

# Timber Market Update

## Executive summary

1Q 2020

Copenhagen, June 2020



## Timberland transactions and returns

In the first quarter of 2020, roughly 86,500 acres of timberland were sold, all in the US South. But after this quarter, and due to COVID-19, timberland transactions were brought to a stand-still. This resulted in postponed acquisition and disposition plans, including Molpus' sale of 80,200 acres of timberland in Arkansas, Texas, and Louisiana.

Internationally, New Forests acquired 18,000 hectares of softwood plantation for AUD 62.5 million in southern Tasmania, Australia, from Norske Skog. New Forests also announced the extension of their AUD 1.3 billion ANZFF fund for another 12-year period.

## Regional price developments and market drivers

The US housing starts reached almost 1.5 million in the first quarter, which was mainly due to the multi-unit housing starts increasing by over 50% from last year. In April 2020, housing starts declined by 40% to 0.9 million/year, due to COVID-19 lockdowns.

The lumber industry curtailed production to meet expected reduced demand. It turned out the curtailments were overestimated, which was indicated by a partial recovery in the lumber prices through May 2020. This stronger-than-expected lumber demand came from the renovation market and the spendings of quarantined homeowners, unaffected by the layoffs. The lumber industry responded to this by adding back capacity, although, according to RISI, the lumber demand is expected to decline by 6% in 2020.

As the COVID-19 pandemic escalated in the US in April 2020, the US log prices were unchanged in the first quarter, however, the lumber price correction is expected to affect the log prices in the Pacific Northwest.

In Australia, the housing starts are yet to be affected by the COVID-19, and a similar development to the one observed in the US is expected. The slowdown of the market is also presumed to decrease domestic lumber demand and log prices.

A weakening of the AUD, fiber shortage in China, and a coordinated effort by Australian suppliers to scale down the production, kept the woodchip prices steady in Australia. China is increasingly sourcing cheaper woodchips from Vietnam to stay competitive against the low global pulp prices. A recovery in the pulp prices is expected to support the demand for higher quality Australian woodchips.

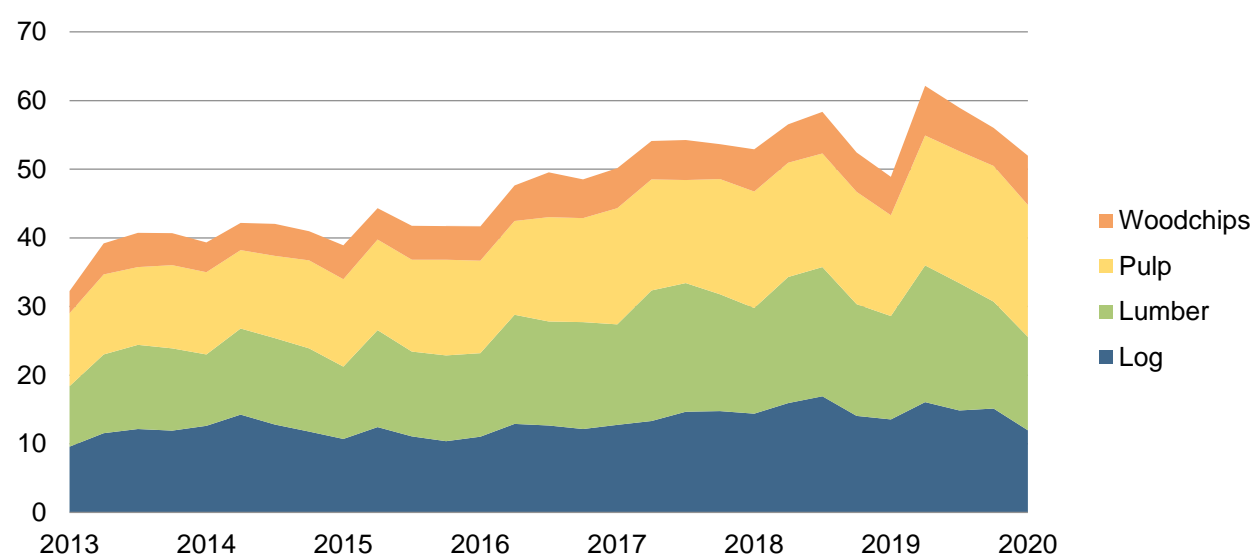
Despite COVID-19, the global pulp prices were steady to increasing during the first quarter, remaining at low levels at quarter-end. The high demand pulls from the hygiene and tissue markets offset the fall in paper and packaging demand. The risk from reduced global trade and reduced demand for paper and packaging is still present and will be an important factor for the pulp price development in 2020.

In Brazil, the pulp production increased with 5% compared to last year. With the recent depreciation of the BRL, the industry competitiveness has improved.

After the 4-week lockdown in New Zealand, the log export prices recovered to record highs, as based on the short supply in China, a weaker NZD, and lower freight costs. Once logging operations resume, a normalization of the log prices is expected.

In response to the lockdown in New Zealand, China began sourcing logs from other regions, especially Europe. Uruguay is also expected to benefit from the increased Chinese demand in the second quarter.

**Figure 1:** Chinese wood imports (roundwood equivalents, million m<sup>3</sup>)



As expected, the total wood exports to China declined on a quarterly basis, but Chinese imports were still higher compared to last year. The lockdown in China particularly affected log and lumber imports, while pulp imports were unaffected.