

Log Price Outlook – May 2016

Shipping

China

Demand

Supply

Inventory

Policy

Construction

USA

Seasonal

Europe

Quality

Domestic

Russia

Grades

Certainty

Australia

Debt

Volatile

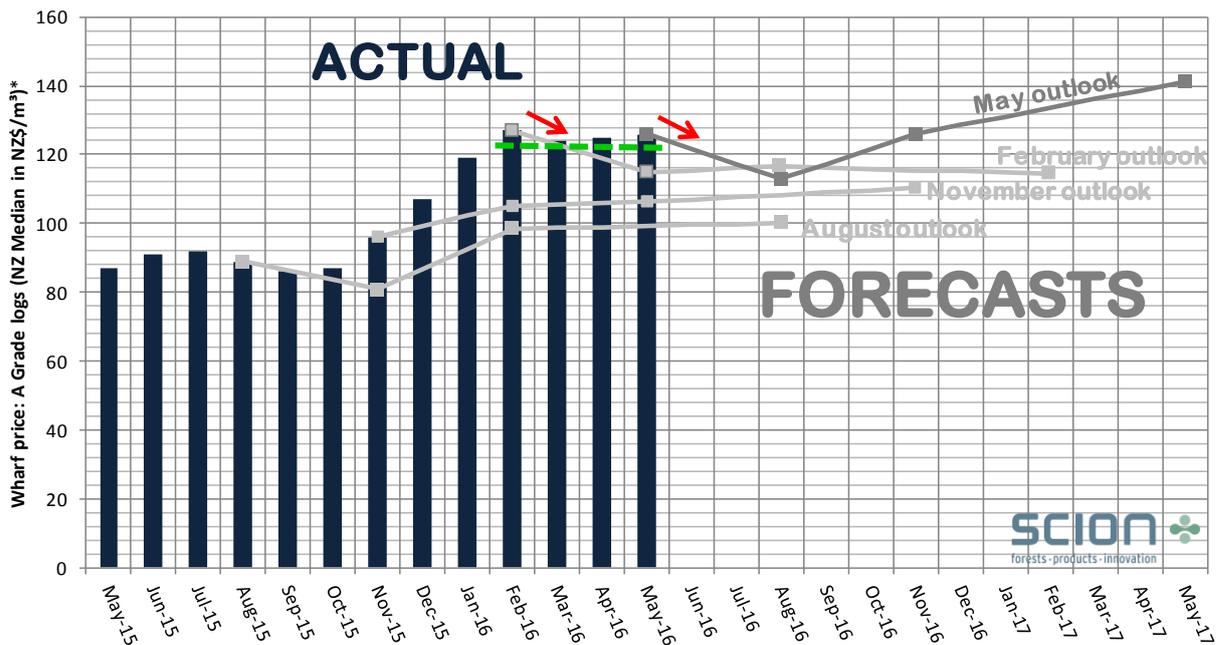
Diameter

Canada

Yields

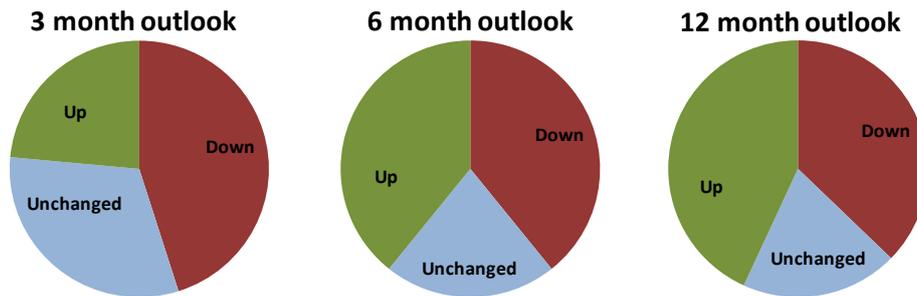
Summary: This report provides an overview of a web based log price opinion outlook that was carried out during May 2016. Fifty-one people participated in this outlook, including forest companies, processors, consultants, traders, shipping and researchers in New Zealand and abroad. Although there appears to be varying sentiments in the industry, a slight majority of participants feel that policy changes in China are likely to stimulate demand, but prices are expected to drop due to the exchange rate, increased harvesting and seasonal supplies from the US and Canada. Figure 1 compares the May 2016 outlook (dark grey) against three earlier outlooks. Prices over the past four months have been steady (green line), although participants have twice predicted a drop in the quarterly outlooks (red arrows). Figure 2 displays the proportion of participants with a particular sentiment towards future prices. A steady rise in pruned log prices are expected as depicted by the green line in Figure 3. Figure 4 reports on industrial lead indicators based on the forklift industries in different countries. This has been shown to be an early predictor for a rise in industrial activity, hence also increasing wood product demands, such as packaging and pallets.

Figure 1: Wharf price outlook for unpruned logs



* Data source (darkblue:) AgriHQ

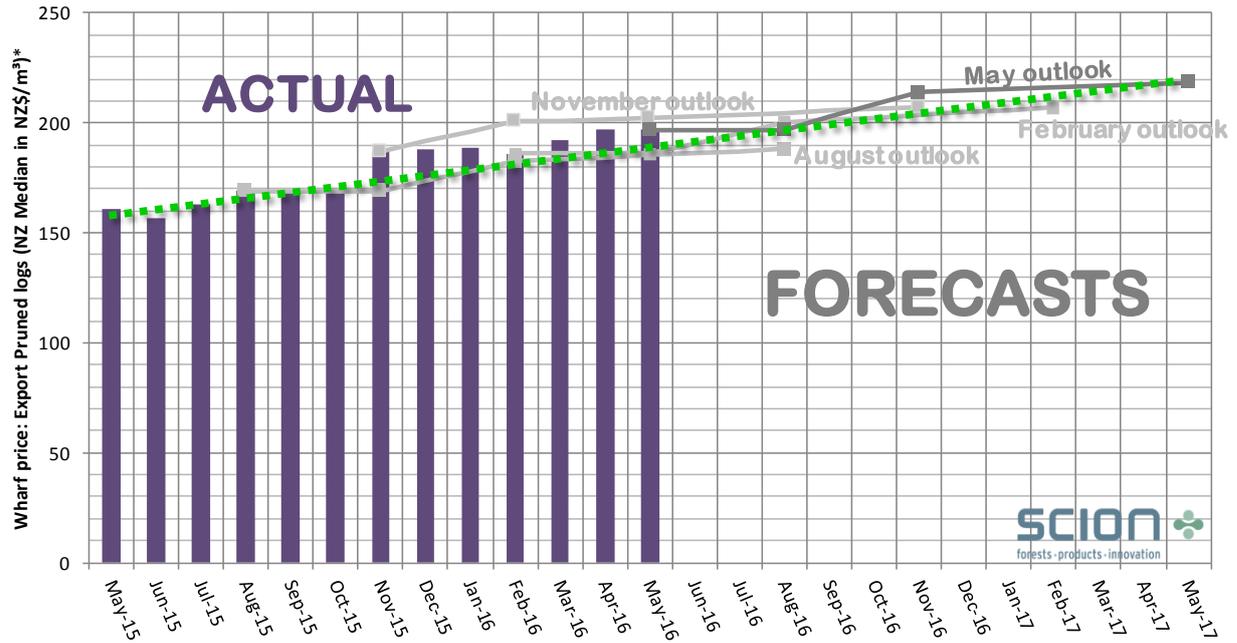
Figure 2: The proportion of participants with a certain opinion about future unpruned log prices



Summary of comments made by participants concerning unpruned log prices:

- More of the better quality older and bigger diameter trees from US and Canada.
- Chinese continued high demand doesn't look like waning in near future. They also stopped logging native.
- A broader market demand than just China.
- Possibly inventory levels rise in China.
- China will come into seasonal downward soon (June, July and August).
- Chinese government policy, exchange rate, shipping rates.
- Demand stabilising in off-shore markets and strong in NZ.
- Expectation of more vessels, rising inventories and flat demand in China.
- Higher yields less lower grades.
- The recent economic stimulus efforts in China have recharged short-term demand for commodities.
- Financial leverage and debt levels in the domestic Chinese economy are still a major concern.
- The Chinese market remains very fragile and will remain so for a while. Russia has also been increasing log supplies, as has Australia, so this will also keep prices in check.
- China's next 5 year plan to have greater % of population in cities, NZ dollar remaining in the mid 60's to US\$, US economy stays on track.
- Increasing construction in China, but still empty apartment blocks everywhere.
- China demand is driven by Government support. Also cheap freight rates. How much longer can this go on?
- Very strong domestic demand
- Economic stimulus by the Chinese Government appears to be working for the time being. The recovery is shaky though and strongly affected by sentiment. NZ is currently benefiting from exchange rate and shipping but this may change.
- Strengthening US market absorbing US and Canadian wood.
- Undoubtedly main driver is China inventory levels.
- Market has become over-cooked
- Production exceeding consumption over next 3 months.
- Increase in freight rates will start to bite on a flat China.
- The fragility of the China economy and its reliance on Government stimulus.
- Slow growth in China, Europe and US.
- US growth depends on who is elected President in November.
- Oil price steady

Figure 3: Wharf price outlook for pruned logs



* Data source (Purple:) AgriHQ

Summary of comments made by participants concerning pruned log prices:

- Sapstain season. Solid demand for clear product
- Constrained supply. Harder to get the high stiffness and high strength.
- I anticipate increasing demand for pruned logs & constrained supply until the harvest from pruned planted in the mid '90s becomes available.
- Prices are starting to run past wood values
- Tight log supply and improving end product demand in markets
- Higher recoveries and less lower grades
- Still good demand for unpruned logs from local mills, as also overseas customers, which will keep prices at current levels or a little higher.
- Rise will be associated with moving into Chinese winter and less sapstain.
- NZ based supply and export market demand US\$ pricing in China and Korea Inventory levels in China.
- Strong demand in USA and Europe for clearwood
- Prices are reaching a point where substitution with finger jointed products will start to come back.
- China is maturing as a market and targeting higher value logs - pruned is now key to that.
- Furniture demand for improving western economies (house start-ups in US). NZ domestic pruned demand adding pricing tension to get supply.
- The pruned market is primarily furniture and high value end use, and that demand has changed little in the past two years. Add into that the declining pruned yield domestically in NZ, which means supply/demand will be increasingly unbalanced.

Industrial Lead Indicators based on Forklift Industries

An increase in the number of forklifts in an industry corresponds with increasing numbers in wooden pallets and packaging material. The figures below illustrate indexes of internet activities that can be associated with forklift purchases and maintenance in five countries where New Zealand timber and logs are sold.

Figure 4: Forklift sales, marketing and maintenance indicators for different countries

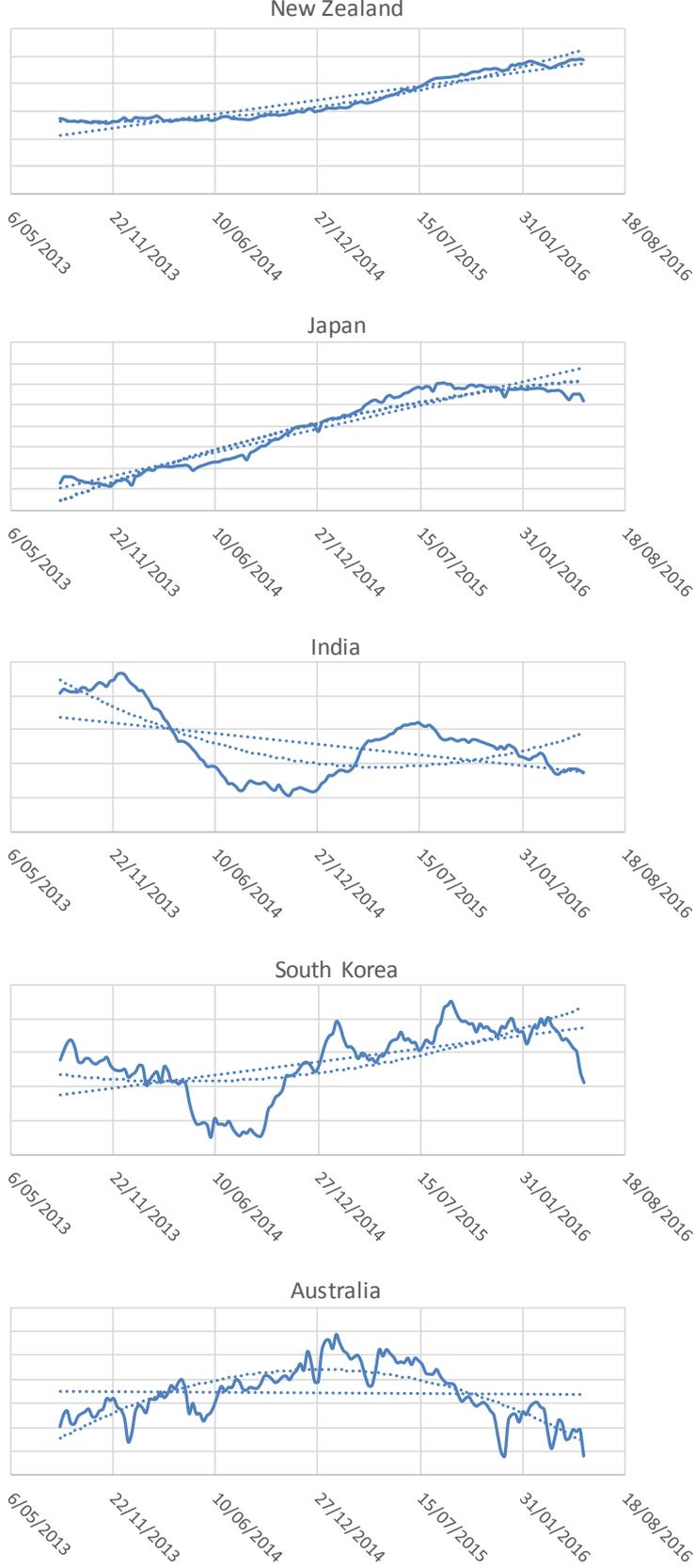


Figure 5: Participants' response on whom they think are the most powerful players in the supply chain. The % value depicts the proportion of participants who selected the particular option.

	No power to influence price	Some degree of power over the price	Quite a bit of power	A significant powerhouse
Large forest owners and forest management companies	12%	49%	29%	10%
Large New Zealand based processors	12%	73%	12%	2%
Large New Zealand based log exporters	8%	37%	33%	22%
Large Importers in China	0%	14%	55%	31%
Large Importers in other foreign countries	22%	49%	20%	8%

Scion would like to acknowledge and thank [Wood Matters](#), [Friday Off-cuts](#) and [Woodweek](#) for publicising the Log Price Outlook. We also thank AgriHQ for allowing us to include some of their data on these graphs. The next log price outlook will take place from 15 to 26 August 2016. This information has been distributed exclusively to persons who participated of the outlook forecast – Thank you for your contribution.

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