

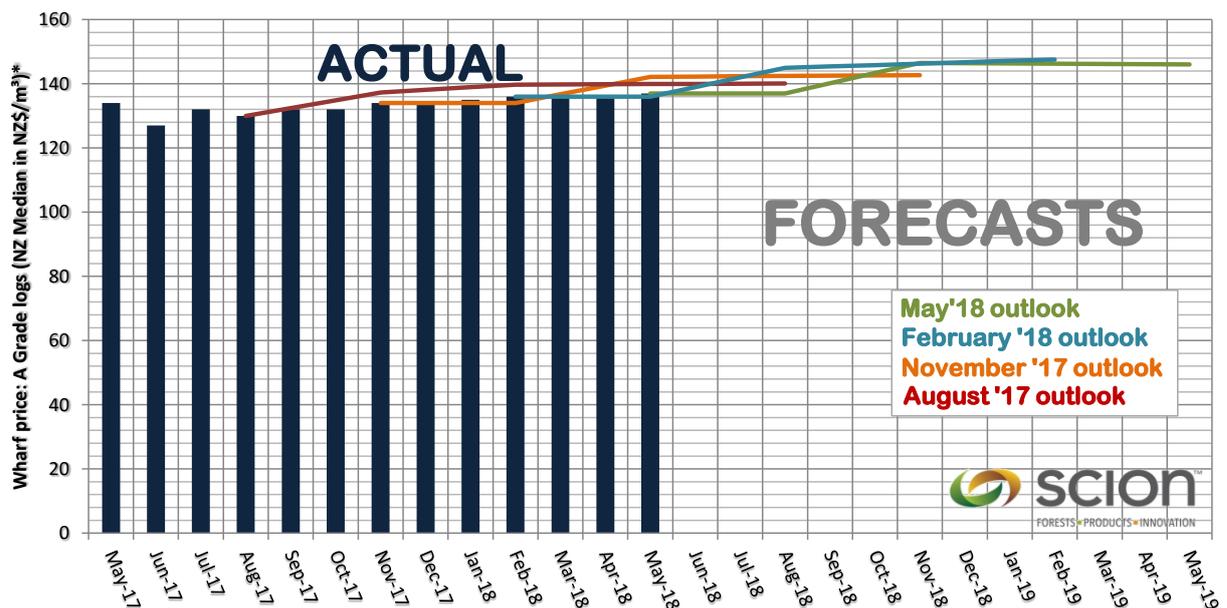
New Zealand Forestry Business Outlook – June 2018



Until 1 July 2018 this document's distribution is restricted to participants of the Scion Log Price Outlook.

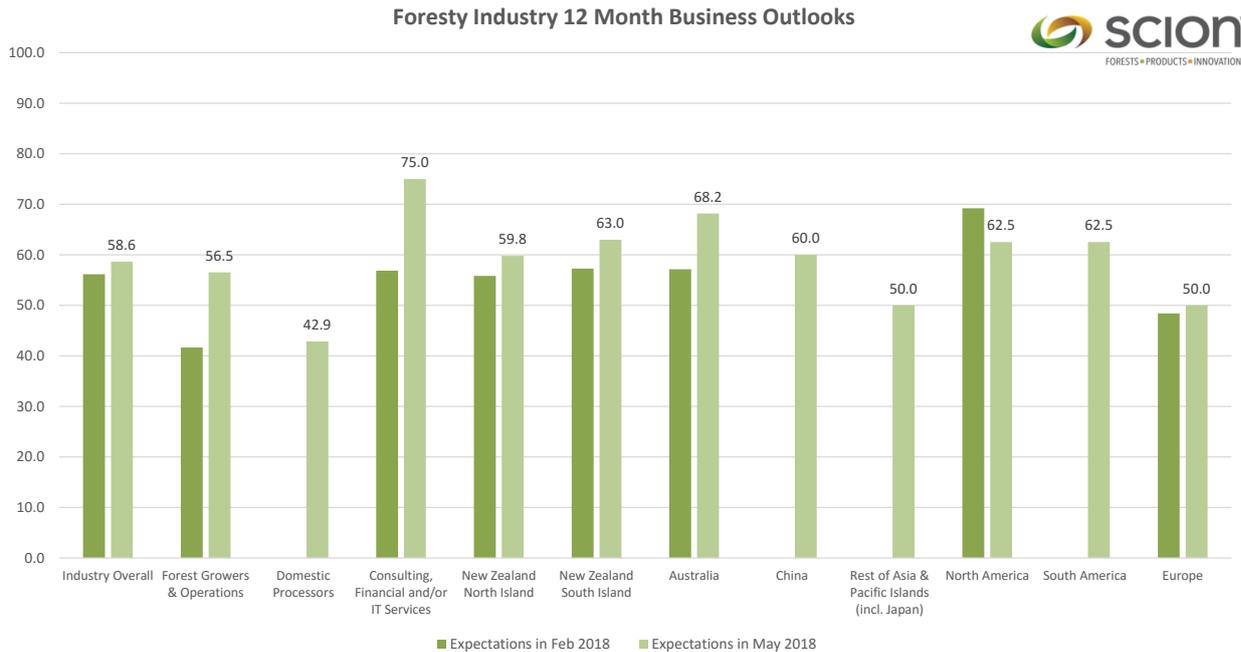
Summary: Fifty-eight people from various parts of New Zealand's domestic and international forestry products supply chains participated in this outlook. These participants represent a substantial component of the NZ forestry industry. Log price outlooks remain stable. For the third quarter in a row participants expect little immediate movements in log prices and anticipate a slightly higher future pricing regime. Volumes are also expected to be relatively consistent with perhaps a 5% increase over the next 6 months. However, various participants express a concern that harvesting crews, transporters and port infrastructure are starting to touch an upper limit. With the exception of domestic processors, business expectations over the coming 12 months are still relatively positive. In many cases more business optimism was voiced in May 2018 compared to February 2018, however, caution should be exercised since these indexes have only been calculated twice and certain calculation adjustments have been made.

Figure 1: Wharf log price outlook (A Grade is used as a general proxy)



* Data source (dark blue-) AgriHQ

Figure 2: Forestry business expectations outlook for different segments and markets over May 2018 to May 2019

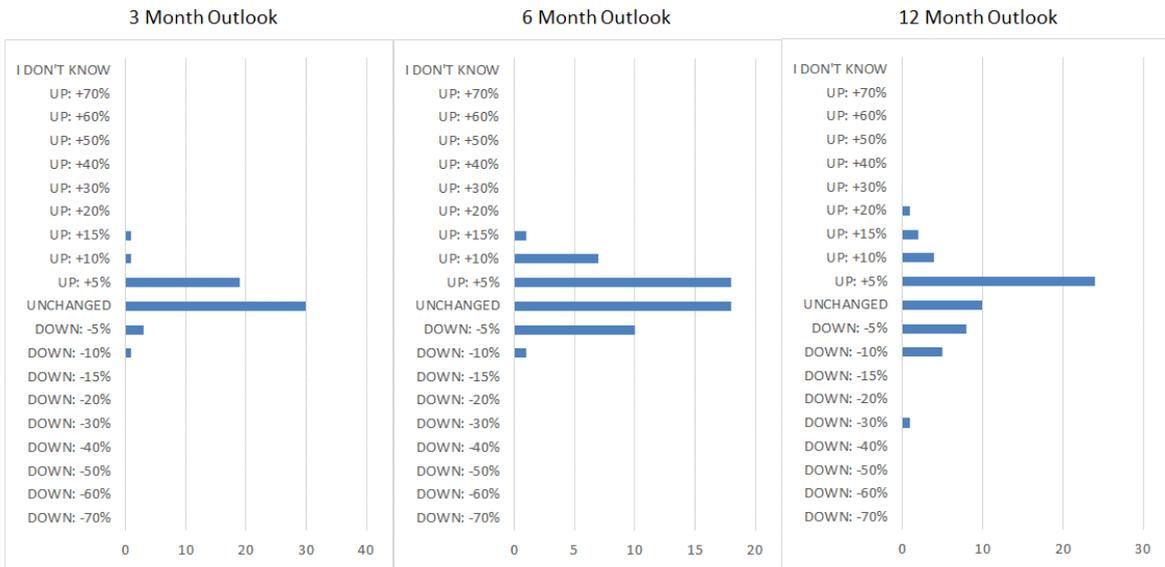


COMMENTS FROM PARTICIPANTS:

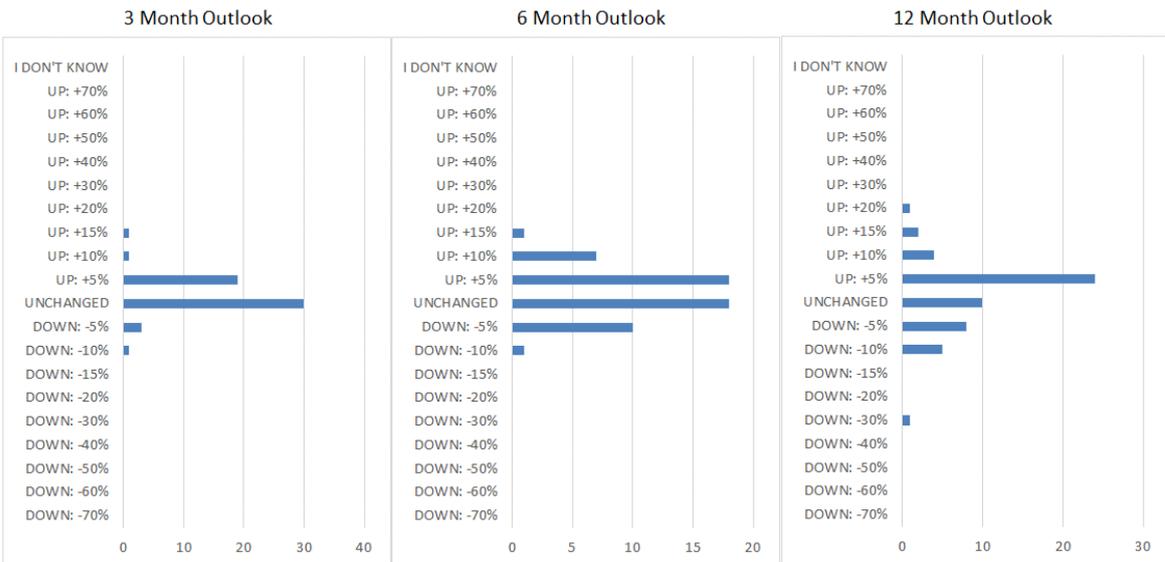
- China inventory building up.
- The market have peaked and will remain stable for most of the year with maybe a slight drop in export pricing. An upward change could occur in export if the NZ dollar drops. NZ domestic market will remain buoyant.
- Market for pruned logs in China reducing.
- It is almost impossible to get new logging gangs. This will keep a lid on volumes.
- Strong export market trends and the governments push to increase housing starts, hopefully to stimulate the domestic market.
- Almost without exception and taking each market separately. World forest markets are getting very tight.
- Winter conditions will see a temporary fall in log production. And in 12 months' time log production will be on the rise as harvesting increases in those investment forests established in the mid-1990s.
- Strong demand all grades, internal and external. Reducing global indigenous supply. Demand for sustainable resources.
- Fundamentally strong demand in China, - will be impacted by short term volatility. Limited softwood supply alternatives at price points NZ offers.
- Log prices will continue to be driven by Chinese demand, which has been surprisingly buoyant. However inventory levels in China are high, and might result in price softening.
- There is much talk of the "wall of wood" and how much our export volumes will increase...whilst it all sounds good I don't see the existing infrastructure (railway and port space) being able to cope with increased volumes. We operate from the Port of Wellington and operationally it isn't the easiest port to export from. CentrePort Wellington are difficult to deal with and do not have the best interest of log exporters at heart. As for pricing, I anticipate pricing to remain relatively unchanged (12 months)...but I could be wrong and we could have a huge market correction which could see pricing plummet.
- Coming into winter Are we reaching 'peak log' ?
- Business outlook is fairly steady, but with a slight downward bias toward the early 2019.
- Exchange rate lowering vs freight increase. Steady domestic demand.
- There is lots of wood to be harvested. Severe shortage of harvesting crews and transport limiting what is being cut. Prices are good and lots of forest owners are keen to capitalise on that. The shortage of resources in forest, transport and on the ports will keep prices up in the near future.
- NZ is enjoying a boom in construction of all types and export demand for logs and manufactured products remains strong.
- Markets in NZ are tightening, Export is still flowing.
- US - China trade scrap providing opportunities for NZ.
- Increasing worldwide demand, lowering worldwide supply (for many reasons). New Zealand volume will be limited by infrastructure.
- Domestic demand will increase because of Govt build scheme. Export markets outlook appear to be positive.
- Increased demand in US, continued demand in China, efforts to get logs to NZ mills instead of exports.

- More forests are getting harvest ready; some harvesters thinking of forming a new crew; shipping costs will rise and transport within the country; NZ\$ stable or fall relative to \$US.
- Export sales will slow down over the height of northern hemisphere summer. Shipping costs may increase.
- The domestic housing market is becoming less stable despite the supposed underlying demand. Developers are becoming nervous about growing costs, and the uncertainty around recovering those costs.
- Harvest volumes will continue to rise albeit slowly due primarily to capacity constraints. Note that a 10% lift over 12 months is another 3 million tonnes so we have to question whether we have the capacity in all parts of the supply chain to deal with and potentially exceed that. Prices may also strengthen if the NZD maintains its lower level against the USD. Shipping and oil prices and capacity may work to reduce prices or net returns.
- The market is still very dependent on China, whose growth has been slowing and could slow further due to geopolitical forces. Also, higher oil prices is pushing up shipping costs, which could hit export prices and may even reduce volumes, although the long term trend still remains positive.
- Market volumes topping out. Anti-globalist sentiment.
- Less pruned logs exported due to poor quality (for price) will stabilise the domestic market prices and eventually export prices will fall.
- Uncertainty in export markets - with stocks building in China. Continued difficulty within NZ to improve home construction levels up significantly.
- Uncertainty due to increasing supply of wood and dependence on one key market to take that increased supply (ie China).
- Steady as we go. Winter weather will reduce log supply.
- Alternative supply sources like Uruguay and low demand in India, due to ban of the Letter of Undertaking / Comfort (LOU / LOC) facility by the Reserve Bank of India.

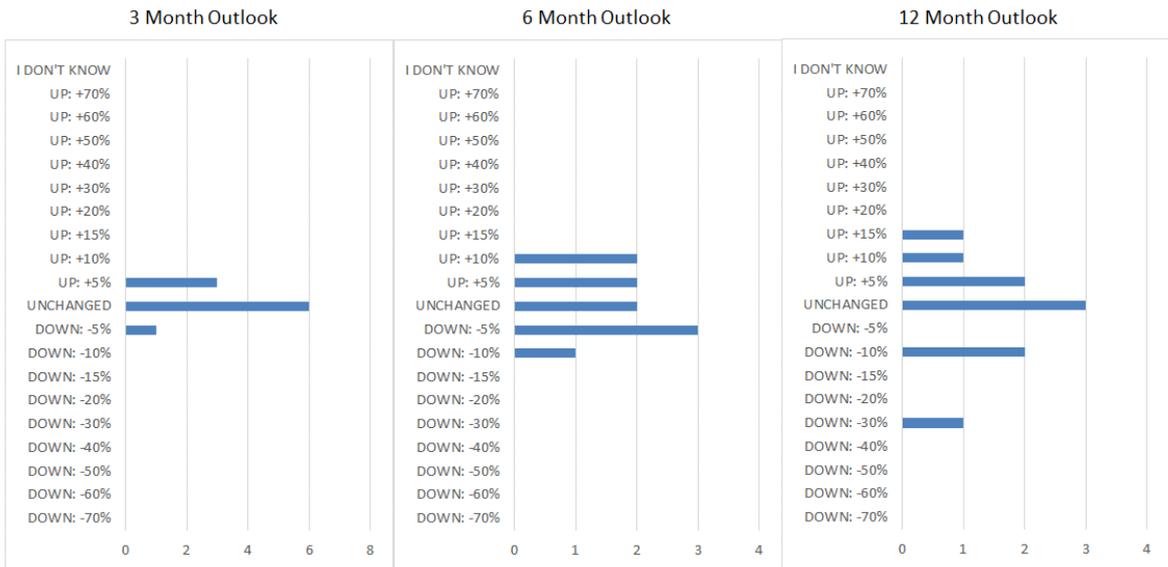
All log types combined
Log Price as a % of prices in May 2018



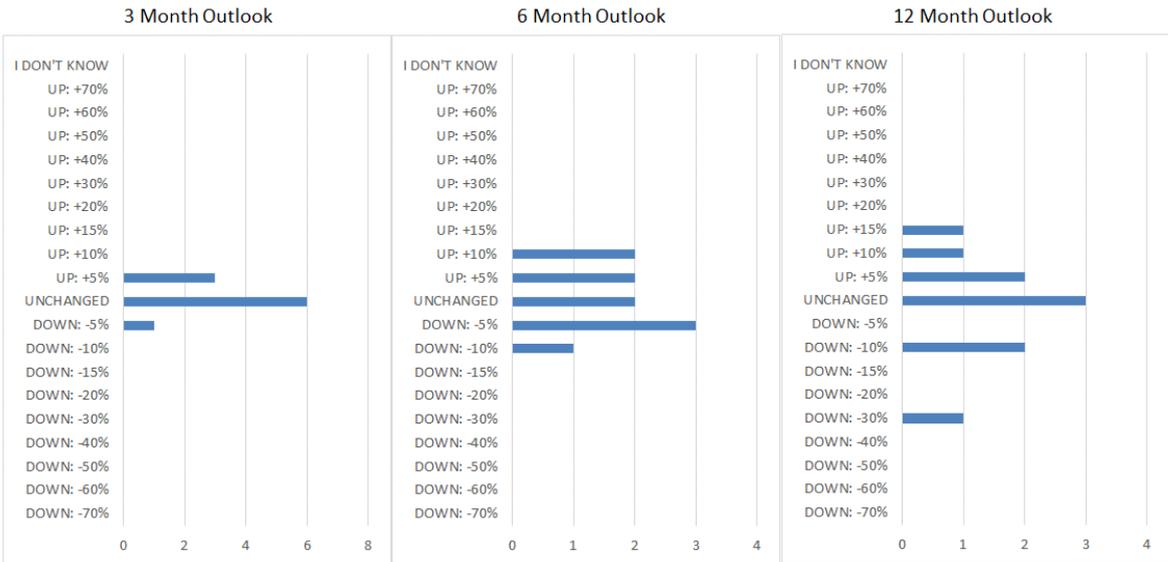
Volume as a % of May 2018



Export logs only
Log Price as a % of prices in May 2018

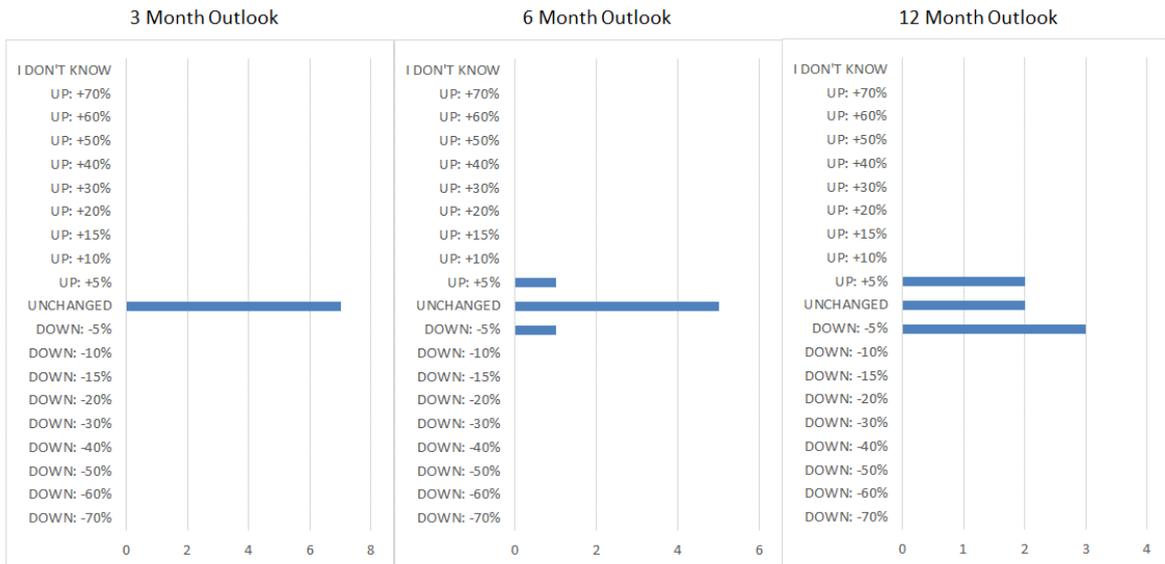


Volume as a % of May 2018

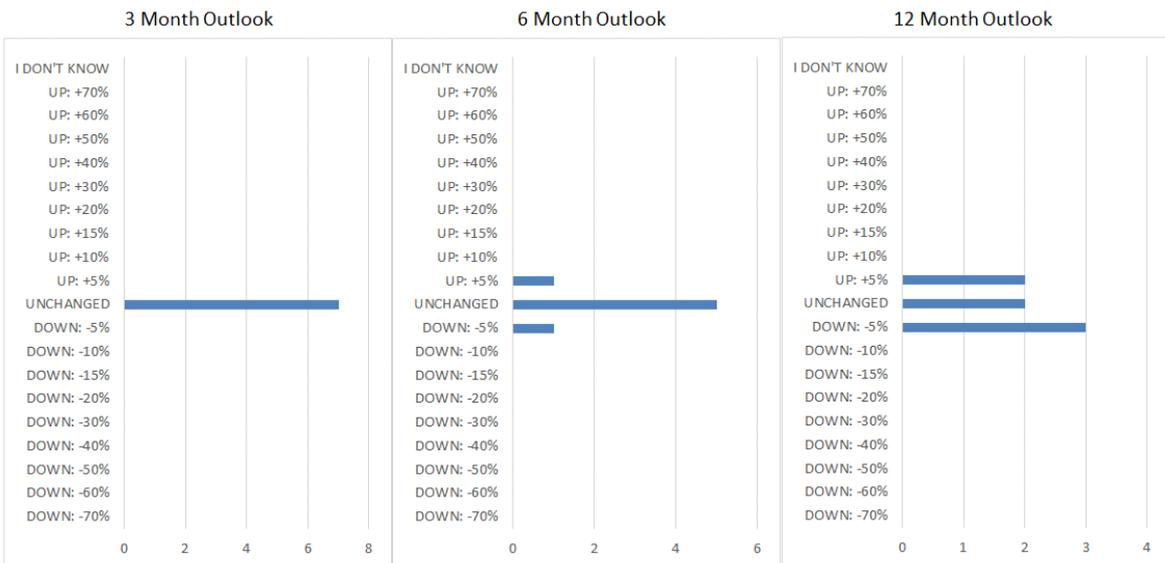


All Domestic log types combined

Log Price as a % of prices in May 2018



Volume as a % of May 2018



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 August 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>

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