

# Log Market Analysis

As at 1 July 2019



Photo 1: TPT Forests visit to port-side sawmill operations in Lanshan, China.

The content of this Log Market Analysis is produced monthly as part of a suite of documents that comprise the regular reporting to forest owners during harvest. This standalone document is made available to other forest owners approaching harvest to keep them informed on market conditions.

We have included log price series separately for Wairarapa and Gisborne forests, as the price series differ for reasons including different customers, log specifications and locations.

Forest Enterprises (FE) is currently harvesting approximately 600,000 tonnes of logs per annum for Wairarapa and Gisborne forest owners. Most of these owners are Investors in forestry investments our company markets and manages, however some harvesting is undertaken for other forest owners.

Overall, harvest volume is increasing materially year on year.

## IMPORTANT

Every effort has been made to provide current accurate information in this document, which is for information purposes only. Any opinions and views expressed are those currently held by Forest Enterprises, however the reader accepts that where they are opinions and views in respect of future prices, they may subsequently be proven incorrect. The nature of the international log market is that of price fluctuations, and these fluctuations can be material, and material changes can arise due to factors not previously able to be foreseen.

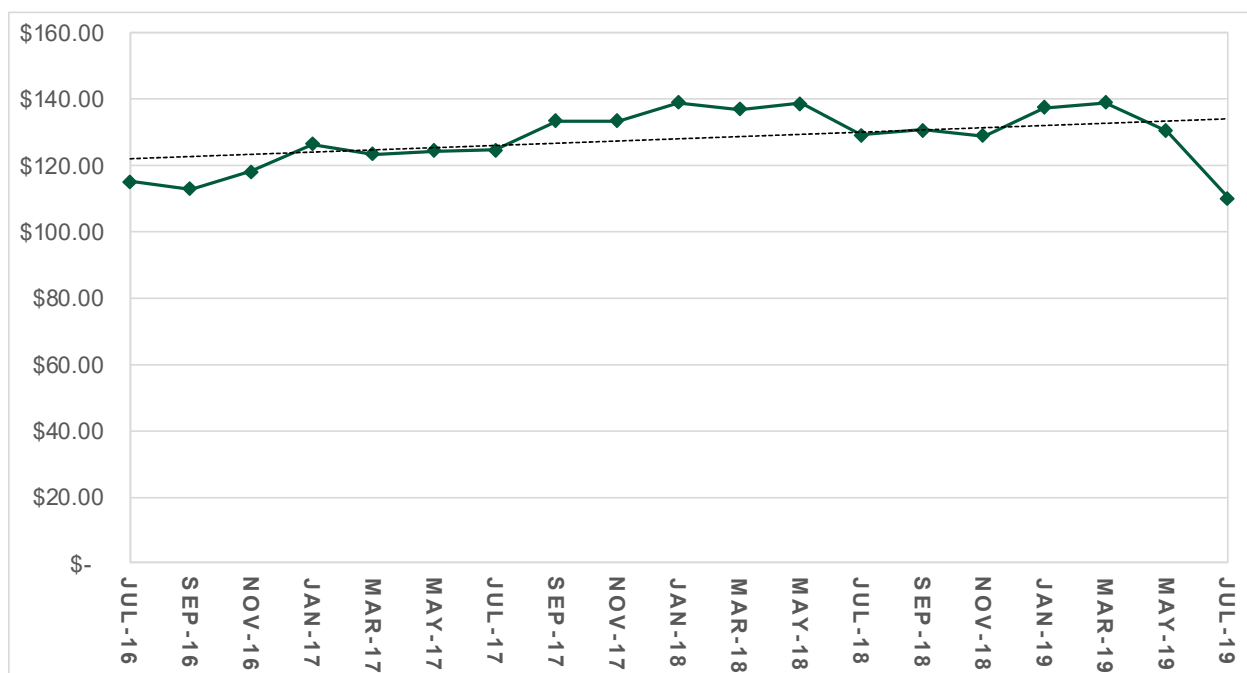
## Overview

The export market price has reduced dramatically recently. Pine logs are repriced closer to comparative levels, with imported sawn lumber inventory stocks increased and demand somewhat down. This is a significant event and will take some time to play out.

## Wairarapa Log Prices Per Tonne

Grade	Forest Enterprises May 2019	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$180.60	\$183.65	(\$3.05)	98%
Export P30	\$143.25	\$144.85	(\$1.60)	99%
Export A	\$132.95	\$136.40	(\$3.45)	97%
Export K	\$119.00	\$120.65	(\$1.65)	99%
Export KI	\$116.05	\$113.50	\$2.55	102%
Export Pulp	\$100.55	\$97.20	\$3.35	103%
Domestic P35	\$175.00	\$177.05	(\$2.05)	99%
Domestic S30	\$129.00	\$119.55	\$9.45	108%
Domestic S20	\$114.00	\$104.90	\$9.10	109%
Domestic Pulp	\$31.00	\$31.00	\$ -	100%
Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes. Refer to page 4 for more detail on the JAS to tonne conversions.				
<b>Index Log Price</b>	<b>\$130.30</b>	<b>\$128.70</b>	<b>\$1.60</b>	<b>101%</b>
Index Log Price is calculated using inventory measurements from our Wairarapa forest crops and establishing an average log grade recovery for our typical Wairarapa Forest. Applying these estimates to our long run prices per grade has derived an Index Log Price. This index price helps to estimate the average logs sales predicted for a typical forest.				

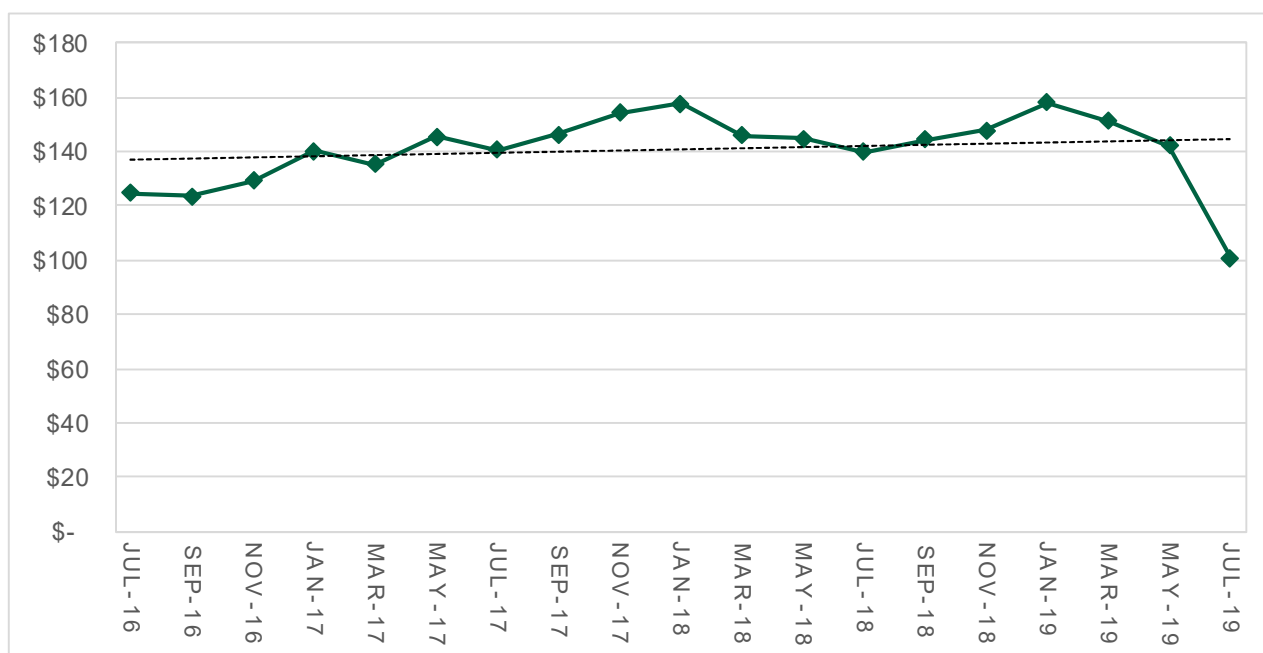
## Index Log Price for our typical Wairarapa Forests



## Gisborne Log Prices Per Tonne

Grade	Forest Enterprises May 2019	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$181.70	\$183.00	(\$1.30)	99%
Export P30	\$146.30	\$150.00	(\$3.70)	98%
Export A	\$140.50	\$140.60	(\$0.10)	100%
Export K	\$124.25	\$125.70	(\$1.45)	99%
Export KI	\$118.35	\$116.10	\$2.25	102%
Export Pulp	\$104.00	\$102.95	\$1.05	101%
Domestic P35	\$180.00	\$180.00	\$0.00	100%
Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes. Refer to page 4 for more detail on the JAS to tonne conversions.				
<b>Index Log Price</b>	<b>\$142.10</b>	<b>\$142.70</b>	<b>(\$0.59)</b>	<b>100%</b>
Index Log Price is calculated using inventory measurements from our Wairarapa forest crops and establishing an average log grade recovery for our typical Wairarapa Forest. Applying these estimates to our long run prices per grade has derived an Index Log Price. This index price helps to estimate the average logs sales predicted for a typical forest.				

## Index Log Price for our typical Gisborne Forests



Investors will notice that the Gisborne price series only includes domestic price for Pruned 35 due to log customers. This is because there is only East Coast Lumber sawmill in Wairoa purchasing a limited amount of logs outside their forests in the Gisborne region.



# Factors Influencing Current Log Price

Key:

↑ More Benefit to the Investor

↓ Less Benefit to the Investor

↔ Neutral

## Price, Costs and Logistics

### ↔ Foreign Exchange (Forex)

Export logs are priced in USD. FE's June forex rate was 0.6586 and the July rate is forecast at 0.6597. Our long run average rate is 0.68.

FE takes no forward position or hedge in currency trading. Hedging imposes transaction costs without giving certainty of improved outcomes.

### ↑ Shipping

Shipping rates easing as demand falls. Grain trade is also slow due to drought which hurts ship owners.

### ↑ JAS to Tonne Conversion

JAS-to-tonne conversion rates improved 0.6% to an average of 98.3% for May across all export grades.

Export logs are sold in Japanese Agricultural Standard cubic metres (JAS). JAS is a measure of useable log volume rather than weight. Payments to most contractors are made based on weight, which is appropriate for handling heavy material. This means the return to the forest owner is affected strongly by the conversion of weight to volume in the logs.

Conversion has seasonal trends and varies between log grades, length and log quality. Accounting for conversion is necessary to report comparable values from different sales options. Our convention is to report all prices converted to the 'per tonne basis', which would appear different if compared with a per cubic metre (JAS) series. Hence why our harvest reports show monthly JAS/tonne conversion per forest.

### ↓ Log Price, Export CFR

CFR (Cost and Freight) is the price in USD paid by the end user/buyer.

China Price falling.

South Korea Follows China, down.

India Down.

### ↓ Log Demand

#### Export Log Inventory in Market

China Inventory of logs in China is a leading supply/price indicator. Inventory levels in China have risen to about 4.2 million JAS; daily sales declining at about 70,000 JAS per day.

South Korea Low stocks and low demand, tough conditions.

India Competing imports of South African patula in market.

Japan Low demand, Japan exporting Tsugi logs to China.

### ↓ NZ Domestic

Domestic price and demand are correcting towards lower export pricing levels but not as sharply.

### ↔ Housing and Business

Housing drives panel, lumber and furniture sales and therefore log demand. Housing timber use has two primary markets: new house starts, or remodel and renovate. These two uses have different cycles based on relative consumer optimism.

### ↔ Pruned Log Grades

Steady rather than spectacular. Investment in pruning still produces a sales price premium for investors.

### ↓ Domestic Construction

Housing consents is a leading indicator of demand for wood products. The revolving door in New Zealand's cabinet means several newly minted housing ministers are now charged with the revamp of KiwiBuild.



## Log Supply

### NZ

Supply is slowing due to port congestion and expectation of lower price; plus, mud season issues.

### Australia

Reducing.

### Russia

Steady as the Russians focus on converting logs to sawn lumber.

### Pacific Northwest (PNW)

Not playing well with the Chinese, so tough log trade.

### US South

Cleaning up cyclone and storm damaged plantations; high output.

### Other

South Africans landing unfumigated logs in India, incurring fines and expensive fumigation in port.

## Point of Interest

Nuclear power, at least there are no emissions. Seems awfully close to sea level?



Photo 2: Nuclear power plant, Caofeidian District, China.





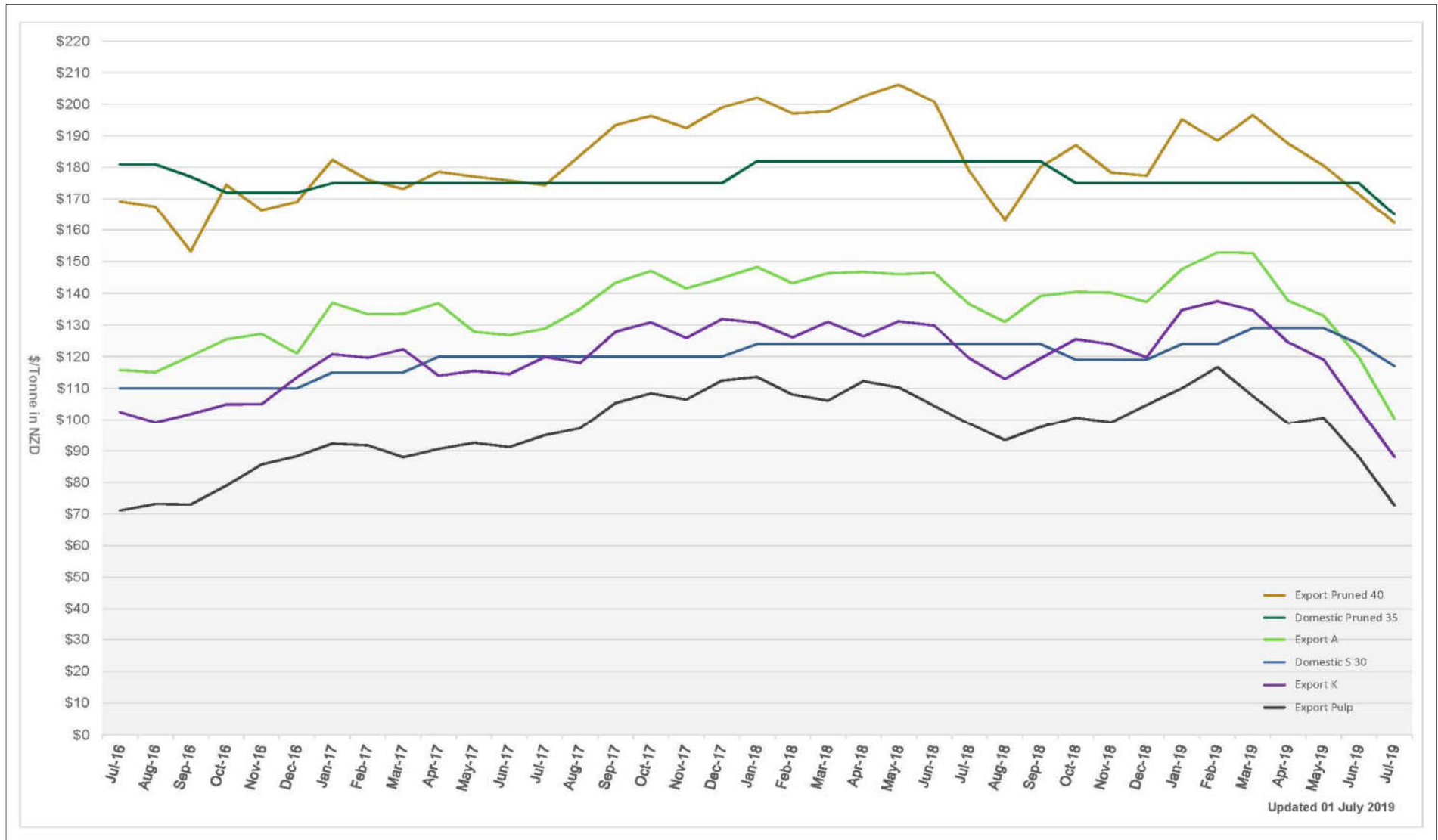
**Photo 3:** Eddie Shin, Marketing Director of TPT Forests, inspecting the Japanese Tsugi in Wanfang, China.



**Photo 4:** Fumigation on port in Taicang, China.



## Lower North Island Log Price Graph per Tonne



**Log Price Graph:** Tracks the key log prices for a 37-month period. The first 36 months are the months which comprise the average referred to under Log Prices per Tonne above. The 37<sup>th</sup> month shows the indicative prices scheduled for the current month. Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes.



# Wairarapa Group Forest Investment

Forest Enterprises'  
**Wairarapa Group Forest Investment**  
is now open for applications

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The issuer of the shares in Wairarapa Group Forest Investment is the licensed Manager, Forest Enterprises Limited. The offeror of the shares in Wairarapa Group Forest Investment is Forest Enterprises Growth Limited. The Product Disclosure Statement for the offer is available for downloading from [www.forestenterprises.co.nz](http://www.forestenterprises.co.nz) or can be viewed on [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose).

