



Welcome to our latest update on the trends shaping the packaging and kraft paper industry. In this article, we will examine the current state of kraft paper prices, the challenges faced by millers and box manufacturers, and the factors contributing to the decline in demand. We will also discuss the potential for recovery and provide insights into the outlook for the rest of 2023.

In our previous update, we highlighted that the prices of imported waste had settled at around \$190 USD for recovered kraft fibre. However, due to a continued lack of demand, we have witnessed a further drop in internal recovered fibre prices. Currently, imported waste is trading around \$140 to \$160 USD. Similarly, domestic waste prices have stabilized at around Rs 13 to Rs 14 per kg.

Paper mills are currently experiencing significant strain due to a drop in demand. Order collections have seen a steep decline, leading to challenges in maintaining operating margins as the price drop from mills has been more than the actual reduction in fibre prices. In response, paper mills have resorted to declaring production stoppages for a few days each month to control further losses caused by unrealistic price levels and overcapacity.

Exports overall are lower due to a huge drop in demand from Europe and the US due to slow market conditions there. This has also impacted the demand for kraft paper in India. The packaging industry, a major consumer of kraft paper, is currently grappling with a lack of demand. Specifically, the demand for packaging in the fresh fruits and vegetables sector, both for domestic and export purposes, has hit an all-time low. In the exports market, the prices offered are lower than the production cost, discouraging exports.

The post-pandemic recovery has seen a substantial reduction in e-commerce business. With restrictions lifted, people are preferring to go out, touch, feel, and buy products. Additionally, the Beverages and Brewery sector has experienced a steep drop in demand compared to the same period last year. Unfavourable weather conditions have also significantly impacted this industry, contributing to the overall decline in demand for kraft paper.

Despite the current challenges, there is hope for a recovery in demand for the kraft paper industry. Sectors like Fast-Moving Consumer Goods (FMCG), white goods, electronics, and others are expected to drive increased demand by the third quarter of 2023. This anticipated growth can potentially provide some relief to the industry, facilitating improved capacity utilization and the required price correction for both kraft paper and boxes.

The confusion arises from the fact that although there is lower demand for boxes in almost all sectors of the industry, there have been consistent new highs in GST collections. This can be attributed to a clear shift of business from the unorganized parallel economy, which was a significant part of the Indian economy, to the organized sector that complies with all aspects of taxation and regulations.

It is our view that the current levels of kraft paper prices have bottomed out, and we do not foresee any major drops from this point onwards. As demand gradually picks up in the coming months, there may be a price correction in domestic markets. This adjustment could potentially increase prices by 7-10%, allowing millers to mitigate losses on their sales.

However, this projection depends on the absence of any further drop in international prices of recovered fibre, which could impact the overall price trends in the market.

In conclusion, the kraft paper industry is currently facing challenges due to a decline in demand and overcapacity. However, there are signs of potential recovery, particularly in sectors like FMCG, white goods, electronics, and others, which are expected to drive future demand growth. Stakeholders should closely monitor market dynamics and adapt their strategies accordingly to navigate the evolving landscape of the kraft paper industry in 2023.