping congestion at Chinese ports, combined with Russia's war in Ukraine, risks a one-two punch that threatens to derail the recovery, already buffeted by inflation pressures and headwinds to growth.

Coupled with increasing high Natural Gas prices in Europe. The Wall Street Journal reported that, Natural-gas prices swung higher on both sides of the Atlantic after Russia stopped exports to Poland and Bulgaria, a move that investors feared could portend deeper global supply strains ahead.

Prices climbed as traders in Europe pondered whether Russia's action against two of its neighbors in Eastern Europe foreshadows trouble in bigger markets such as Germany's. In the U.S., trading was driven by the prospect that producers could continue to ship abroad as much natural gas as infrastructure allows in response to tighter supply abroad.

The ongoing conflict in the Ukraine places a great deal of uncertainty on how long it will take for this issue to be resolved.

## International Natural Gas Benchmarks



European natural gas information portal



June 2022

# International Shipping

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Freight and Trade Alliance director and secretariat of the Australian Peak Shippers Association Paul Zalai said trade had already been backed up before China locked down.

Australia's relative size and lack of domestic shipping have put the country directly into the firing line.

"Honestly, we're fortunate that they're still serving us, every container shipping line serving Australia is foreign-owned," he said.

"They're commercial entities, they're looking to get the maximum return on their assets.

"The shipping lines have actually been a winner out of all of this, after years where they were really struggling, they're really making up for lost time now and reporting multi-billion-dollar profits."

He said as the backlogs grew, companies would have to start making difficult business decisions.

"The shipping companies don't want their vessels just sitting there idle, that doesn't help anyone, so we're seeing them adjust on the run.

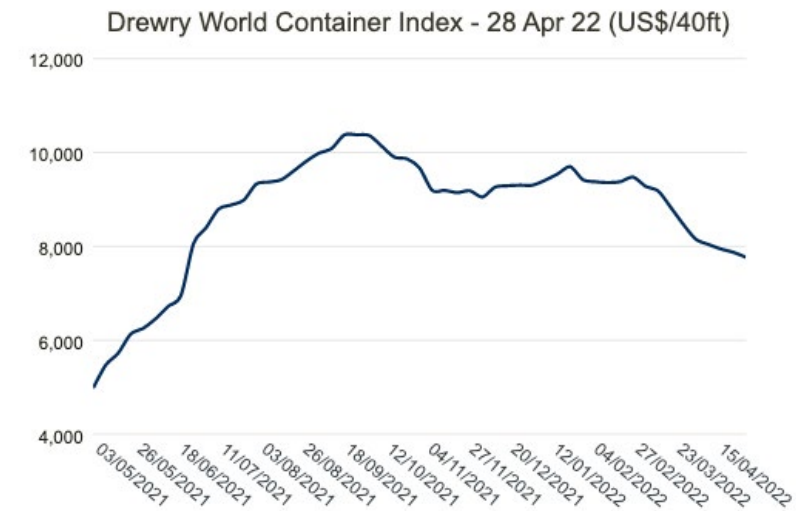
Cost of international freight will remain at current levels for the foreseeable future.



## The factors driving this include:

- ✓ China's zero tolerance rule with continued lockdowns is seeing enormous congestion issues at major ports.
- ✓ Global demand continues to drive higher prices. All OECD countries are experiencing levels of inflation never seen for 20 years.
- ✓ 'Ghost' shipping continues to be a feature of global shipping companies. This places more pressure on costs and sailing slot availability.

## World Container Index



# Currency Update

In recent months we have seen some improvement in exchange rates however they remain volatile and unpredictable. This measure is becoming less reliable and many of the non currency related costs are quickly negating any benefit.

## Currency Chart

Australian - US Dollar Exchange Rate (AUD USD) - Historical Chart



# Pulp Pricing

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Since January pulp pricing has increased by approx. 35% as a result of:

- ✓ The consolidation of major pulp producers controlling supply and demand.
- ✓ Unsustainable low historic pricing from all pulp manufacturers globally.
- ✓ Increases in ocean freight to transport from pulp mill to paper mill.
- ✓ Shift from plastic to fibre based packaging due to environmental concerns.
- ✓ Strong demand from the building and textile industries as economies rebound from COVID.
- ✓ High demand for fibre based packaging due to the pandemic.

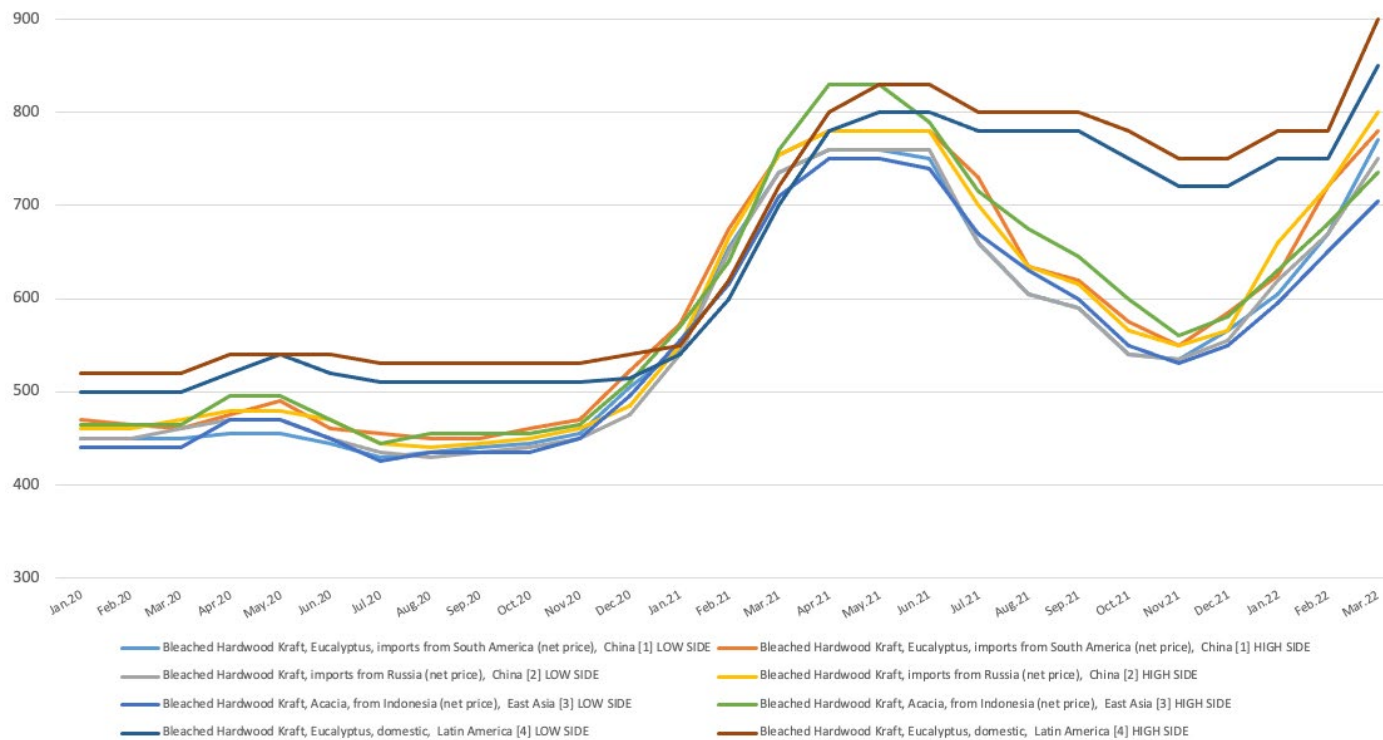


Pulp Prices are again on the move. The major pulp producers, which there are not many, have announced another round of price increases effective Q3 2022.

Ongoing increased energy costs are part of this upward pressure on costs.

## Hardwood Pulp Trend - Southern Hemisphere

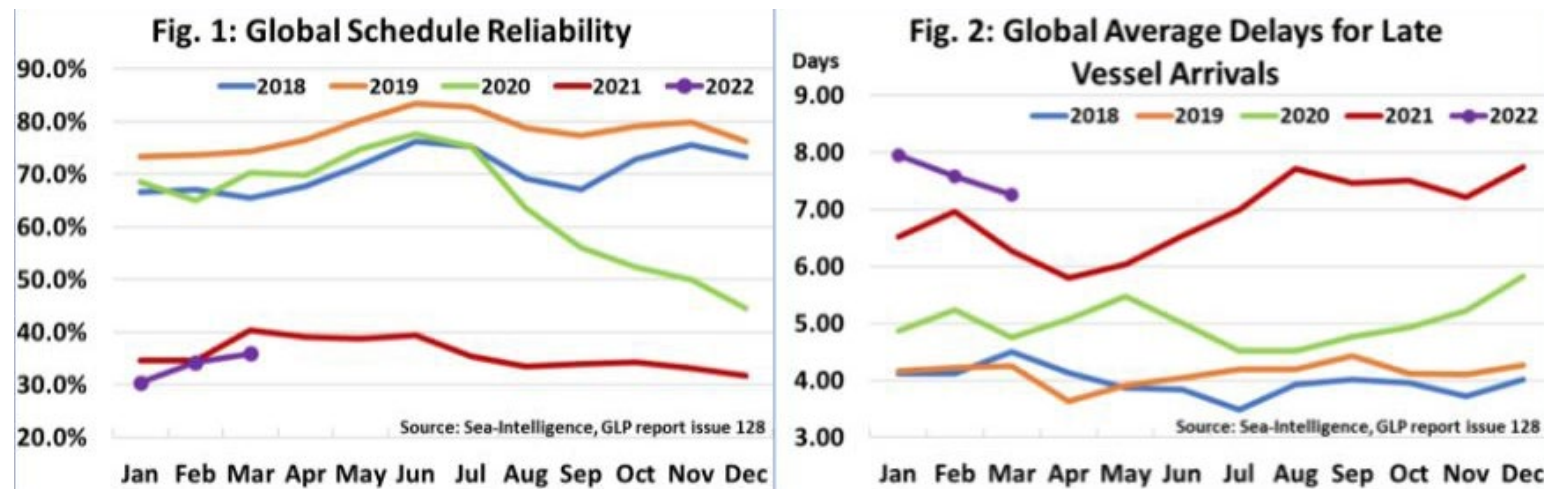
Jan 2020 - Mar 2022





Schedule reliability is showing a slight improvement as seen in Fig.1 but continues to be under 2021 levels. The graph tells us that only 3.5 of every 10 shipments, are meeting delivery times. This is due to trans-shipment, port congestion and blank sailings (cancellations or skipping of schedule port stops).

## Schedule Reliability



## In Summary...

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### Six factors driving prices higher:

1. China's Zero tolerance rules for Covid is set to launch another round of supply disruptions
2. Growing global inflation levels (Australia 5.1%)
3. Global pulp producers announce new round of price increases.
4. As demand remains solid, substrate manufacturers look to satisfy local demand first.
5. Ongoing Russian conflict continues to negatively impact energy costs. These rising costs are being passed on.
6. Capacity reduction by Paper mills globally rebalancing supply and demand.



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