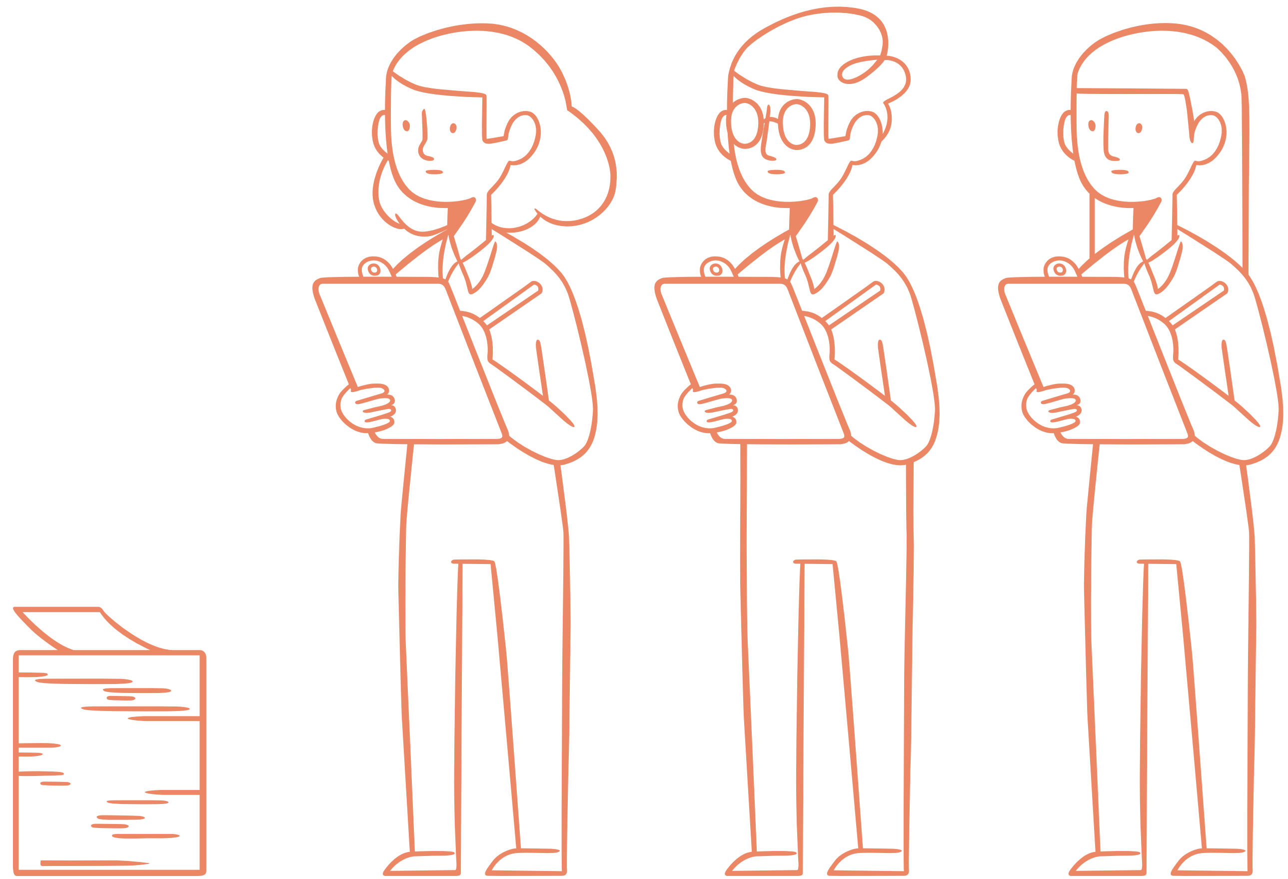
Ball & Doggett

Supply Chain Update

September 2022



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Australian businesses continue to face many challenges, with rising prices, labour concerns and supply chain issues being the top concerns.

There are four main elements to the sustained higher price environment we continue to find ourselves in.

These are energy, container availability, pulp and currency fluctuations. All of these are in demand globally and therefore prices are continuing to rise.

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

How energy is affecting cost!

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According to JP Morgan's Business Leaders Outlook, Australian business leaders expect the war in Ukraine to impact their business and those anticipated impacts span a number of problems including energy.

Natural Gas

- Gazprom announced technical problems with Nord Stream I pipeline: gas flows via this pipeline were reduced by 60%. A political motive to reduce supply to Europe is likely, as the flow via alternative routes has not been increased.
- Germany, Czech Republic, Austria, Slovakia, and Italy report 50% lower natural gas deliveries from Russia following the Nord Stream I announcement. Russian deliveries to France were stopped due to the outage.
- Natural gas prices for delivery in the next months increased by 50-60% due to fears of a very tight supply market.
- Reduction decreases current European imports by 8-9%, refill speed of storages is expected to decrease. Storages across Europe are currently back to 52% inventory level on average, after only 25% at the end of March.
- US LNG export terminal Freeport is shut down following a fire. US LNG exports will decrease by around 15-20% until the end of this year.

Electricity

- An increase in natural gas prices also significantly impacted power futures, while spot prices can, on some days, be lower depending on renewables production.

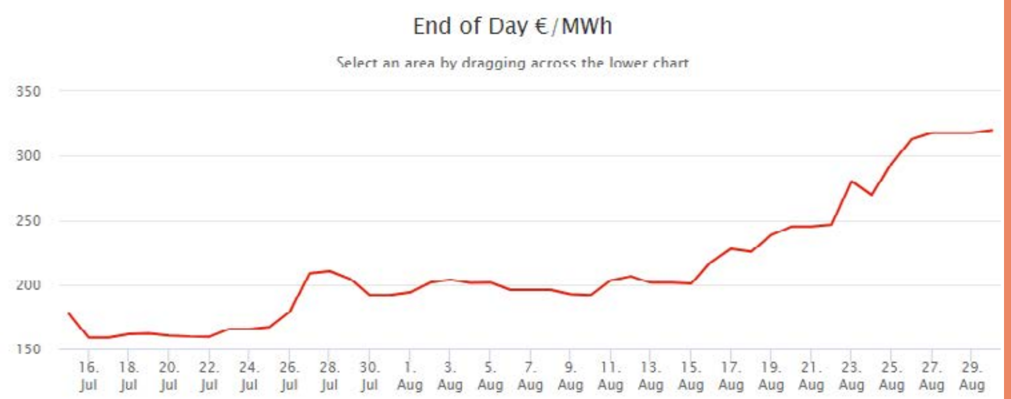
Crude Oil

- Oil prices are trending lower on growing fears of an economic downturn.

Coal

- Countries in Europe are considering reopening already mothballed coal-fired power plants. Increased coal demand from Europe could further tighten the thermal coal market.

International Natural Gas Benchmarks



https://www.powernext.com/spot-market-data

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International Shipping

International shipping container prices will fall slowly over the coming year but are unlikely to return to pre-pandemic levels, and normal ocean freight conditions are not expected before 2024, according to analysis by Rabobank.

Although inflation and record-low consumer confidence were exerting downward pressure on ocean rates, container rates remained high because imbalanced global trade was hindering cost-effective repositioning of empty containers, RaboResearch global supply chain analyst Viet Nguyen said on a podcast.

Rabobank expects schedule reliability for containers to also recover, albeit slowly. Congestion is forecast to remain at key ports until the first half of next year.

The bank's analysts said reliability of ocean container freight schedules had dropped from almost 80 per cent pre-pandemic to about 30 per cent. Continued port congestion and the slow addition of new shipping capacity were contributing to uncertain reliability.

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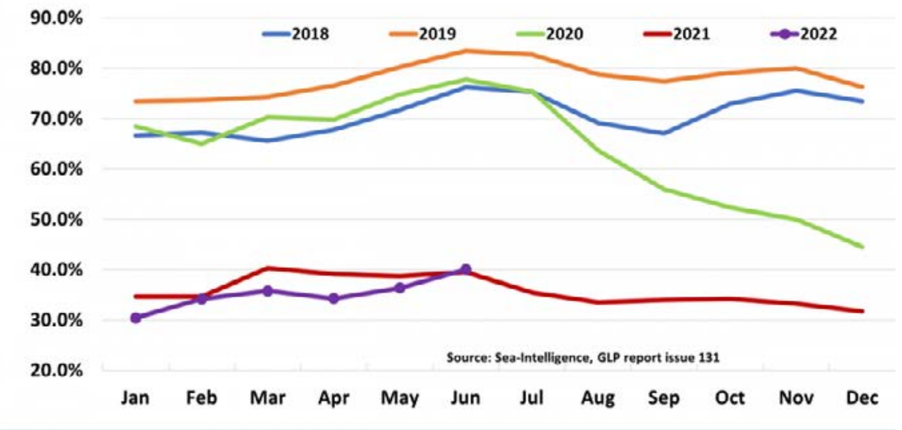
Schedule Reliability

For the first time since the start of the pandemic liner schedule reliability has improved on a year-on-year basis, but six out 10 boxes are still arriving at port late to the consternation of shippers forking out freight prices five times their historical average.

“Global schedule reliability seems to have broken the trend seen since the start of this year, with schedule reliability increasing by 3.6 percentage points in June 2022 to 40.0%,” a new report from Sea-Intelligence states.

Global Schedule Reliability



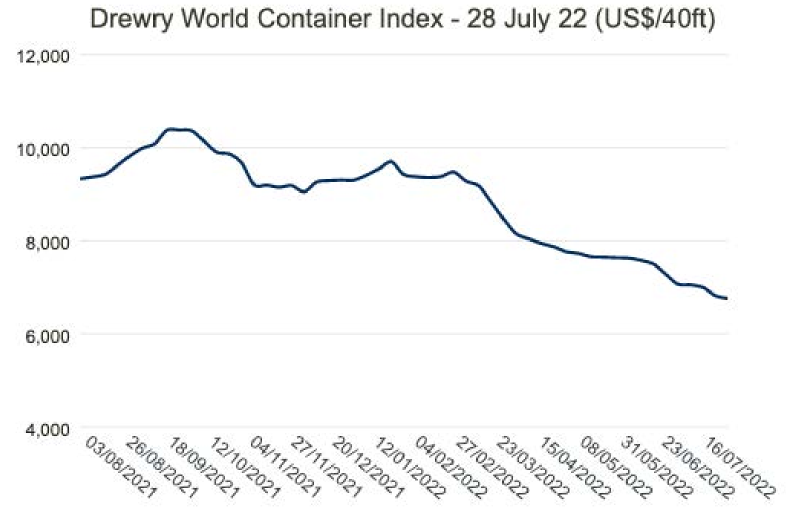
Source: Sea-Intelligence Report

The factors driving this include:

⟋ Surging consumer spending during COVID-19 drove demand for ocean carriers and containers, with retailers rushing to replenish depleted inventories.

⟋ Rabobank said an imbalance in global trade flows was thwarting the cost-effective repositioning of empty containers.

World Container Index



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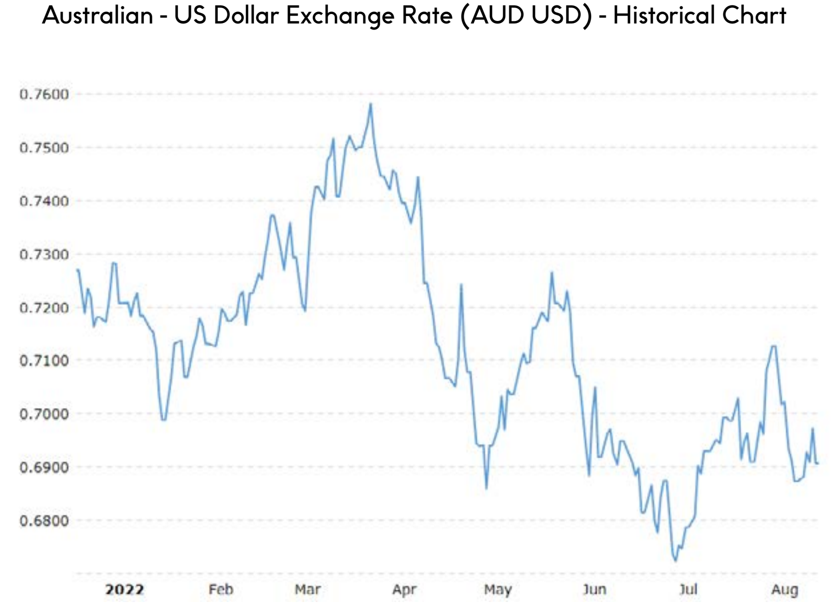
Currency Update

The volatility of exchange rates here for everyone to see. With a strengthening US dollar we will see this transfer into higher landed costs.

Currency Chart



Macrotrends

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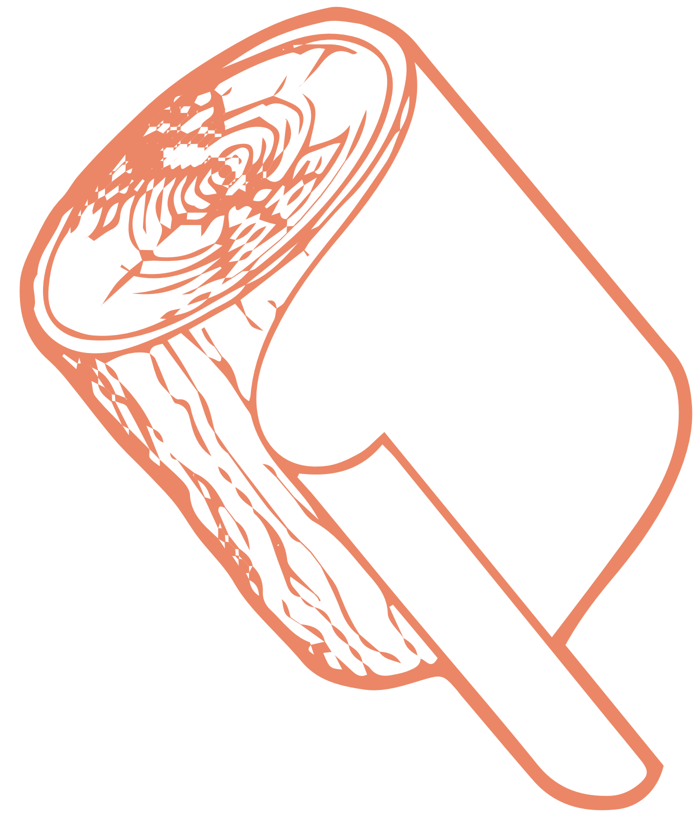
Pulp Pricing

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

⟋ Since March 22 pulp prices increased again by ~ USD 150/to.
⟋ Global pulp market continues very tight with customer's focus on securing enough raw materials.
⟋ Price expected to stay high in the second half of 2022
⟋ Stocks of wood pulp at European ports decreased in April, falling 8,5% or 94kt month on month.
⟋ Total stocks were 9,6% lower than the year-earlier period.



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Q3 2022 has seen further upward pressure on paper prices due to increased pulp costs.

World pulp sources do not see this reversing any time soon due to a fall in world inventory levels of close to 10%.

Global Kraft Pulp

2021 - 2022 (Aug)

Source: Trading Economics 2022

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In Summary...

Good news: shipping reliability is improving globally.

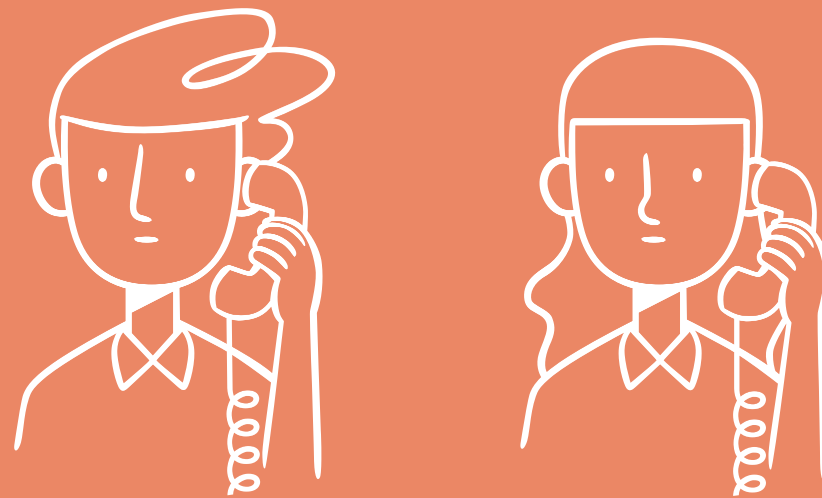
However, there are four continuing key drivers placing further upward pressure on prices;

Soaring energy costs globally (gas, electricity, coal)

Global pulp shortages and lower inventory levels are placing upward pressure on pulp costs.

Global manufacturers continue to look to satisfy local demand first together with a rebalancing of containers adding to delays and costs

Locally, currency volatility with a strengthening USD.



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