

Log Market Analysis

April 2021



Photo 1: Ngahape Forest, Wairarapa.

The content of this Log Market Analysis is produced quarterly 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, plus a further 450,000 tonnes for a private fund manager client in the same regions.

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

We are well into Autumn now, though no sign as yet of wet weather slowing us down or any notable cold snaps.

Gisborne has been wetter than the Southern North Island region which is pretty dry, so we have our fingers crossed for decent rains leading into the planting season. A good spell of rain would be useful to us as the extended dry conditions make it easier for the woodlot logging business to increase production rates, and this excess production is challenging the conventional log distribution systems ability to cope.

Between the current high log price and dry conditions, we are seeing really high production levels in the forest sector. This is leading to bottlenecks in critical areas which frustrate our logging and cartage contractors.

Being busy is good, and we all enjoy high price, but congestion is adding cost and complexity which is hard to work around. Having said that, current log prices are very strong and we are achieving very good returns for investors.



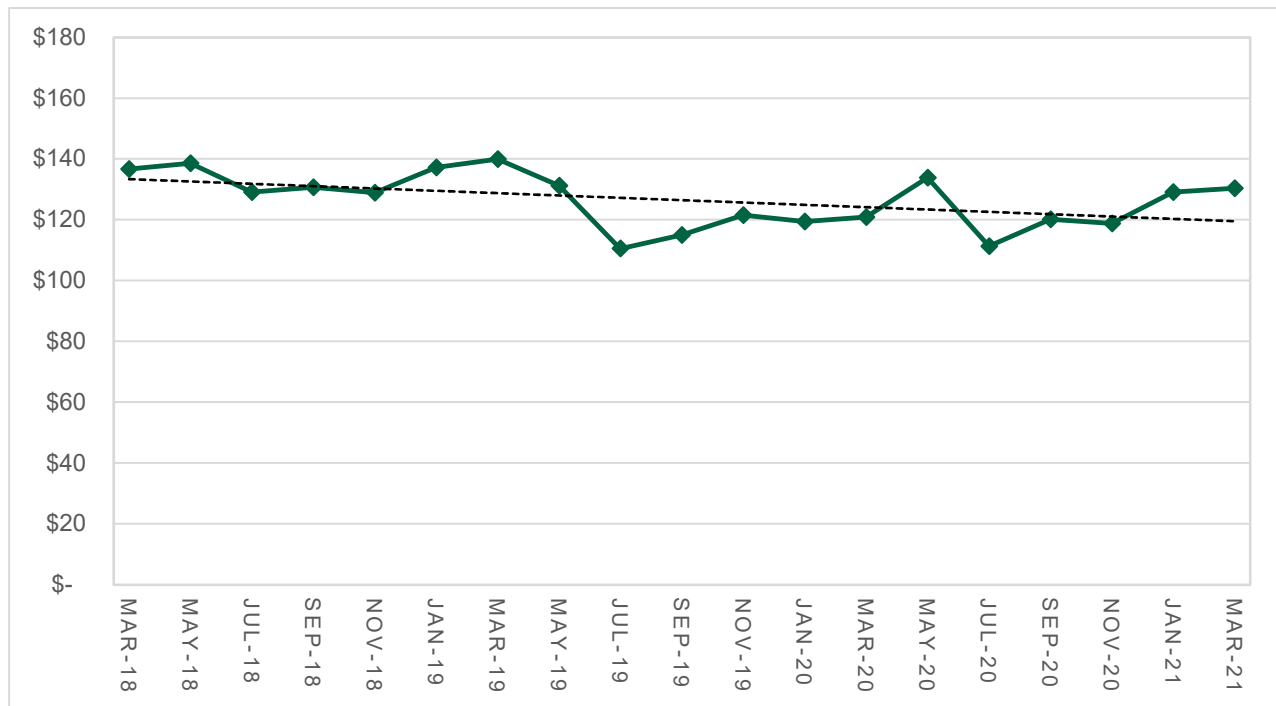
Photo 2: High stocks in Hooper Forest, Wairarapa.



Wairarapa Log Prices Per Tonne

Grade	Forest Enterprises Mar-21	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of 36 Month Average
Export P40	\$187.55	\$179.00	\$8.55	105%
Export P30	\$169.25	\$148.25	\$21.00	114%
Export A	\$138.90	\$130.85	\$8.05	106%
Export K	\$123.55	\$115.45	\$8.10	107%
Export KI	\$118.55	\$107.85	\$10.70	110%
Export Pulp	\$108.30	\$92.80	\$15.50	117%
Domestic P35	\$178.00	\$175.55	\$2.45	101%
Domestic S30	\$117.00	\$119.90	(\$2.90)	98%
Domestic S20	\$102.00	\$104.90	(\$2.90)	97%
Domestic Pulp	\$31.00	\$31.00	\$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 5 for more detail on the JAS to Tonne Conversion.				
Index Log Price	\$130.40	\$125.65	\$4.75	104%
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.				

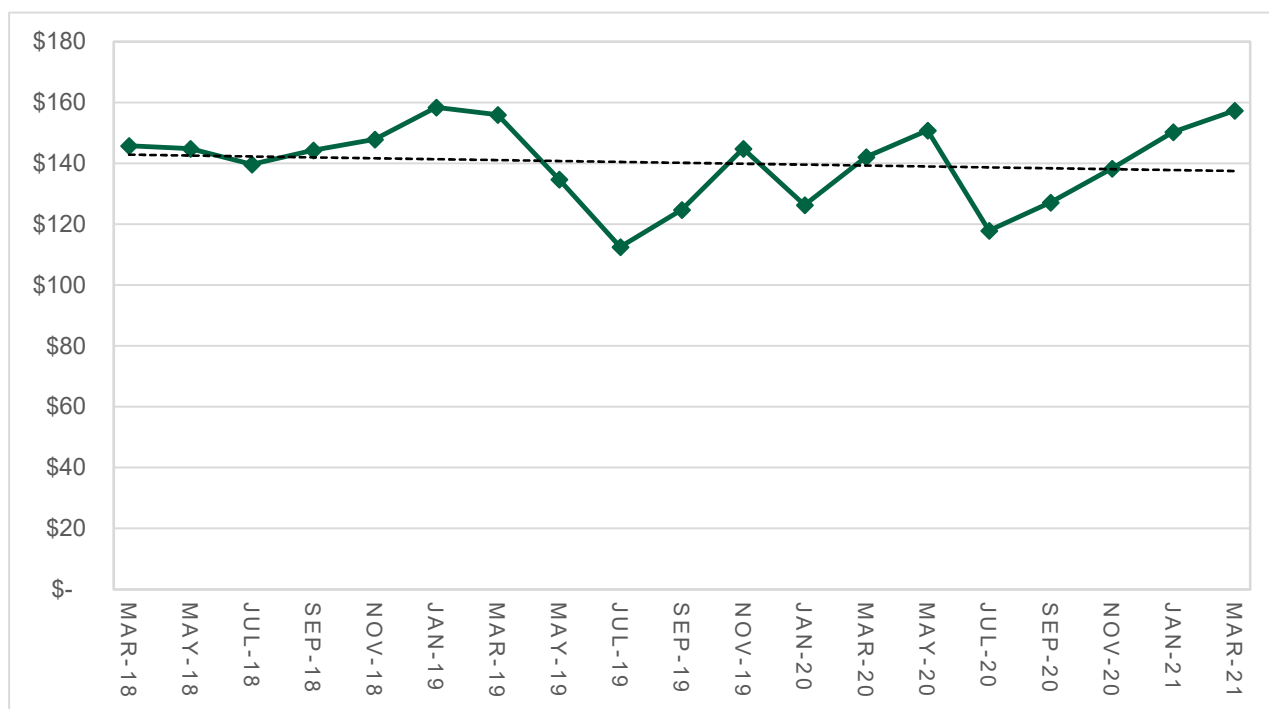
Index Log Price for our typical Wairarapa Forests



Gisborne Log Prices Per Tonne

Grade	Forest Enterprises Mar-21	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of 36 Month Average
Export P40	\$199.30	\$179.00	\$20.30	111%
Export P30	\$169.90	\$145.75	\$24.15	117%
Export A	\$156.35	\$137.10	\$19.25	114%
Export K	\$141.75	\$122.20	\$19.55	116%
Export KI	\$130.90	\$112.35	\$18.55	117%
Export Pulp	\$119.85	\$101.80	\$18.05	118%
Domestic P35	\$175.00	\$178.05	(\$3.05)	98%
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 5 for more detail on the JAS to Tonne Conversion.				
Index Log Price	\$157.40	\$139.15	\$18.25	113%
Index Log Price is calculated using inventory measurements from our Gisborne forest crops and establishing an average log grade recovery for our typical Gisborne 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



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. Exchange rates have moved around as usual over the last quarter and this has been generally favourable to NZD payment terms with an improvement of \$0.01 cents from \$0.72 to \$0.71 in this period. This exchange rate level is normal and continues to fluctuate.

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

↓ Shipping

Shipping as an industry has had a tough quarter with rapid cost rises and the major stranding in the Suez Canal gumming up the works. Handysize vessels, which transport logs as well as coal and grain, have seen really volatile increases in daily cost. Cost is related to ability to pay and demand increases, rather than being a response to cost changes. Shipping cost often climbs as commodity prices rise though so there is a linkage to rising log price.

↑ JAS to Tonne Conversion

JAS-to-tonne conversion rates were relatively steady from 101% in January 2021 to 102% in March 2021. This is a good result for revenues from JAS sales units vs. fixed cost incurred by weight in tonnes. Gisborne conversion is higher (103%) than Wellington (99%), however a large proportion of the better-quality Wellington logs are sold to sawmills by the tonne (not in JAS measurements).

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 Wholesale log price within China is strong.

South Korea Price remains low but strengthening.

India Price falling.

Japan Recent price rise in April.

↑ Log Demand

Export Log Inventory in Market

China Inventory of logs in China is a leading supply/price indicator. Inventory levels in China steadied up at about 4 million JAS. Log supply is about 41 days of supply with current usage at about 98,000 JAS per day. The speed that logs turn to lumber and lumber turns to cash drives market sentiment. We are approaching the hot season in China which typically sees declining construction timber usage. European log supply has slowed as freight constraints bite.



<u>South Korea</u>	Korean sawmills are busy as construction lumber demand is high. Mills can saw Radiata for construction cheaper than competing European spruce lumber.
<u>India</u>	Unfolding Covid-19 disaster in India is affecting the economy and how people live. India's log supply now coming from Uruguay and Australia rather than NZ.
<u>Japan</u>	Price rose and mill demand fell; mills working 4-day week and losing money.

↑ Pruned Log Grades

Solid demand and some steady prices rises in domestic pruned supply. Moving sawn lumber to customers is an issue for sawmills as container traffic is under pressure from supply chain issues.

↑ New Zealand Domestic

Demand is strong and price rose this period. Sawmills are often easy to supply for logistical reasons, which can make them more attractive destinations than Ports which can be congested. Returns are good for sawmills at current conditions and lumber demand is high.

↑ Housing and Business

We are seeing a lot of interest from buyers in our investments available on the secondary market, reflecting current strong returns and the low interest rate environment. I not sure what others are doing but Forest Enterprises has never been busier in the logging department.

↔ Domestic Construction

Housing starts looking healthy and early reports suggest this year as being the biggest start since 2000. There was a recent media panic as Carter Holt (CHH) curtailed supply to certain less favoured lumber sellers. CHH reported to me that they are very comfortable with their current log supply and there is no shortage of framing timber, just some reallocation of where it is supplied, and the terms. Lumber price rises are a healthy sign that the product of logs is being valued highly.

Log Agency

Log agents' performance for our log sales has been very good over the last 3 months, with strong returns to our investors, from both high price and washup payments in our favour from price improving over the period. Despite the inability of log sellers to travel into the China and Asia markets, log price has increased faster than ever.

Log Supply

<u>New Zealand</u>	Similar to last December report, and very busy. Productivity is limited by the ability to deliver logs now; without more distribution capacity we can't increase supply.
<u>Australia</u>	Australia is not selling logs into China with their Governments in disagreement over various issues. Australian log exports now largely go into India.
<u>Europe and Russia</u>	Europe production remains high but has topped out due to transport issues.
<u>Pacific Northwest (PNW)</u>	Slow in the export markets. Very high prices for sawn lumber in the US is pulling Canadian lumber south and out of the Asian markets.
<u>Other</u>	Uruguay going hard into India, but the product considered more resinous than New Zealand pine.



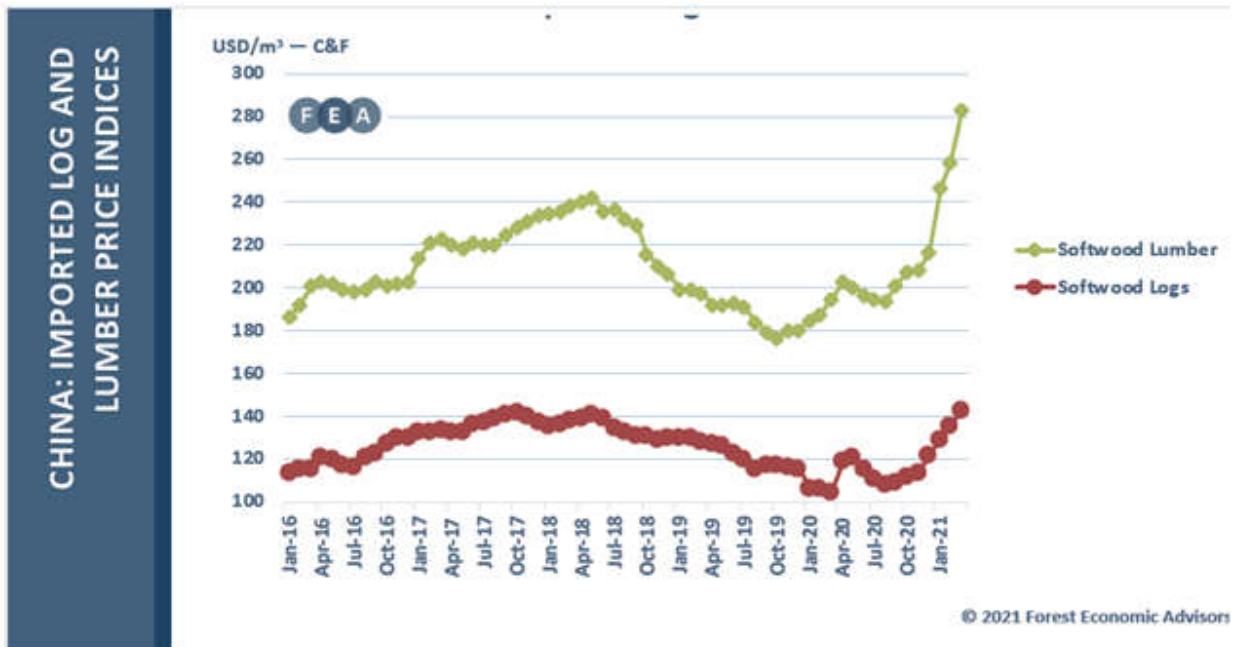
Point of Interest

Shipping cost is going nuts.

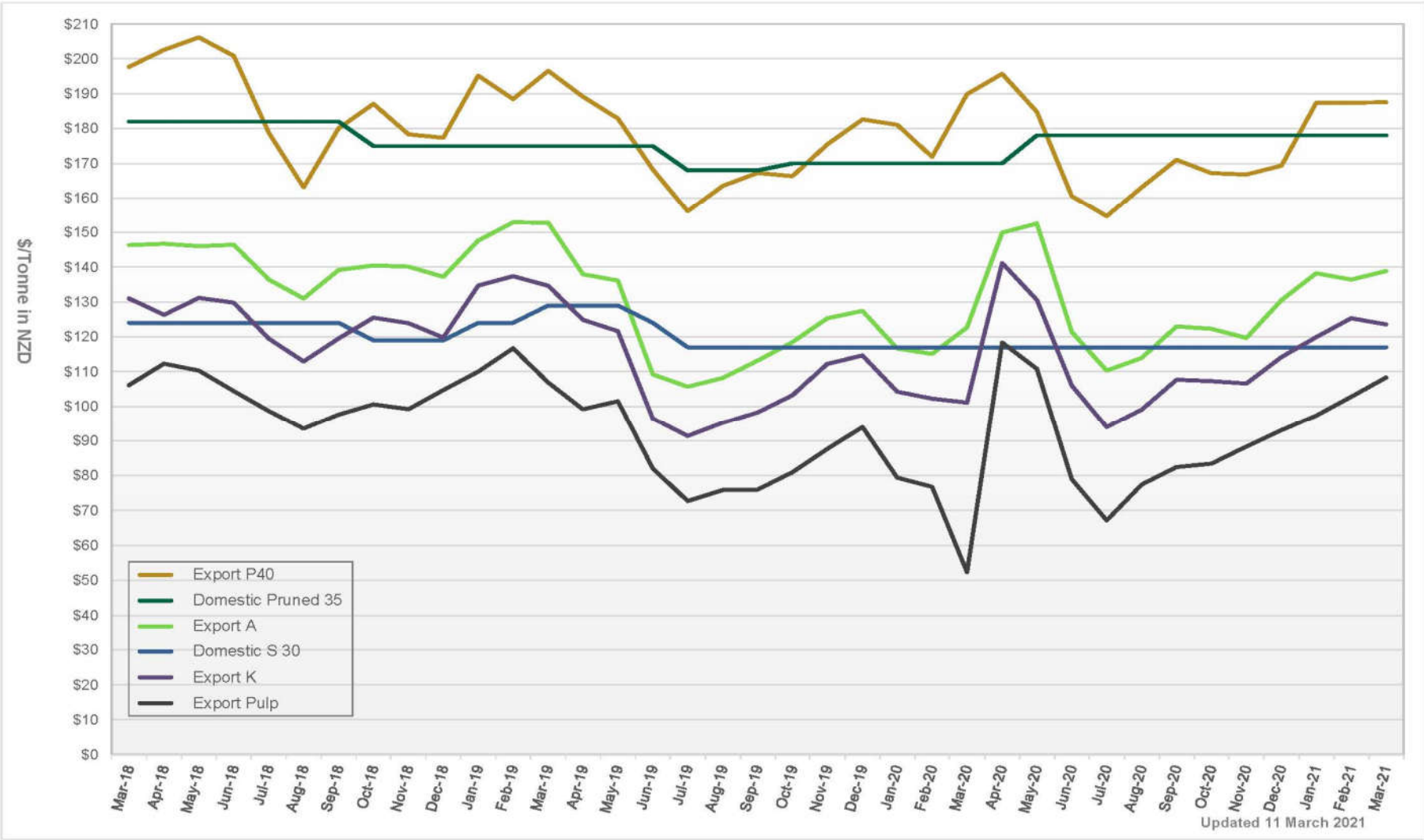


Chart 2 – Daily Hire trend

Lumber price growing faster than log price!



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 37th 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. These log price averages do not reflect any price adjustments that may occur following washups with our log export partners.

