

# Log Market Analysis

As at 20 October 2020



Photo 1: Morning drone take off, Ratahuia 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 650,000 tonnes of logs per annum for Wairarapa and Gisborne forest owners, together with a further 350,000 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

I hope you voted; we get the government that we deserve in the end. Labour now get the opportunity that they wanted, a clear run without interference from the Greens or NZ First. Let's see how they go and wish them well.

An optimist will note the steady improvement in log price over the recent quarter, but it comes off a low base as Covid-19 knocked the sense out of the log market. We saw a panic price rise, a fall as things settled and now a rise as we return to equilibrium, I hope. The good news is that the All Blacks didn't fail to win for a second time. The Aussie rugby team look good, but we still won and its summer, so you can go fishing.

Covid-19 didn't end the world and a Labour Government won't either. Time to get busy out in the forest I reckon.



Photo 2: Logging in Emerald Hills, Gisborne.



## Wairarapa Log Prices Per Tonne

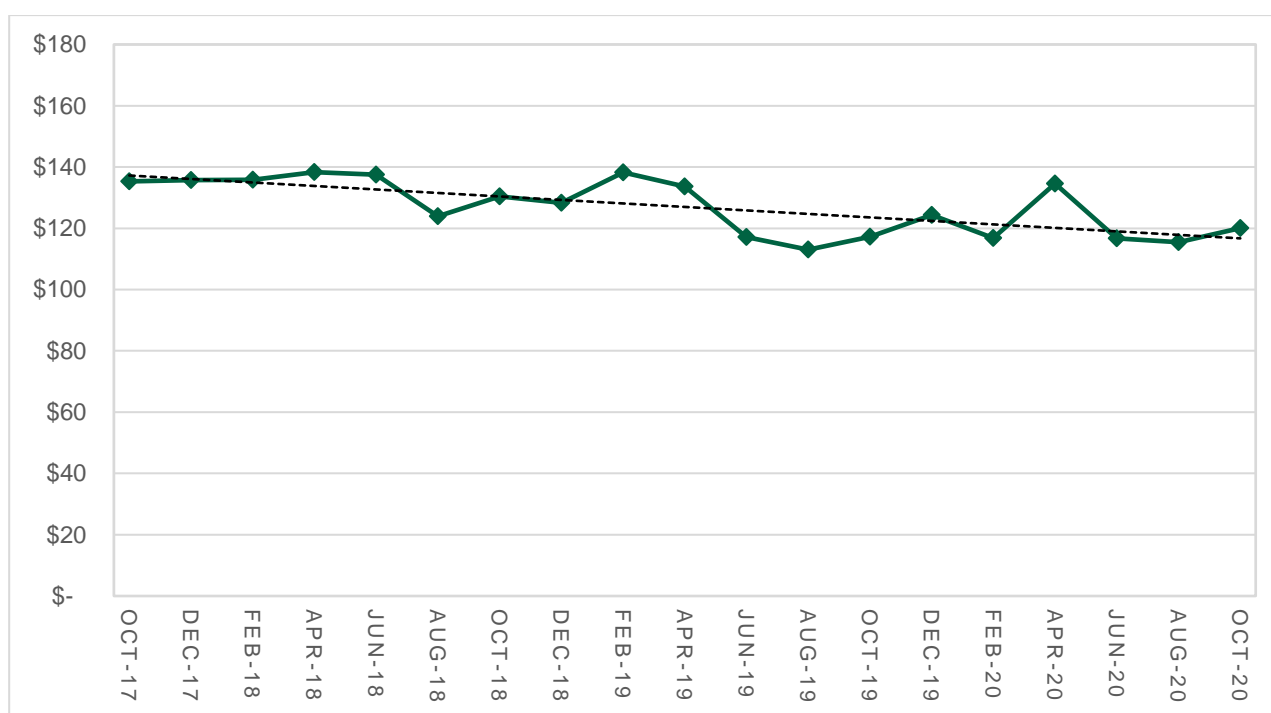
Grade	Forest Enterprises Sep-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$169.50	\$182.25	(\$12.75)	93%
Export P30	\$143.70	\$147.05	(\$3.35)	98%
Export A	\$119.60	\$133.10	(\$13.50)	90%
Export K	\$104.95	\$117.55	(\$12.60)	89%
Export KI	\$96.15	\$110.05	(\$13.90)	87%
Export Pulp	\$78.50	\$95.00	(\$16.50)	83%
Domestic P35	\$178.00	\$175.60	\$2.40	101%
Domestic S30	\$117.00	\$120.75	(\$3.75)	97%
Domestic S20	\$102.00	\$105.75	(\$3.75)	96%
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.

<b>Index Log Price</b>	<b>\$118.40</b>	<b>\$127.45</b>	<b>(\$9.05)</b>	<b>93%</b>
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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

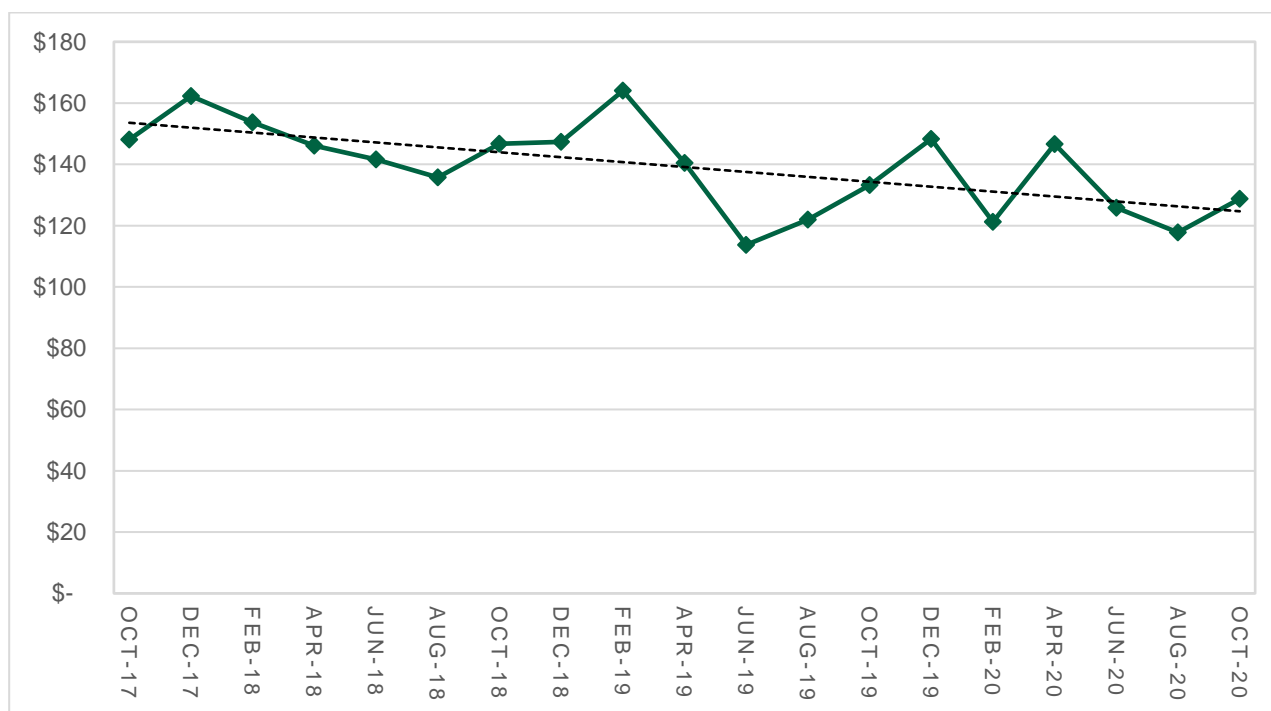
Grade	Forest Enterprises Sep-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$166.80	\$179.75	(\$12.95)	93%
Export P30	\$129.50	\$146.55	(\$17.05)	88%
Export A	\$123.35	\$137.95	(\$14.60)	89%
Export K	\$108.75	\$123.40	(\$14.65)	88%
Export KI	\$97.15	\$114.05	(\$16.90)	85%
Export Pulp	\$87.10	\$101.65	(\$14.55)	86%
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.

<b>Index Log Price</b>	<b>\$125.43</b>	<b>\$140.05</b>	<b>(\$14.62)</b>	<b>90%</b>
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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. July to October exchange rate movement was detrimental to NZD payment terms with a movement of \$0.02 cents from \$0.64 to \$0.66, but this was quite lumpy with a trend of volatility rather than linear change.

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

### Shipping

Shipping is a complex issue. Shipping was expected to get more expensive as fuel prices were projected to rise, and ships become scarcer. The current reality is that shipping cost is about \$USD22 per tonne against a 10-year rate of about \$USD27. The 2020 shipping cost is a couple of dollars under the 2019 rate so that's good news. The cost of running ships is currently about 35% bunker fuel, and fuel is relatively cheap as the expected premium cost of low sulphur fuels has not been as dramatic as forecast. High sulphur bunker fuel is very polluting and measures to reduce pollution have been implemented, either burning low sulphur fuel or installing expensive emissions scrubbers into vessels. Congestion costs are rising as vessel unloads take longer than normal, especially in the very busy Lanshan region of Northern China.

### JAS to Tonne Conversion

JAS-to-tonne conversion rates are improving as we move into Spring harvesting, and drier conditions. Rates increased from a 96% average in July, (in the last report) to 101.3% for 30 September 2020. This is a positive for revenues vs fixed cost.

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.

<u>China</u>	Wholesale log price within China is slightly behind the CFR equivalent rates, so currently CFR is priced above its fundamental indicator. Prices have risen slowly since July.
<u>South Korea</u>	European spruce is cheaper than radiata pine, and discounted burnt pine from Australia is also disrupting the market. Low price.
<u>India</u>	Favourable price over China options but slow sales.
<u>Japan</u>	Low price.

## Log Demand

### Export Log Inventory in Market

<u>China</u>	Inventory of logs in China is a leading supply/price indicator. Inventory levels in China continue to decline slowly as they came out of Covid-19 slowdown. Inventory levels are now similar to 2019 and at about 45 days of supply. The speed that logs turn to lumber and lumber turns to cash drives market sentiment. European spruce log imports have increased as the logs are transported by ship given the rail links are congested. European log and lumber supply is now the 2 <sup>nd</sup> biggest supplier into China at about 1.25 million m <sup>3</sup> per month July to August.
<u>South Korea</u>	The economy has been improving as export activity rises from a low base, and this helps the packaging lumber demand. Log usage is at relatively normal levels, but European spruce and Russian hemlock dominates supply.



India Market remains subdued by Covid-19. Supply of South American bulk logs and containerised southern yellow pine (US) is increasing. Indian buyers are struggling to keep up with China price rises.

Japan Finally some slow growth measured in the economy, and an increase in industrial exports like cars. Demand remains weak and sawmills are struggling.



### **Pruned Log Grades**

Pruned price and demand is holding up nicely, and we are nicely balanced for sales and demand. We have expanded our domestic supply from the Gisborne region, and we are now a keystone supplier to the new Kiwi Lumber Gisborne sawmill which is showing good returns to the forests.



### **New Zealand Domestic**

Kiwi Lumber sawmill in Masterton is a major customer and they have recently upgraded their lumber handling facilities. Demand is strong and price is holding steady. The sawmill is closer than the port which reduces truck usage.



### **Housing and Business**

Covid-19 is wreaking havoc on certain business sectors and some will not recover. We expect a rebalancing of commercial entities as the Government comes to terms with its ability to prop up zombie companies and industries which have deep problems from the lack of international travellers and migrants



### **Domestic Construction**

If you drive around the southern North Island you certainly see a lot of new building, and that's helping sawmill demand. Prefabricated wooden housing products are rising in popularity also as they speed up the building process.

## **Log agency**

Our log exporting arrangements are by agency contracts. The agency model transfers risk to the seller in return for higher price and better information. We are currently looking hard at our agency agreements to assess the risk and value trade off.

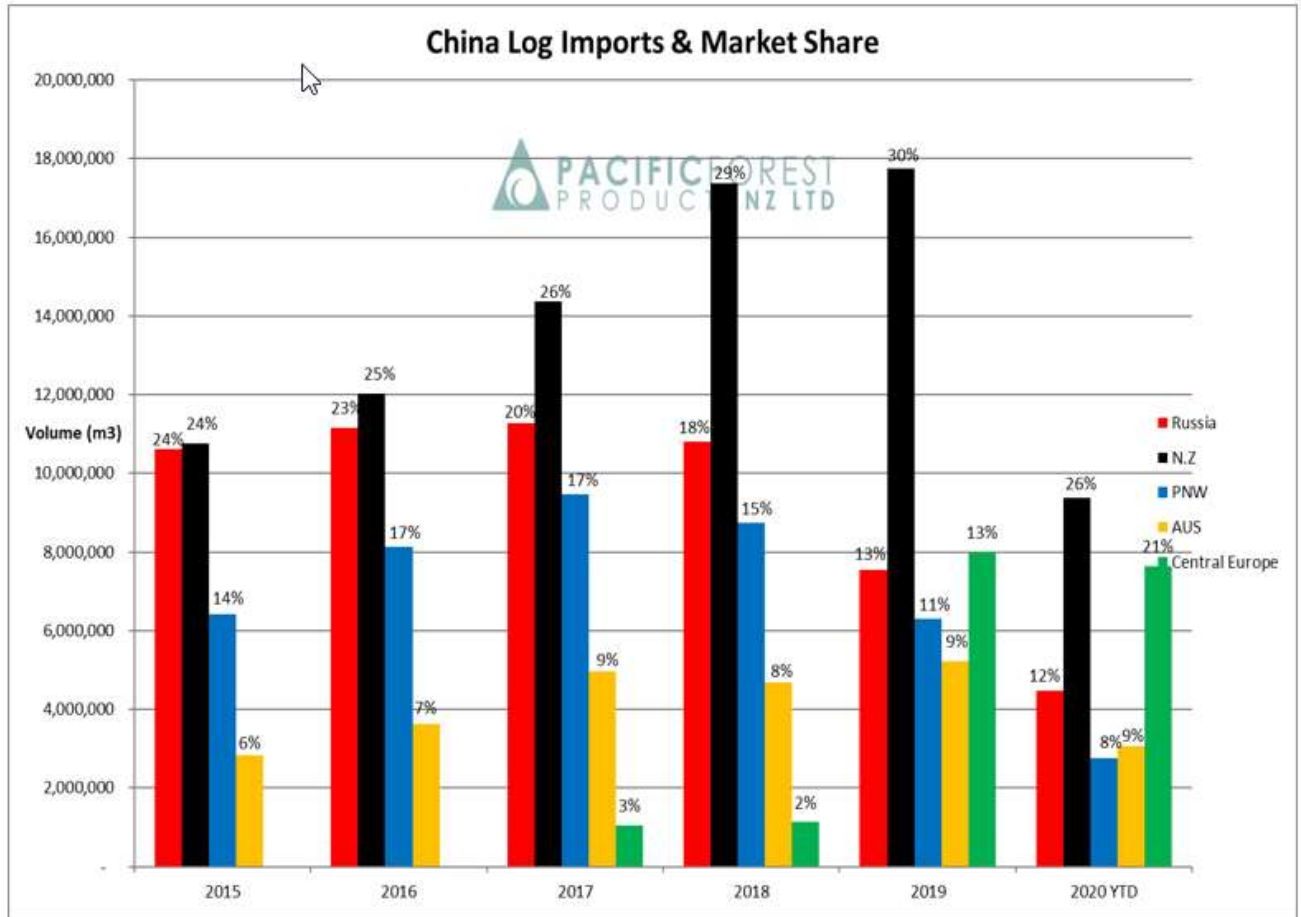
## **Log Supply**

<u>NZ</u>	Production levels are on the way up as summer is coming and prices are improving.
<u>Australia</u>	Clearing burnt logs is a major driver of harvesting activity.
<u>Europe and Russia</u>	Beetle damaged spruce exports are growing strongly. Russia is seeking increased tariffs on exports of valuable hardwood logs as well as the softwood log trade.
<u>Pacific Northwest (PNW)</u>	Slow in the export markets but strong domestic demand as housing starts rise dramatically.
<u>Other</u>	Uruguay business into India still tough but enduring. Methyl bromide fumigation is allowed in Uruguay.

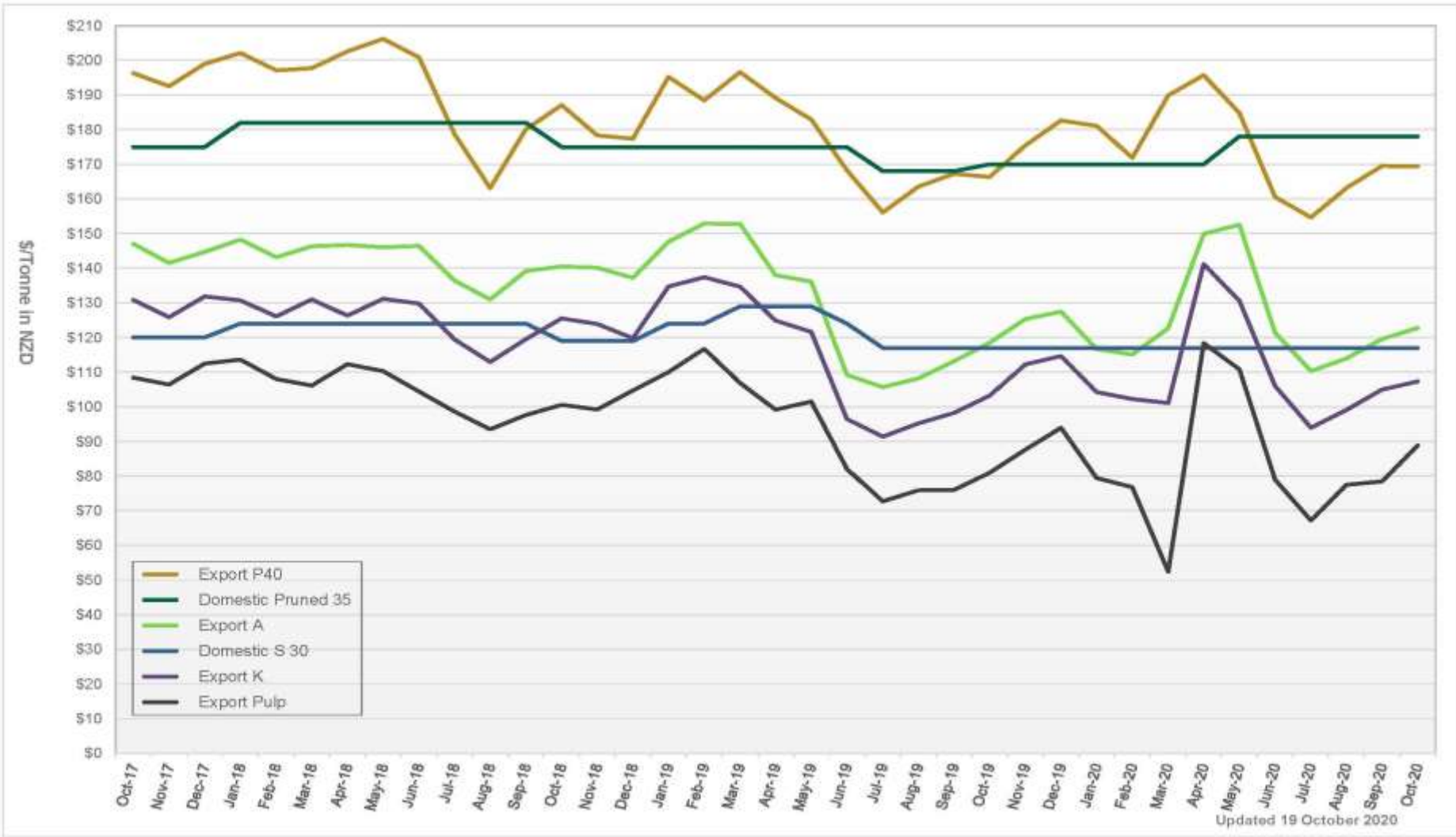


## Point of Interest

NZ market share declining but strong, Europe rising, Russia and Pacific north west falling.



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





# GROW YOUR WEALTH

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