

New Zealand and Nordic Log Price and Wood Market Outlook

November 2017

Until 1 January 2018 this document's distribution is restricted to participants of the New Zealand and Nordic outlooks, carried out in collaboration between Scion and Forest Business Analytics.



Carel Bezuidenhout
Scion
carel.bezuidenhout@scionresearch.com



Rafał Chudy
Forest Business Analytics
rafal@forest-analytics.com

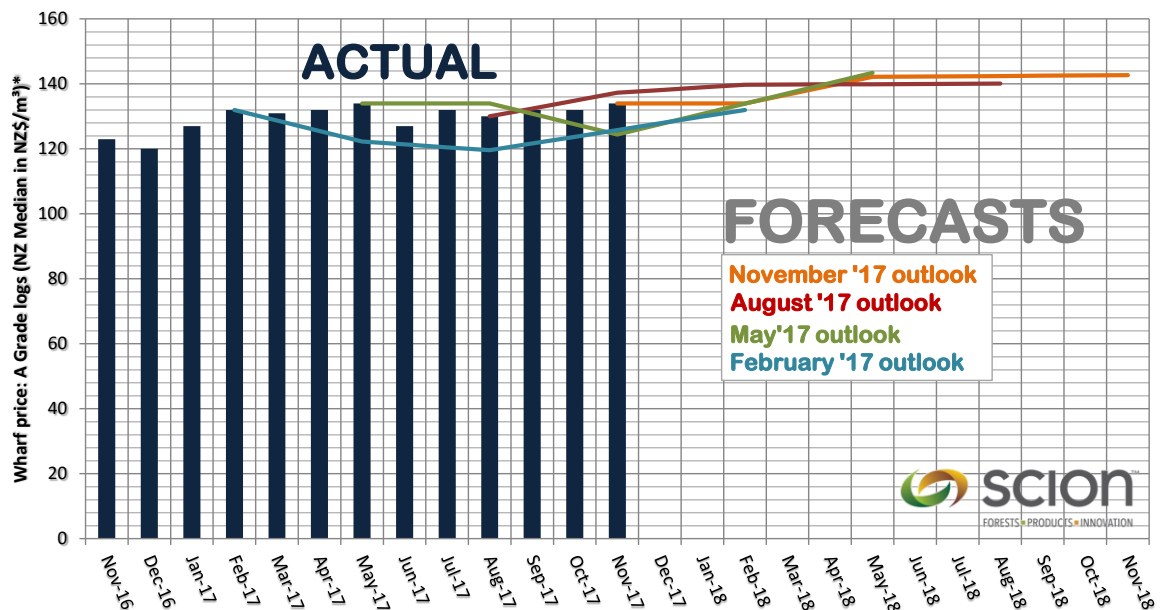


New Zealand Log Price Outlook – November 2017



Summary: Eighty-nine persons participated in this outlook. These include local and international forestry companies, processors, export companies, consultants, private forest owners, service providers, transport and shipping companies, researchers, journalists and government representatives. Log prices are expected to increase further, but below the levels that were expected in August (see Figures 1 and 2). In general a steady increase in log volumes is expected (Figure 3). However, many participants expressed a concern that current contractors (harvesters and transporters) and port infrastructure could become constrained. Expectations for pruned log prices have also changed. In August pruned prices were expected to increase, but by November a flatter outlook was forecasted (See Figure 4).

Figure 1: Wharf price outlook for unpruned logs



* Data source (dark blue:) AgriHQ

Figure 2: The proportion of participants with a certain opinion about future unpruned log prices

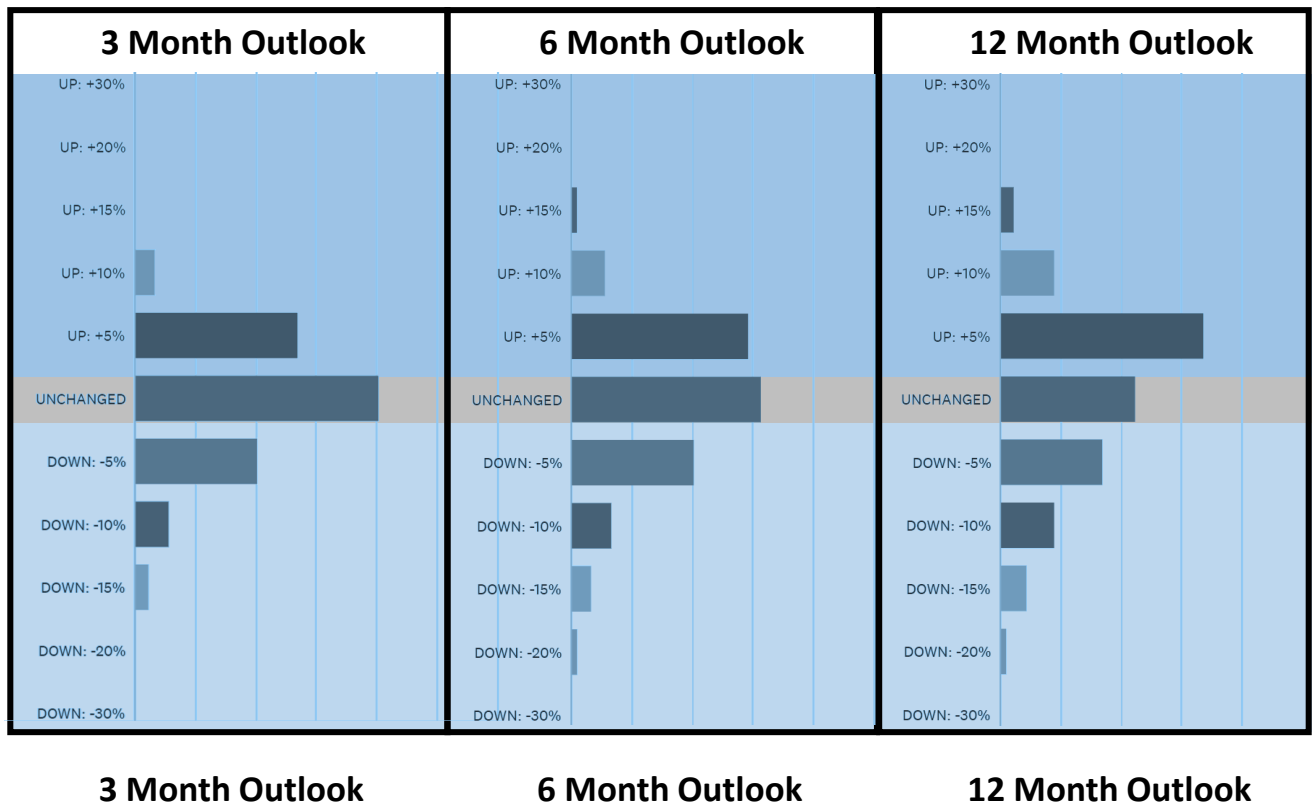
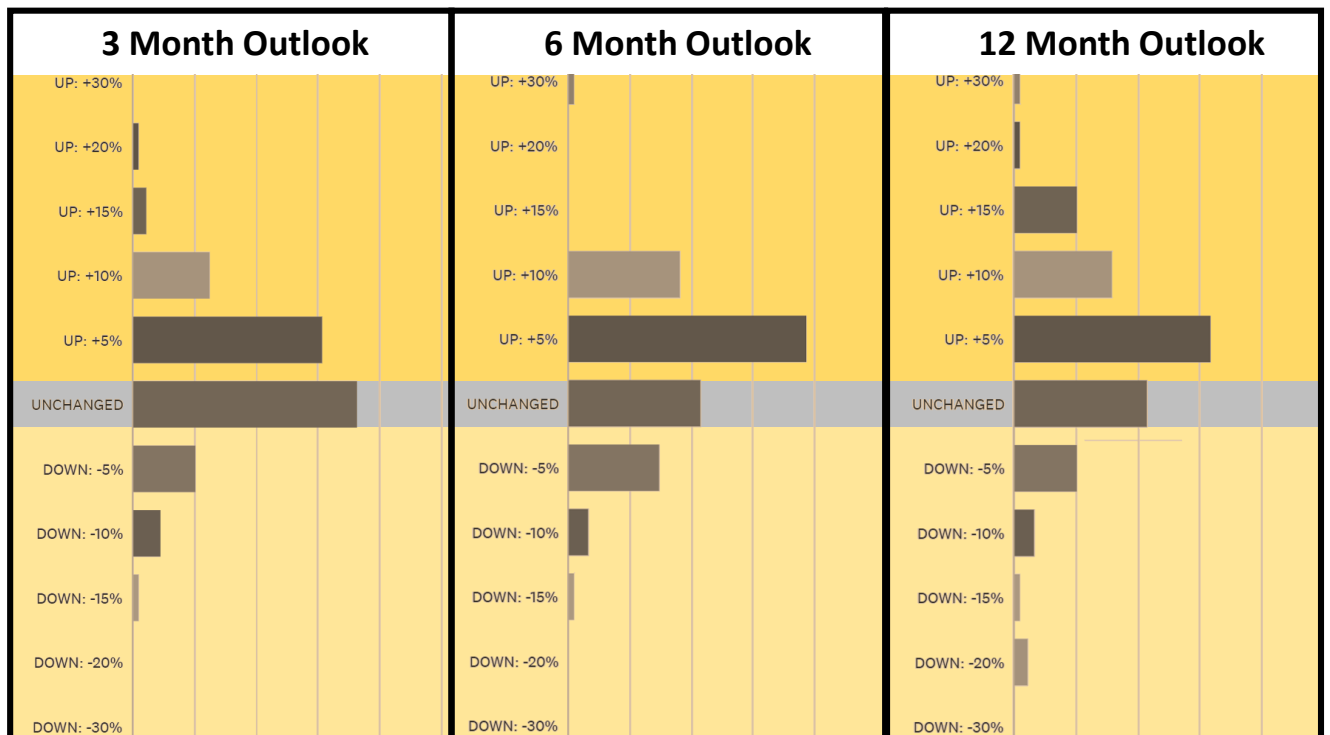


Figure 3: The proportion of participants with a certain opinion about future volumes

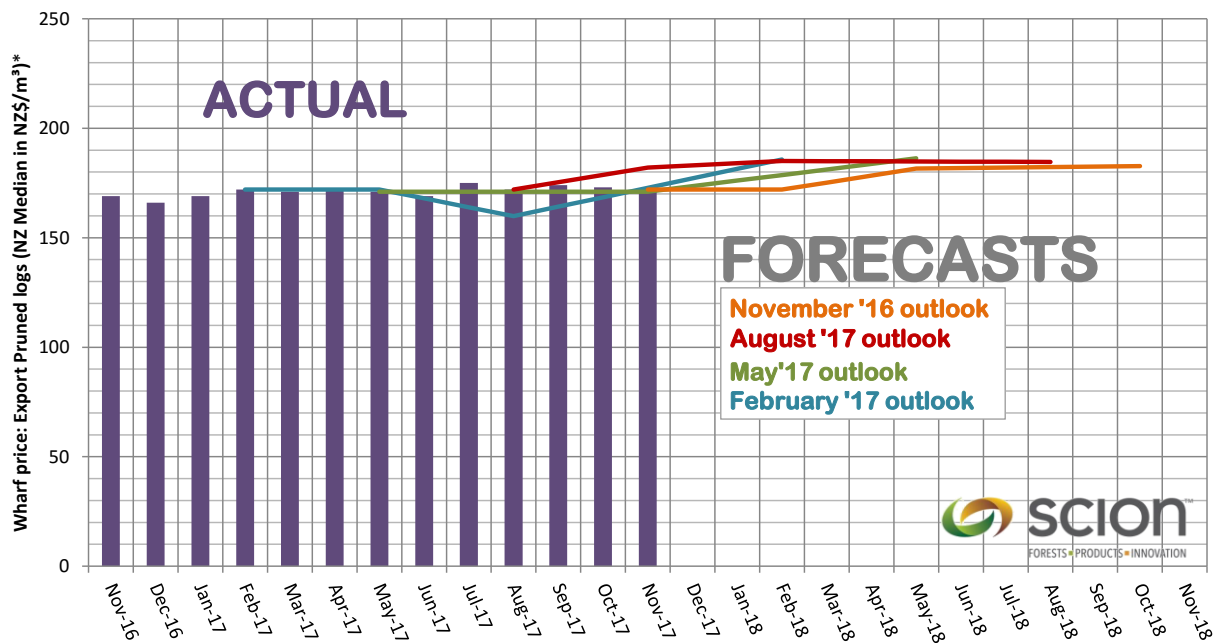


Summary of comments made by participants concerning unpruned log prices and overall volumes:

- Increased shipping, increased harvesting volumes nationally.
- FX strengthening. Shipping strengthening. Logistics issues impacting on increased production
- Slowing in construction in China.
- Industry harvest capacity constraint on any significant additional harvest volumes.
- China demand and big new private harvests starting up on East Coast.
- Market demand is the single biggest driver at the moment.
- Tight domestic timber supplies in China, steady demand increase in China, rising logs prices in the U.S.
- Increased demand. India volumes should be back on track early next year after some credit problems.
- Harvesting capacity is limited. Demand for logs both local and export remains high.
- Seasonal variation and increased national harvest.
- Availability of clear-felling crews and road making crews will constrain volume increases.
- Difficulty getting Russian logs to market. More restrictions internationally on illegal logging.
- Historical seasonal drivers.
- Although China is not increasing their take of logs at the same rate, there are still strong markets. Also, Korea and India are increasing a bit. So a small upwards movement in volumes expected.
- Lack of contractors and contractors leaving the industry because of stronger WHS regulations.
- Increasing China demand on the back of their own harvesting restrictions.
- Christmas will impact on supply in short term and Chinese New Year will impact on demand and price early in 2018.
- Chinese New Year - Prices stable then set to increase slowly through the year. Supply Chains are pretty tapped out for trucking & overall capacity. No major increase in volumes expected.
- Stable market, increased supply from NZ over summer months
- Government changes and the drive to stall the economy and bring the dollar down.
- Reduction in domestic harvesting in China. Infrastructure spending (one belt, one road).
- Volumes will continue to grow slightly from NZ, but at current high prices other suppliers will add volume.
- Increased interest from small growers in harvesting while prices are good. Increased volumes from improved genetic stock.
- Increased volumes coming out of NZ as part of the Wall of Wood will probably weigh on the price a little, and there may be more logs coming out of Canada as a result of the scrap with the US.
- India market in disarray. China will be overloaded with NZ, Aust and Uruguay logs.
- Huge off-shore demand with steady on shore demand.
- Prices difficult to forecast. Too many drivers, FX, shipping, and demands are uncertain. Log volumes will decrease due to the Xmas slowdown but may well ramp up higher depending upon infrastructure limitations.
- Chinese New Year slows things down, then returns to current levels or slightly higher
- Continued strong demand in China.
- NZ port infrastructure, cartage and harvesting infrastructure operating near maximum capacity.
- FX/Shipping costs/Current Overharvest of non-corporate forest resource.
- Price points in export markets will attract more volume from higher price areas, e.g. Europe. Volume supply here is constrained by harvest/transport/wharf capacity.
- Some easing over Chinese NY, and followed by increased demand. Freight rates and FX will also impact NZ\$ prices.
- Other countries are selling more semi processed product.
- There are sufficient mature trees for the harvest to increase. Market will decide with China driving. China looks positive.
- Slowdown of other producers internationally.
- Lower demand and supply around Chinese New Year. Urban China fundamentally under-built for demand, especially coastal mega cities.
- Young plantings, lots of harvesting capacity.
- Christmas break followed by Chinese New Year. NZD steadily falling against the USD is generally good for exporters, though any gains likely to be given away to increasing shipping rates.
- Ongoing growth in China. Logistical challenges in NZ to increase production significantly. An ongoing strong domestic market.
- Currently above long term average and an expected return to normal.
- We expect markets to contract for unprocessed logs, be encouraged by the new Government's policies.
- Lower NZ dollar should help to ensure prices remain stable provided demand remains in place (no reason to think it won't). Volumes likely to increase but constrained by logistics - trucks, crews, space on the wharves etc. More trees from the early 1990s planting boom will be harvested. While these trees are still a little young, the stronger log prices and increasing age of the owners will encourage earlier harvest.
- Capacity to handle increases in log volumes is constraining the supply chain.
- Weaker NZ dollar, tighter log supply from other countries and within China, and steady demand expected from China.
- Current price has hit the top.
- China and India demand, possible new NZ export constraint (political).
- Uncertainty around NZ Govt position and continued global growth.

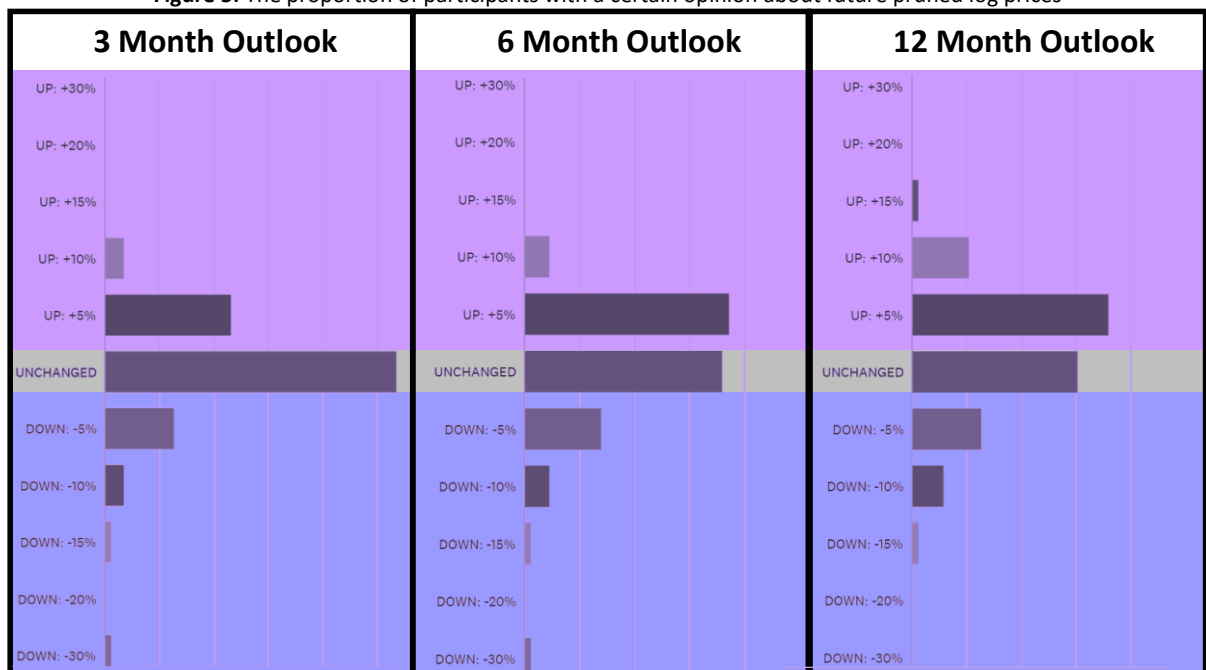
- Higher export pricing driving people to harvest areas earlier, causing increased log volumes.
- There will be the usual uncertainty in the Chinese market at and around Chinese New Year. Rising freight costs will impact price negatively, more than what the falling NZ\$ will impact it positively. Woodlot activity has been tempered by the big wet, however once the weather clears the sector will gain momentum. There are plenty of people who own trees that know log prices are very good, hence the incentive to lift total harvest volumes.
- USD CFR pricing in Asia is attracting an increasing daily volume currently ~70 - 75k tonnes per day. Price has been steadily increasing at ~ USD \$1/ JAS / month. Chinese New Year break in early 2018 may see stock climb to historic high levels, which may trigger a price correction.
- Sustained Chinese demand and the slow growth in demand from the countries like India, Vietnam.
- Increasing supply from woodlots, increased domestic demand due to new government housing policies.
- China demand has headwinds which may slow the increase in demand. Further replacement of logs by lumber will likely occur. At current prices the US South becomes an economically viable competitor along with Brazil and Uruguay for softwood logs. The deteriorating quality of radiata logs will also be a further impediment.

Figure 4: Wharf price outlook for pruned logs



* Data source (Purple:) AgriHQ

Figure 5: The proportion of participants with a certain opinion about future pruned log prices



Summary of comments made by participants concerning pruned log prices:

- Less offshore demand.
- Further price increases moderated by substitution of unpruned logs.
- Slow demand growth, but weaker NZ dollar should allow for higher prices.
- Increased demand from China.
- Stable supply and low competition from other sources of pruned logs.
- Competition for pruned logs by domestic mills.
- We supply low quality pruned to the export market in general, especially with younger wood being harvested. They'll wake up to it sooner than later.
- The Govt housing initiative will drive demand domestically for pruned logs, so there will be less available for export, and those that are exported will need to pay market rates. Indicators of stronger demand internationally also.
- Balanced supply & demand in export & domestic markets.
- Continued small growth in demand relative to fixed supply.
- No market signals of significant increased demand. Price variability will be due to unpredictable fluctuations in FX & shipping.
- Buyers are still unlikely to want to pay a premium for pruned logs, especially with blue stain issues ongoing.
- Too much volume overloading the market. China processors in financial difficulty.
- Total cut will start to reduce for pruned in 12 months' time, especially in the CNI.
- NZ needs to restore customer confidence in pruned.
- Continued strong demand in China. Pruned mills stock levels.
- Increasing domestic demand for furniture in China coupled with improving demands from the US for furniture, solid clear boards, mouldings and millwork.
- Market can only pay so much and still have core wood in pruned logs to contend with.
- Strong US market.
- Export markets are using more high grade product for finishing.
- High pruned log inquiry levels. Lower sapstain levels in Chinese winter.
- Softer domestic demand over coming months.
- Supply and demand in balance.
- Shortage of future supply.
- There is increased interest in quality logs and also increased competition on the domestic market.
- Balance in supply and demand and our economy slowing may result is softer demand.
- NZ demand, supply falling.
- Continued pressure on supply of pruned logs.
- Currently pruned log prices are under pressure in the CNI due to a change in market access into Europe for clear lumber. That will likely impact pruned log prices in Q1 2018, however that is expected to reverse when Europe comes back on line in Q2 2018. Export pruned prices are OK, but increased woodlot volumes over summer are expected to over supply the market, and prices will soften as a result.
- Gradually shrinking log supply may push price up. Falling NZD / USD FX rate may assist in pushing up returns for exported finished goods and in turn support an increase in log price.
- Pruned log quality is an increasing issue in comparison to its primary competitor - European softwood lumber.

Acknowledgements

Scion would like to acknowledge AgriHQ for allowing us to include some of their data in this report. Woodweek (<http://www.woodweek.com/>) and Wood Matters (<https://nz.pfolsen.com/market-info-news/wood-matters/>) are thanked for helping to promote the Outlook. The next log price outlook will take place in February 2018.

To access previous outlook reports please visit this web site:

<https://www.scionresearch.com/science/growing-the-value-of-forests/creating-value-and-competitive-advantage/log-price-outlook>

For more information contact: Carel.Bezuidenhout@ScionResearch.com

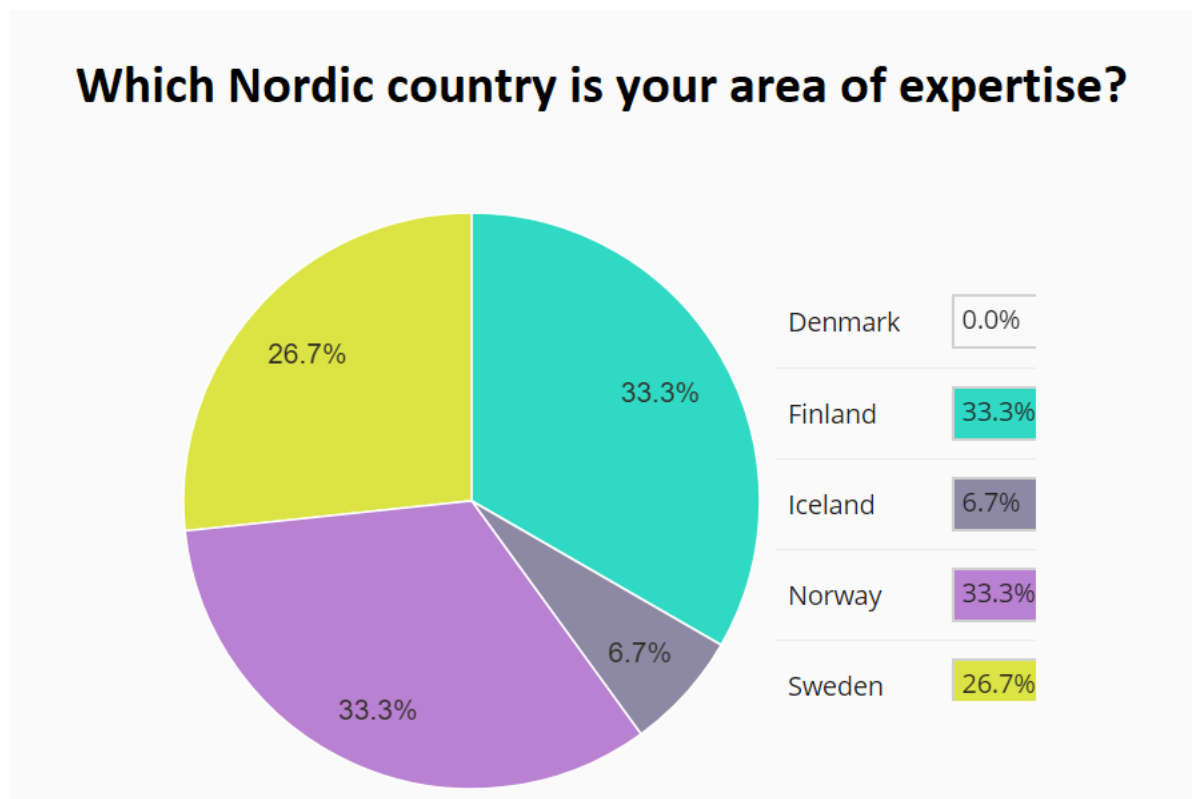
FBA's November 2017 Log Price Outlook for Nordic Countries

Between 16th November and 3rd December 2017, Forest Business Analytics (FBA) has been running its 1st quarterly log prices outlook for Nordic countries.

By estimation, approximately 20% of all logs coming out of Nordic's forests were represented among the participants of this outlook.

Where did outlook participants come from?

Figure 1 shows outlook participants with respect to the country of their expertise. The most participants were coming from Finland and Norway (each 33.3% of total), followed by Sweden (26.7%), and Iceland (6.7%). Nobody from Denmark shared their views. Over 70% of the log market outlook participants was represented by experts in raw log markets. Industrial sawmilling, and pulp and paper industries were *ex aequo* in the second place.



LOGS and PULPWOOD OUTLOOK

Historical prices for this outlook were extracted from LUKE (Natural Resources Institute Finland) database about “Roundwood Prices in the Baltic Sea Region”, and supported by the most recent publications from official statistic offices in analysed countries. For Finland and Norway, prices were available on a monthly basis, while for Sweden on quarterly basis.

a) NORDIC COUNTRY SUMMARY – all responses combined

Fig 1. The proportion of participants with a certain opinion about future softwood log prices

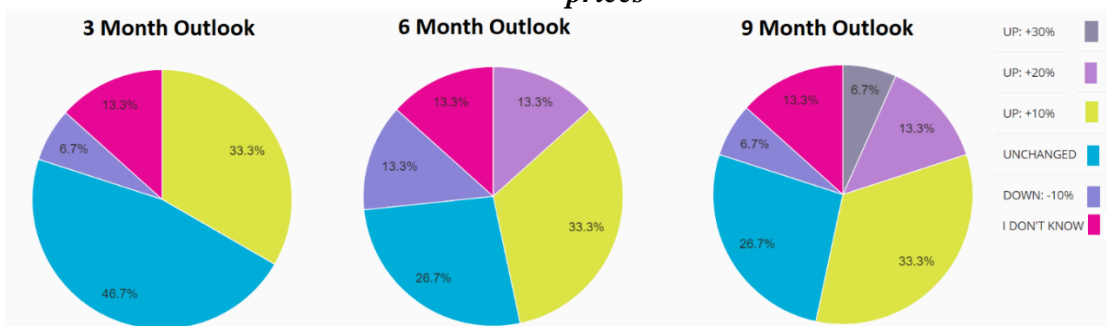


Fig 2. The proportion of participants with a certain opinion about future softwood volumes

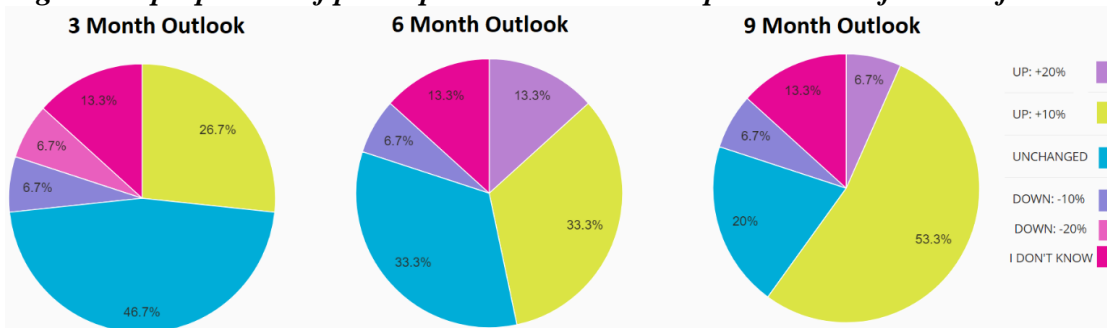
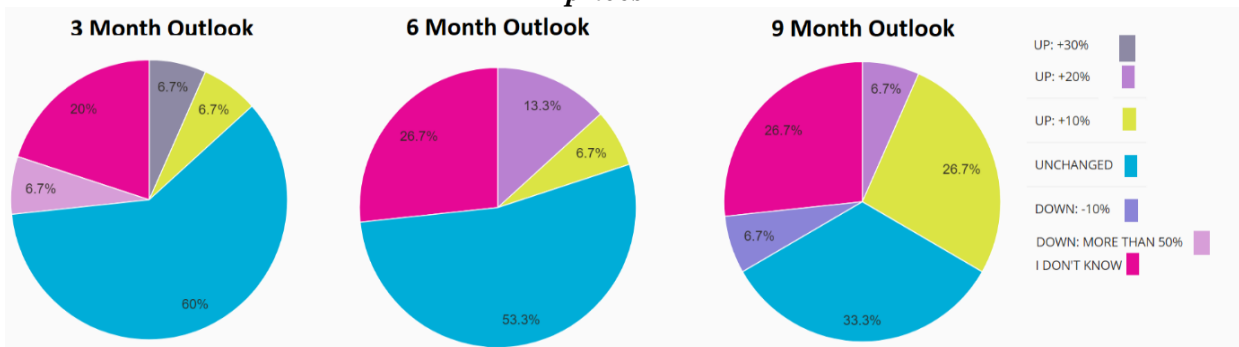


Fig 3. The proportion of participants with a certain opinion about future hardwood log prices



a) FINLAND

Softwood (SW) and Hardwood (HW) log price outlooks are presented in Figure 4, while SW and HW for pulpwood are in Figure 5.

Fig. 4. Softwood (SW) log price outlooks

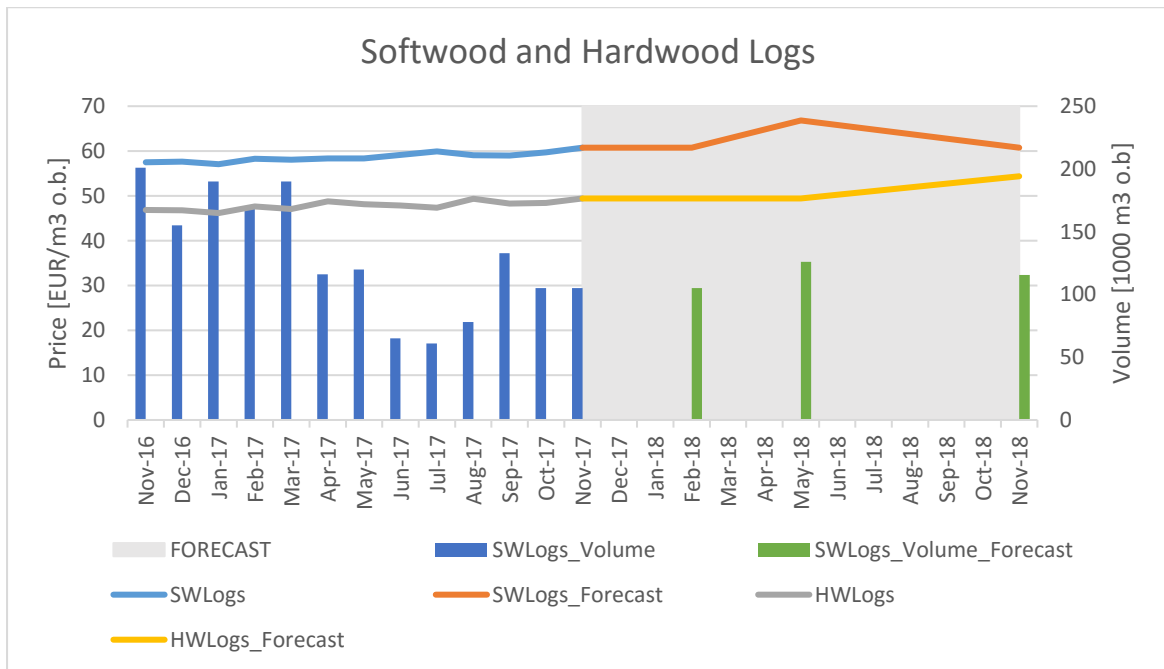
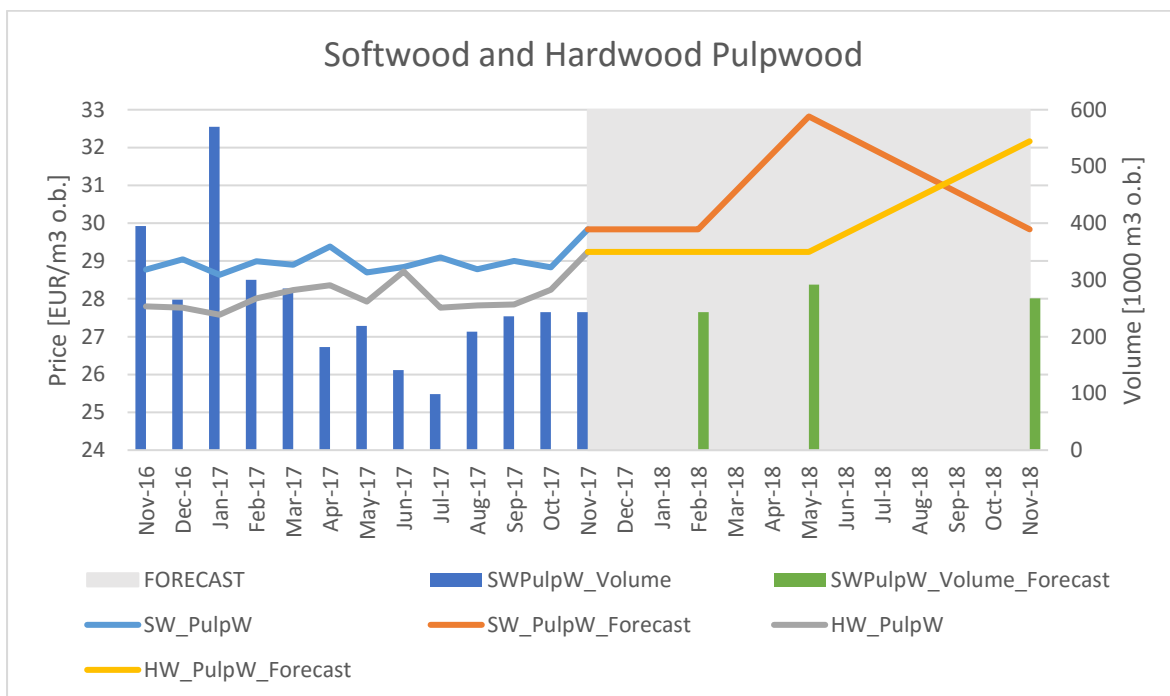


Fig. 5 Hardwood (HW) log price outlooks



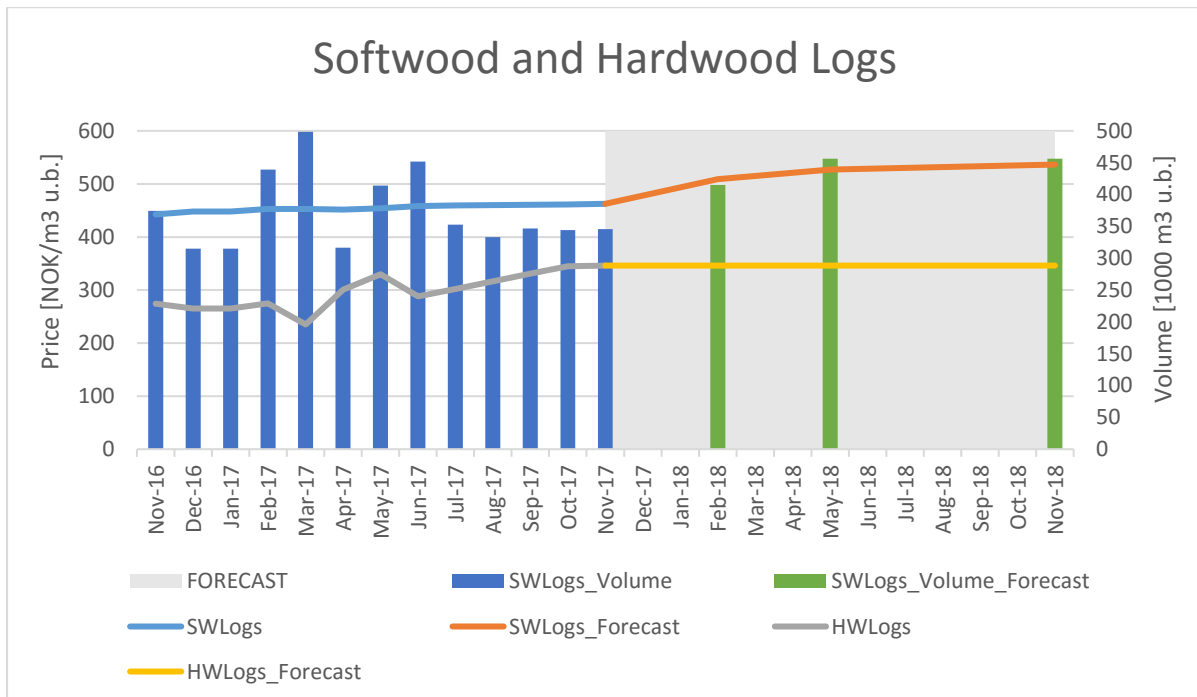
Summary of comments made by participants concerning softwood log prices and overall volumes:

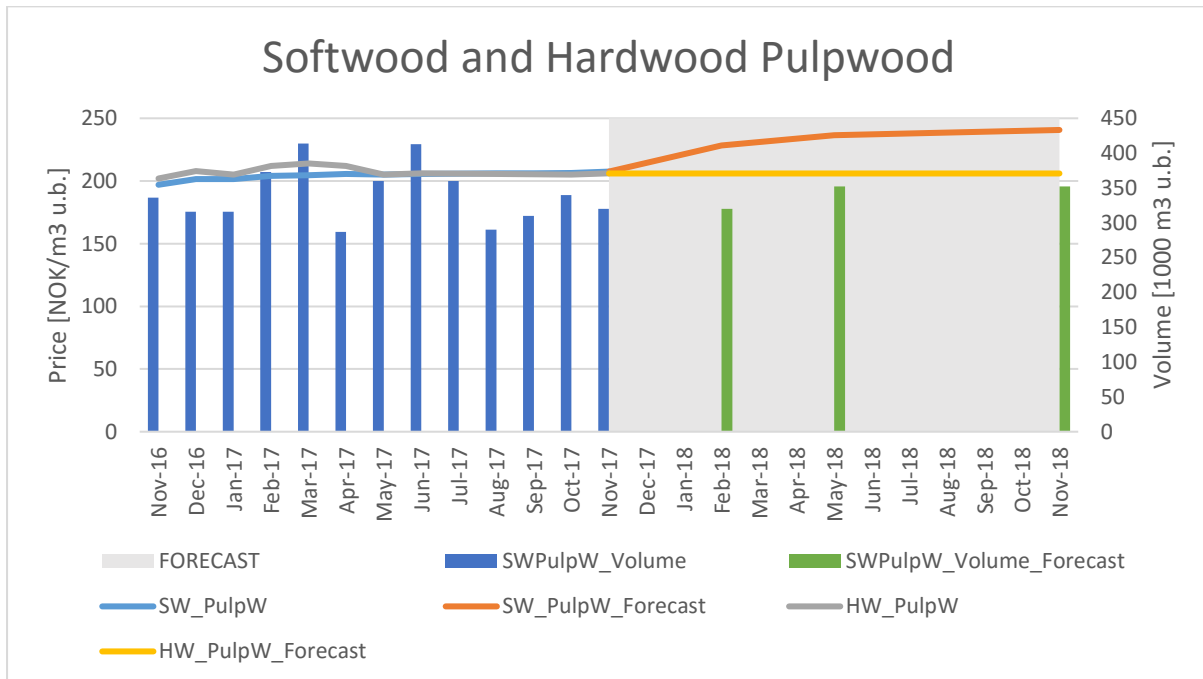
- Seasonal fluctuation, oil price, dollar price, economic growth in main market countries.
- For price or volume? Winter is coming, so that will increase the supply. Demand for wood is likely to increase as well as the Äänekoski mill is in operation. Have not followed too closely its impact on wood demand at the national level.
- Economic upturn, increased processing capacity, especially in pulping.
- Increasing demand for pulpwood.
- Good demand for spruce sawnwood in China and increasing demand for pine sawnwood in North Africa.

Summary of comments made by participants concerning hardwood log prices and overall volumes:

- Overall price trends impact hardwoods.
- No changes estimated.
- Good demand for birch plywood.

b) NORWAY





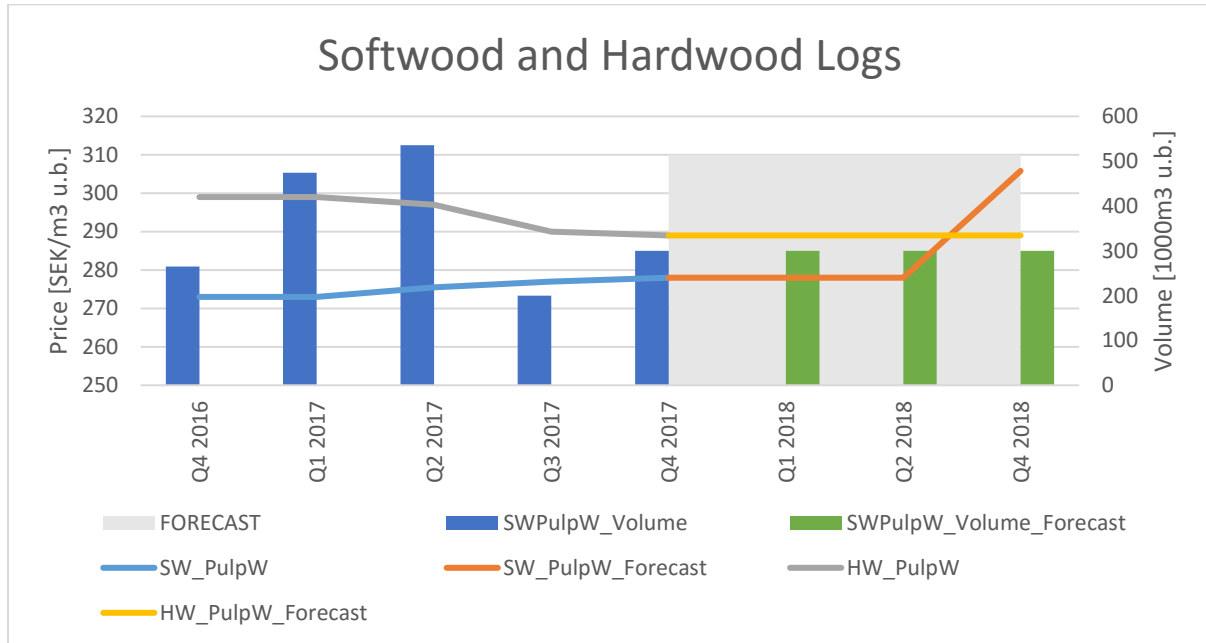
Summary of comments made by participants concerning softwood log prices and overall volumes:

- Construction in EU and East Asia.
- Increased capacity in Finland and Sweden.
- Bioeconomy with its consequences, i.e. increased demand for wood for CLT constructions, wood-based biofuels and bioenergy.

Summary of comments made by participants concerning hardwood log prices and overall volumes:

- Business as usual.
- Not high interest for hardwood. Softwood preferred to better prices and availability.

c) SWEDEN



Summary of comments made by participants concerning softwood log prices and overall volumes:

- New capacity in Nordic countries will increase with at least 10 M m³ in the coming year. Mainly in hardwood. It will drive increasing demand in volume but also drive price increase.
- New production capacity, meaning higher consumption.
- I expect to see continued fall in housing prices, which eventually will exert downward pressure on demand for saw logs and subsequently prices thereof.
- BREXIT

Summary of comments made by participants concerning hardwood log prices and overall volumes:

- Weather
- Demand for paper and paperboard. I foresee a small decrease in demand within the coming year

FBA and next outlook

[Forest Business Analytics \(FBA\)](#) was established to address the worldwide demand for analytics research and knowledge. FBA is changing business analytics forever by data preparation and analysis — giving unprecedented power to forest and wood industry products businesses without the need for cumbersome and expensive IT investments. Our multi-disciplinary team of experienced specialists investigates how data – small or big – can drive organizational success through fact-based, and proactive decision making.

The next log price outlook will take place in February 2018.

For more information contact: rafal@forest-analytics.com