

# Timber Market Update

## Executive summary

4Q 2019

Copenhagen, April 2020

## Timberland transactions and returns

In the fourth quarter of 2019, the most significant transaction in the US was Rayonier's acquisition of Pope Resources for USD 656 million, including 125,000 acres of timberland valued at USD 525 million. It is still uncertain if the TIMO-arm of ORM is going to be spun-off as a result of this. Another significant transaction was Hancock's 86,000 acres Tyler package in Texas, which was sold to Molpus for USD 141 million.

Timberland returns in the fourth quarter continued to be affected by log price corrections and a weaker Chinese export market. The NCREIF TPI 2019 annual return was -2.38% in the PNW, -1.97% in the Northeast, and 2.97% in the South. The full NCREIF TPI ended at 1.30% for the year.

There have been several larger international transactions, including 14,000 hectares purchased by Klabin from Suzano in São Paulo, Brazil, for USD 87 million (BRL 400 million), to supply their new PUMA II unit. RMS sold 36,500 hectares of Tasmanian hardwood plantations in Australia to GFP, for an undisclosed amount. Also, in the beginning of 2020, New Forests acquired the 12,000 hectares BunBury Fibre Plantations in Western Australia for an undisclosed price.

**Table 1** Quarterly Transactions Overview

Region	Price estimation* (million USD)	Hectares (000)
US	1,145.2	968.9
South	607.4	830.0
West	-	-
Northeast	537.3	139.0
Rest of the world	640.0	140.0

## Regional price developments and market drivers

In December 2019, the US housing starts pointed to a strong recovery with 1.6 million starts/year, and the trend continued into January and February. However, due to the COVID-19 lockdowns, a sharp correction is expected.

Interfor, West Fraser, and Weyerhaeuser reacted to the expected slowdown by announcing temporary curtailments of lumber production. The timberland owners are correspondingly reorganizing the harvest schedules to adjust for a reduced demand. The lumber and log prices in the US have so far been relatively unaffected, but price reductions are expected.

The Chinese tariff on US softwood log and lumber exports was lifted as of March 2<sup>nd</sup>. There may be some short-term challenges in getting the supply-chain up and running, but shipments from the US South are expected to increase the supply in the medium-term.

From August 2020, the duties on Canadian lumber shipments to the US are set to fall from over 20% to 8%. This will support the Canadian lumber exports to the US, while the structural deficits of log supply in British Colombia should remain unchanged.

China is now resuming economic activities after the COVID-19 lockdowns, resulting in the Manufacturing PMI to bounce back to 52% in March 2020 from a low of 37%. The saw- and veneer mills are quickly ramping up production, and the port log off-take is back to normal. Currently, the log inventory is at 7 million m<sup>3</sup>, which is about twice the average, but it is expected to be brought back to normal during the second quarter, as a result of the lockdowns in Europe and New Zealand.

In fear of supply shortage, the Chinese log and lumber prices have recovered to the pre-COVID-19 levels, meaning that suppliers in Australia, the US, and Uruguay could potentially benefit from such shortage.

The market demand for pulp has been firm, driven by tissue demand, which alongside various supply shocks have kept the pulp prices steady. The pulp prices were in a recovery phase, which is expected to be prolonged due to the current crisis. Further mill curtailments could, however, change this outlook.

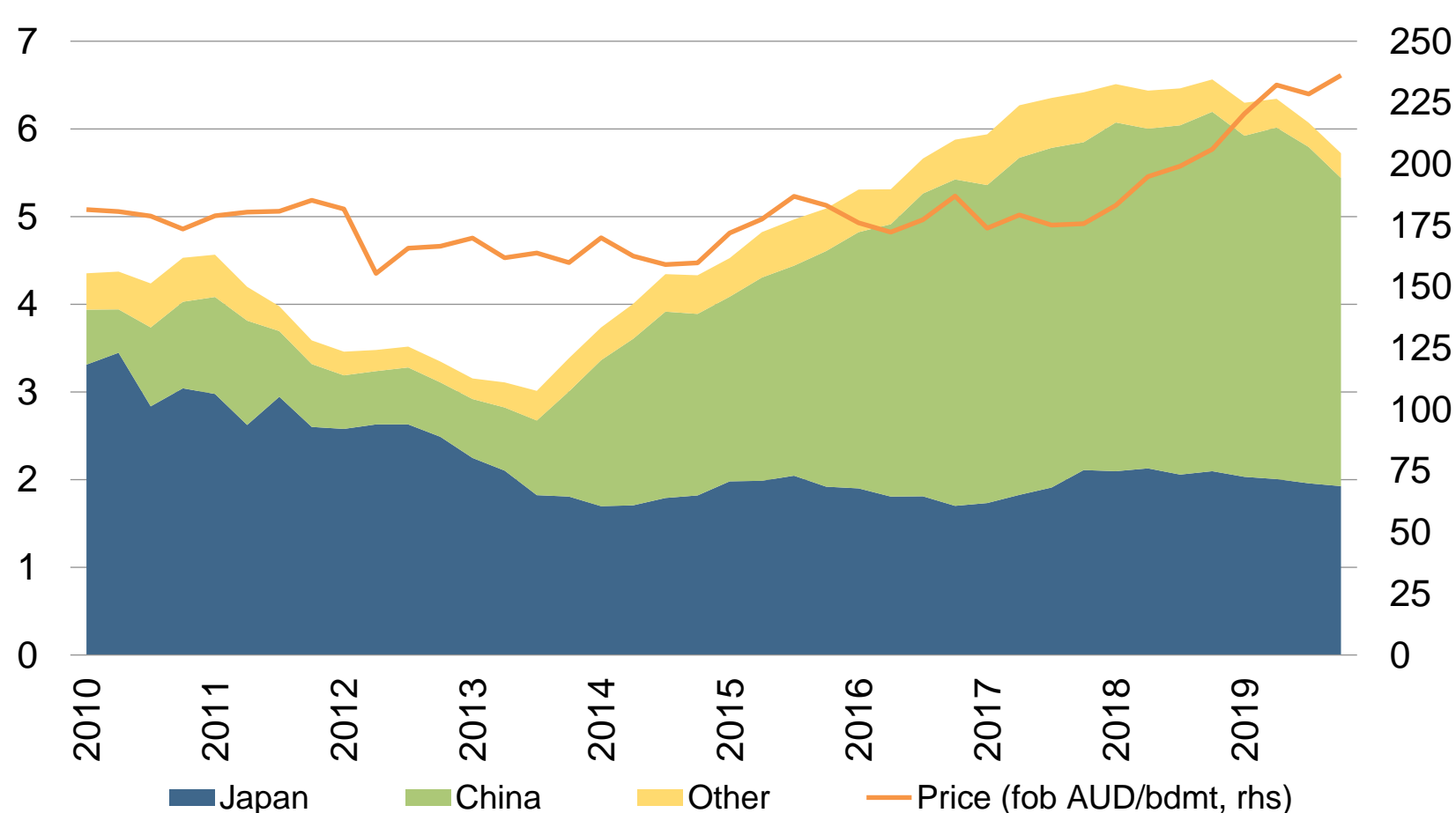
New Zealand log export prices rebounded to about 110 NZD/m<sup>3</sup> in the fourth quarter. In March 2020, prices decreased to about 90 NZD/m<sup>3</sup> due to the COVID-19 situation in China. At the end of March, New Zealand entered a 4-week lockdown period and there is some optimism that exports will resume fairly quickly once the lockdown is lifted and China has depleted its inventory levels. Domestic log prices currently trade at 125 NZD/m<sup>3</sup>, and the prices in China on New Zealand logs recently increased by around NZD 20.

At the end of 2019 and beginning of 2020, Australia was hit by an unprecedented fire event, affecting about 18 million hectares of primarily natural forests. It is estimated that 100,000 hectares of softwood plantation (less than 10% of the national estate) were affected by the fire, including a large portion owned by the Forestry Corporation of NSW, postponing a planned sale of this asset. Short-term, more than 5 million m<sup>3</sup> of wood from salvage operations could come to market. Long-term, the impact is expected to further increase the softwood deficit situation in Australia.

Australian housing approvals was down by 18.7% in 2019, to 170,000 approvals, while the lumber production declined 7.7%. Salvage wood supply and lower construction activity suggest lower log prices going forward.

Over the year, the Australian hardwood chip export declined about 13%, due to reduced exports to China. The COVID-19 situation could have implications for woodchip prices, but it is believed that the downside risks are relatively small, as woodchip prices are traded in USD and global pulp prices were low before the pandemic and have not decreased further.

**Figure 1** Australian hardwood chip exports (million BDMT) and prices



Source: Wood resource Quarterly (Yearly), Wood Market Edge (Quarterly)

In Sweden and the Baltics, the log price impact from the COVID-19 situation has not yet been severe, but the outlook is uncertain. The oversupply of salvage wood, caused by the beetle attacks in Central Europe since the summer of 2019, and the following supply shock of spruce logs and lumber, was still intact before the COVID-19 outbreak, and log prices had already come down a bit.