

Outlook for Asian Forest Products Markets: Logs, Lumber and Woodchips

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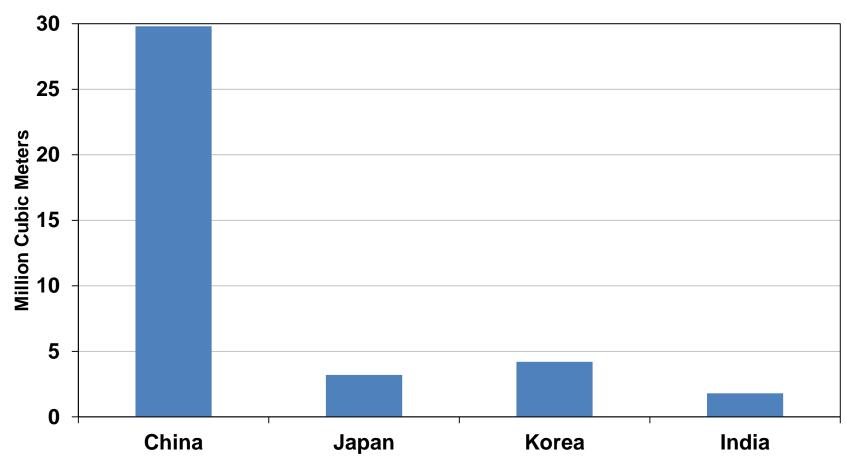
Agenda

- China remains the dominant market
- India and other points of interest
- Historical trends and outlook



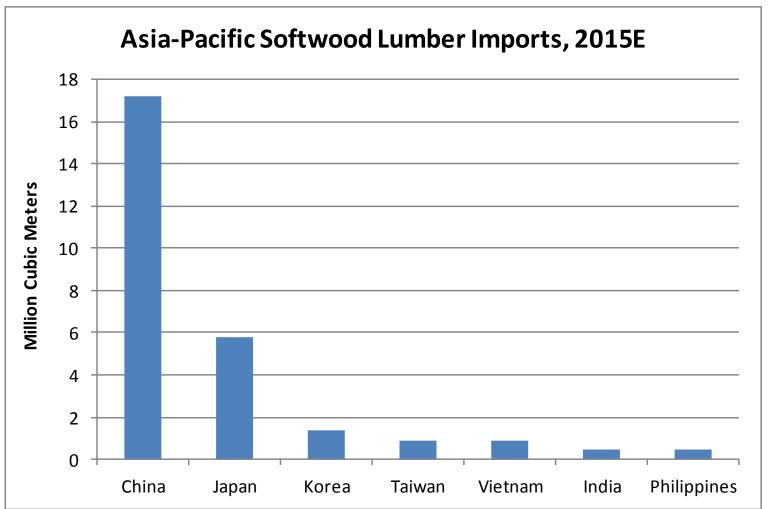
China accounts for over 75% of the Asian softwood log import market, but the fastest growing market???

Asia-Pacific Softwood Log Imports, 2015E



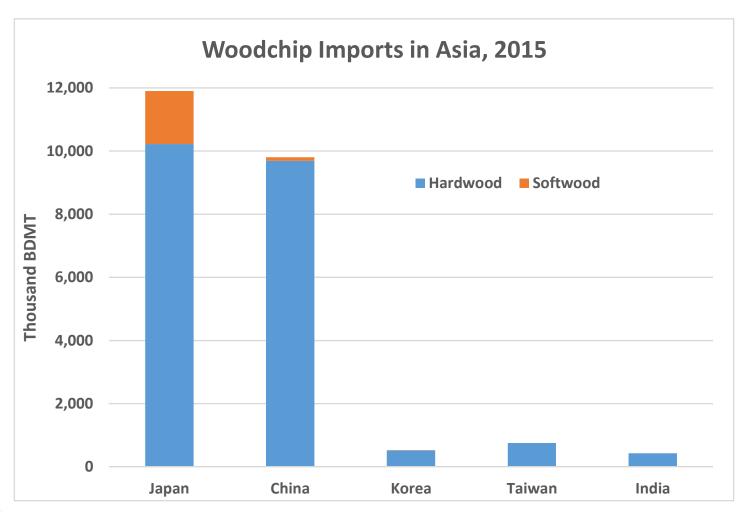


China also dominates softwood lumber imports in Asia, with 64% of the total, but these markets are more diverse than the log markets





Japan remains the largest woodchip import market in Asia, but Chinese demand is growing rapidly





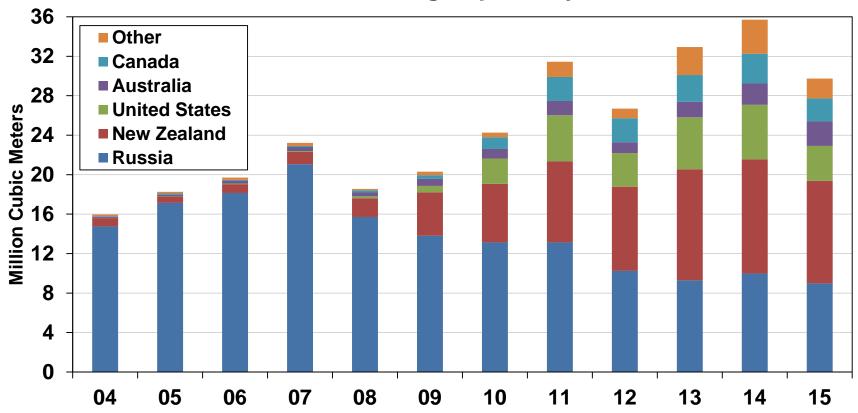
Over the past 20 years, China's need for imported timber has grown at a CAGR of 14.6%, while real GDP growth averaged 9.4%





Russia's decision to rapidly increase its log export tax greatly benefited timberland investors, especially in New Zealand

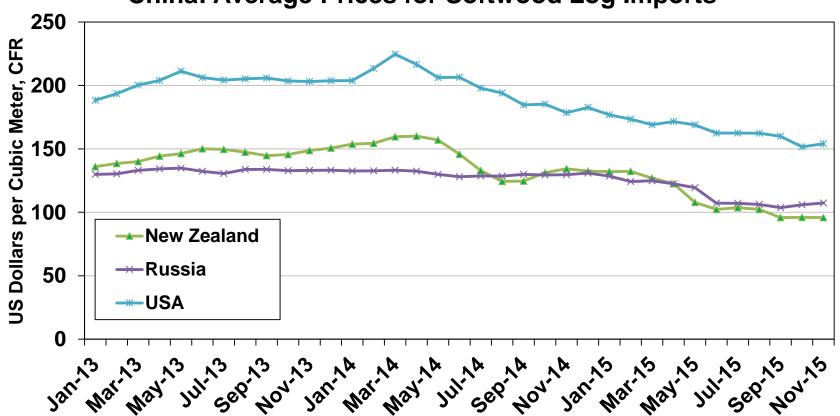
China: Softwood Log Imports by Source





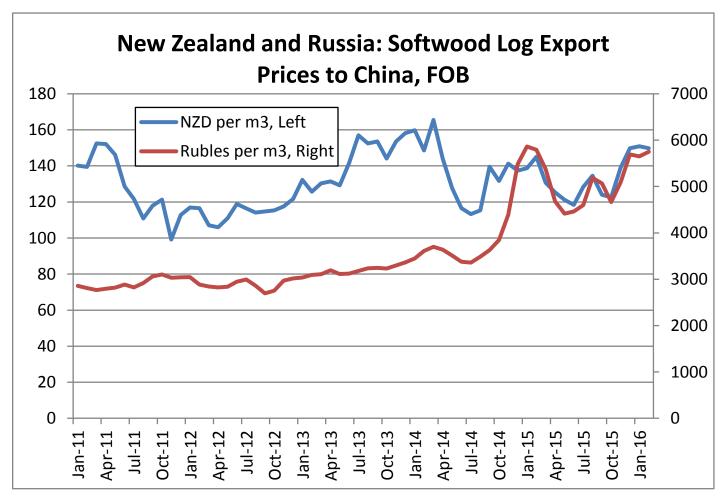
The slowdown in China has meant much lower pricing for logs, with high-priced suppliers like the USA losing market share

China: Average Prices for Softwood Log Imports





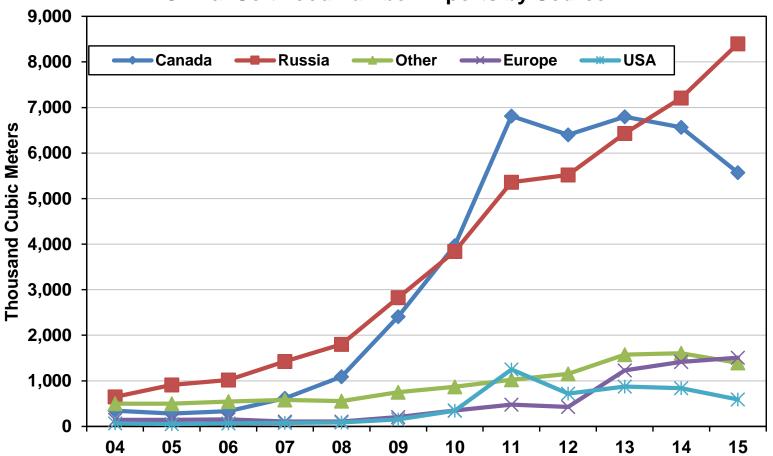
Viewed in terms of local currency, prices for New Zealand logs still look attractive, and Russian prices are greatly improved





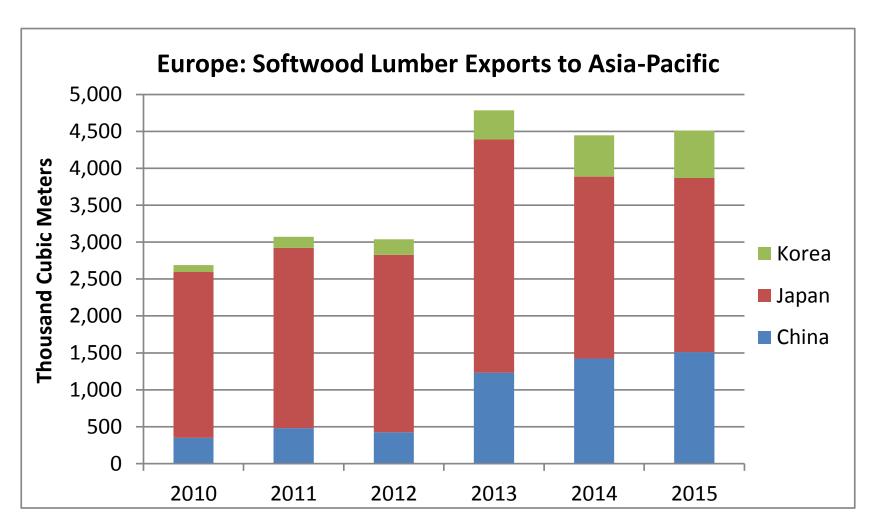
Russia has continued to expand softwood lumber shipments to China, despite a stagnant market in 2015





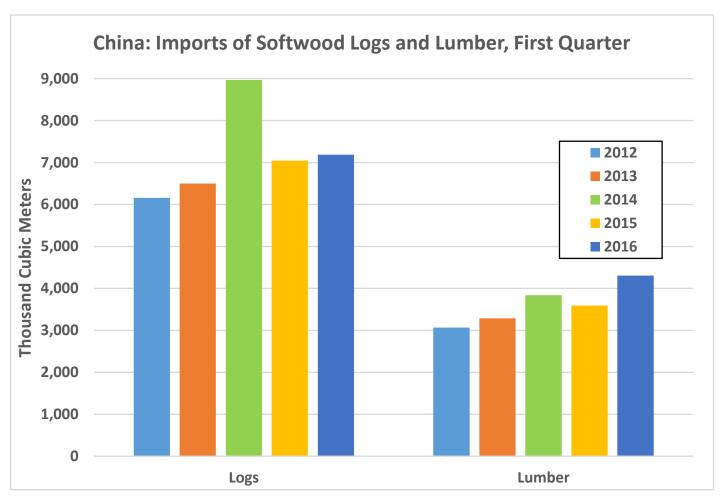


European softwood lumber exports to Asia are sizable, with more and more heading to China



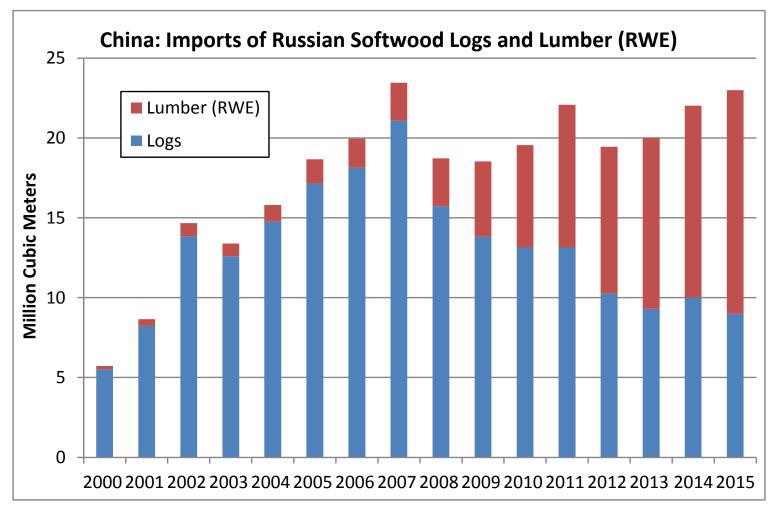


In 2016, softwood lumber continues to gain market share in China; on a log-equivalent basis, half of softwood imports are in lumber form





The much weaker ruble will not result in a flood of Russian softwood entering the Asian markets, but will permit Russia to maintain volumes





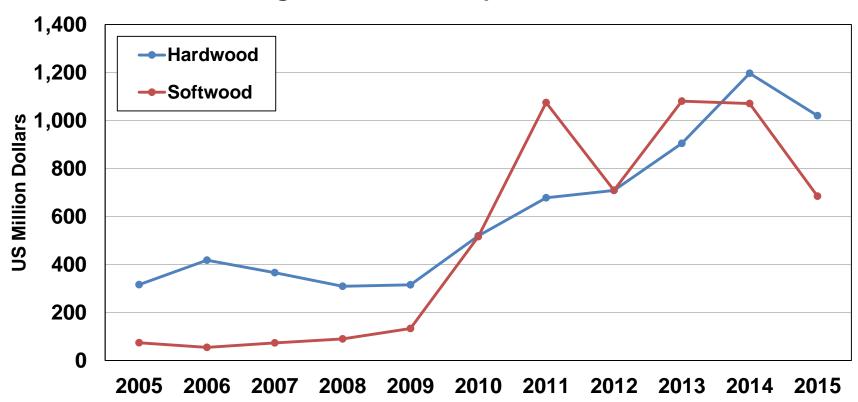
Russia boosted its log export tax to encourage more "value-added processing", but the value of wood products exports in 2015 was still 28% less than in 2007





How changes in China's market impact timberland investors depends on what kind of timber is being grown and its location

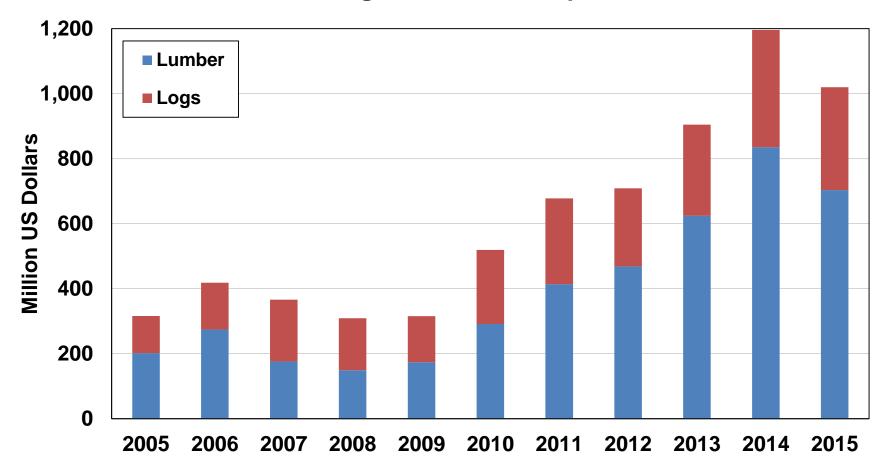
US Log and Lumber Exports to China





US hardwood shipments to China are 70% lumber, while softwood shipments are 76% logs

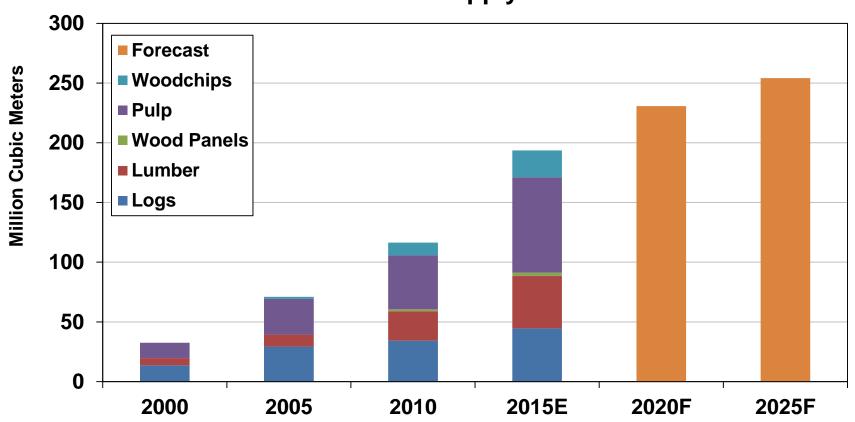
US Hardwood Log and Lumber Exports to China





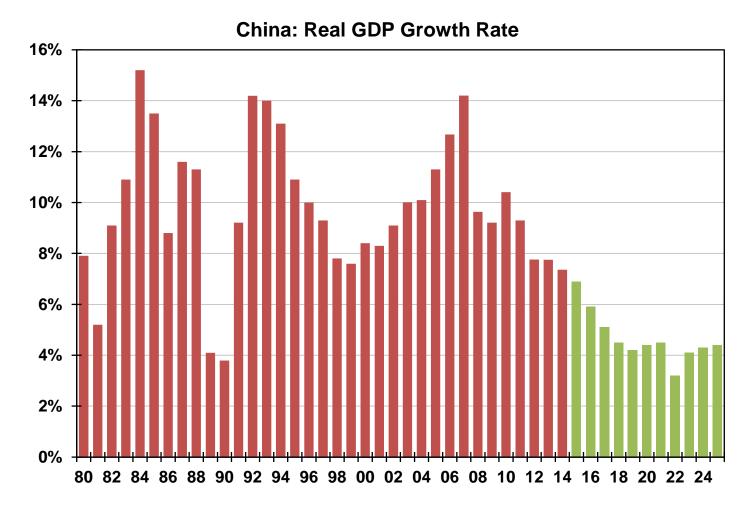
Over the next decade, RISI projects that growth in China's timber imports will slow to less than 3%

China's Timber Supply Deficit





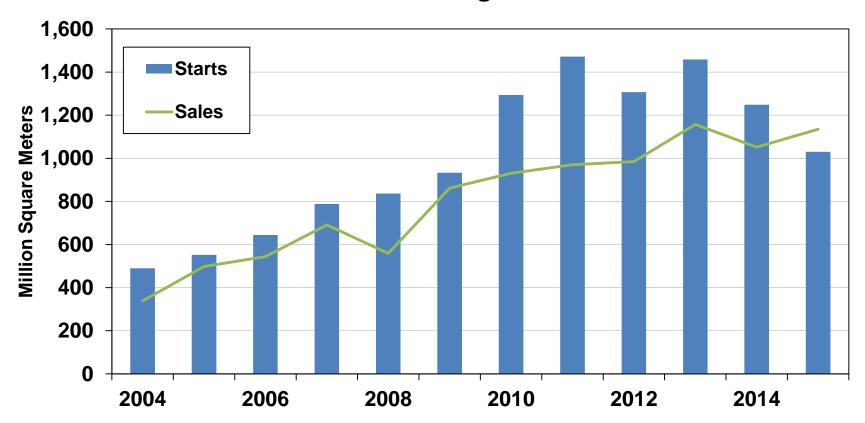
China's Real GDP growth rate is unquestionably slowing down





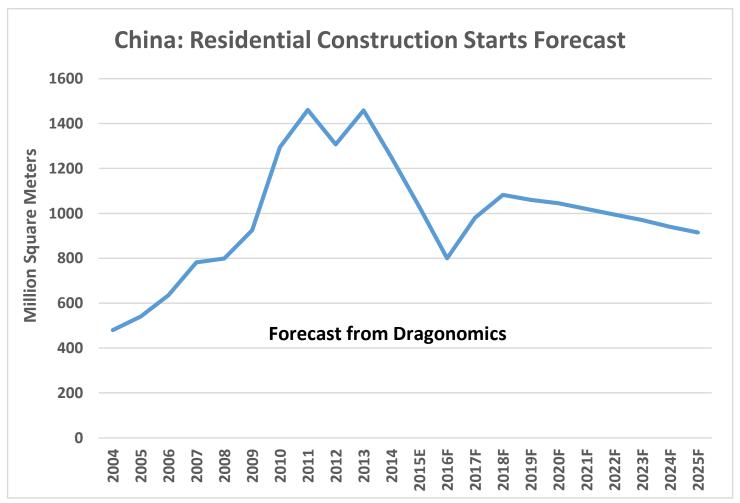
In 2010-2013, housing starts exceeded sales by almost 40%, leading to a large glut of unsold properties on the market

China: Residential Housing Starts and Sales



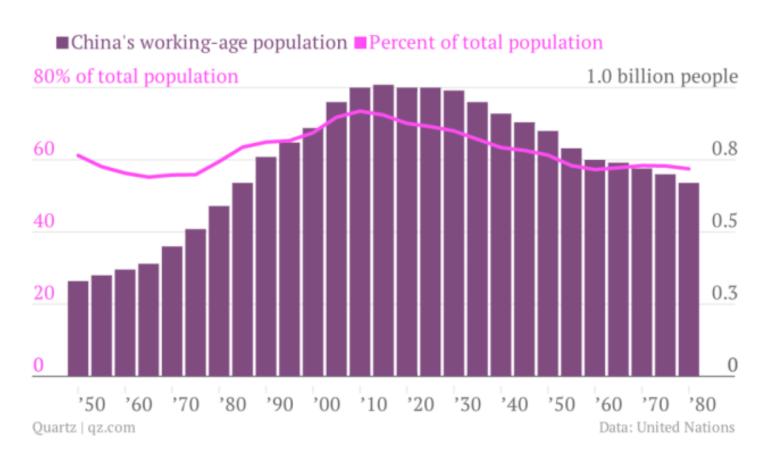


The orgy of over-construction in China's housing sector is unlikely to be repeated in the future; construction will remain within government goals for the economy



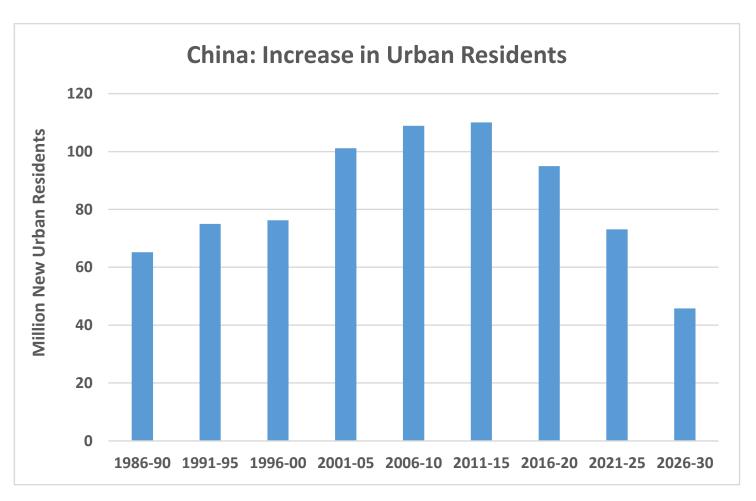


China's working age population began to decline in 2012; in 2014 it fell by 3.7 million, and in 2015 it fell by 4.9 million



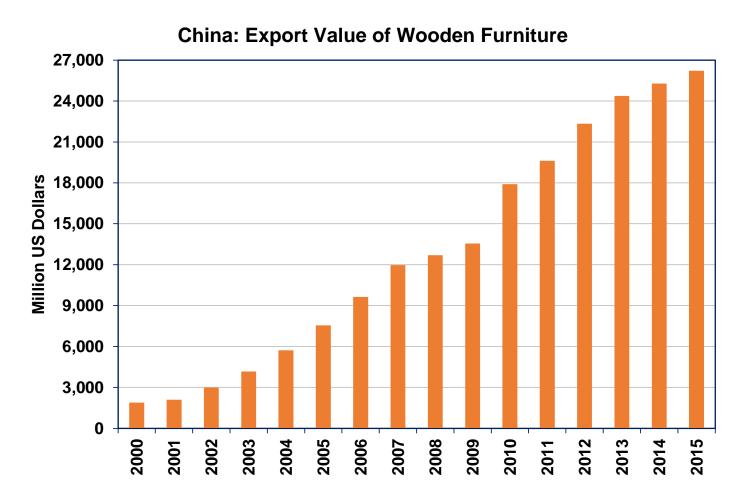


Urbanization is continuing in China, but at a much slower pace



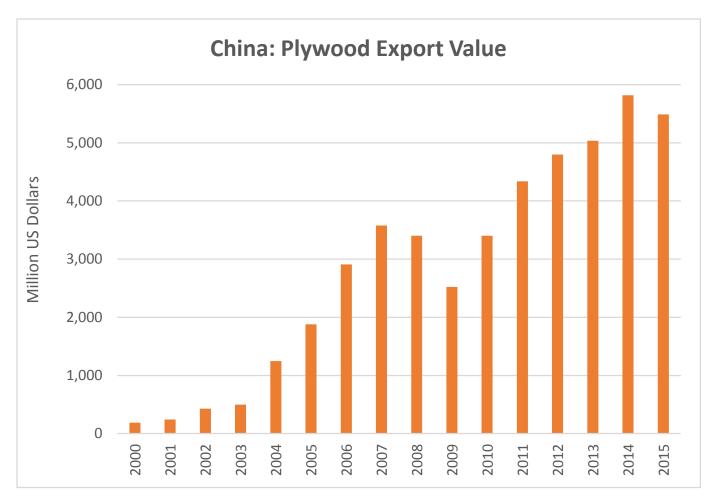


China continues to be the world's largest furniture exporter, but growth is slowing, in part because of rapidly rising labor costs in China





China is also by far the world's largest exporter of plywood, but again the sector is facing escalating costs for both logs and labor

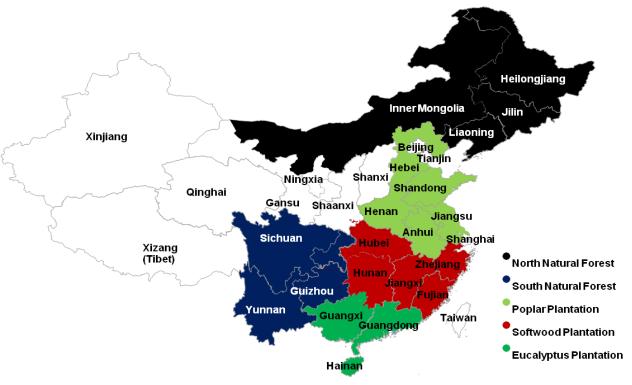


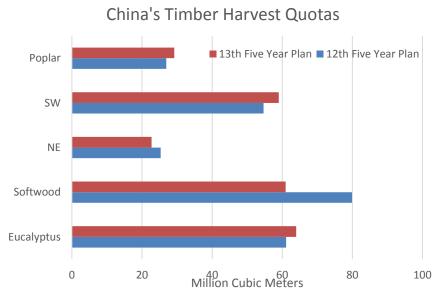


What about domestic Chinese timber supply? Is there a threat from increased harvest in plantations?

- China has reportedly established the largest area of plantation forests in the world.
- Harvest from fast-growing eucalyptus plantations is increasing, but not nearly as fast as the area of planting might indicate.
- Natural forest harvest "ban" --- maybe not what you think.
- Softwood timber harvest--- no potential for increase



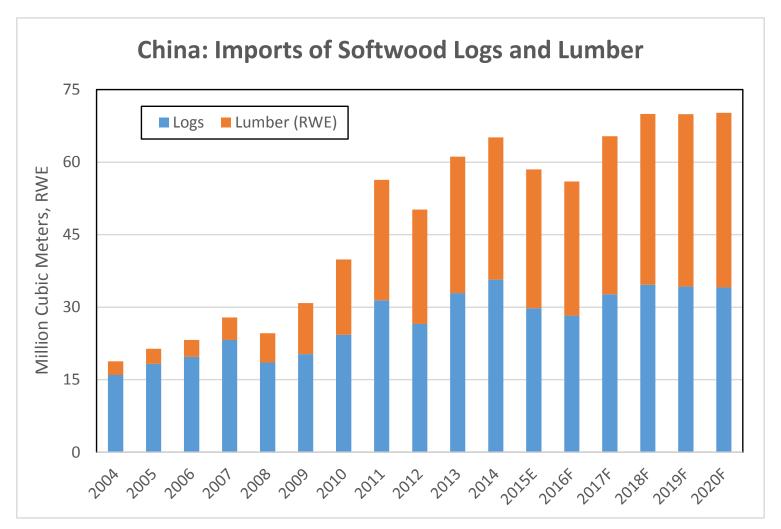




RISI

The primary decline in China's timber harvest is occurring in the softwood timber region, which will limit domestic softwood supply

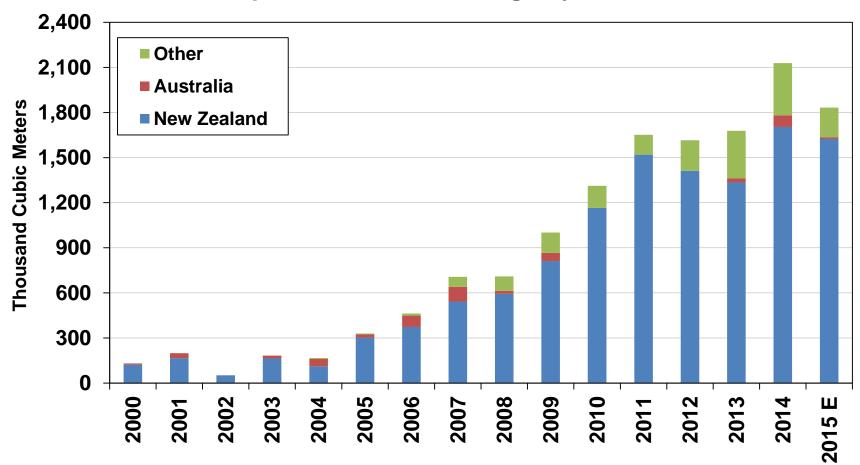
Total softwood imports in China will likely level off in a couple of years; log imports may have peaked in 2014





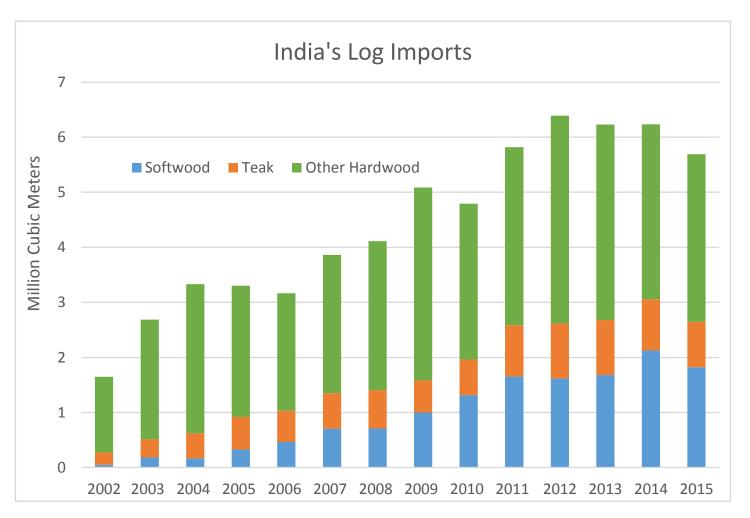
By the end of this decade, India will be a larger market for softwood logs than Japan

India: Imports of Softwood Logs by Source





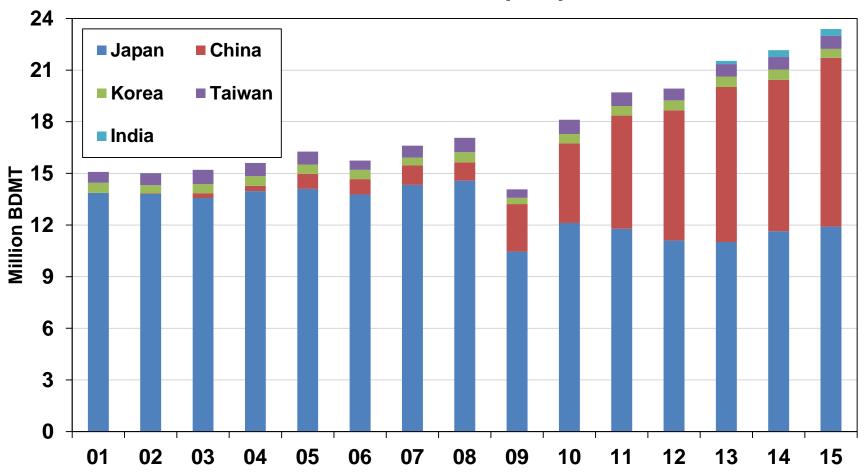
The market for softwood timber in India is just in its infancy; less than 10% of India's log imports were softwood prior to 2005, today the share is one-third





Imports of woodchips in Asia have set record volumes for the last six years in a row

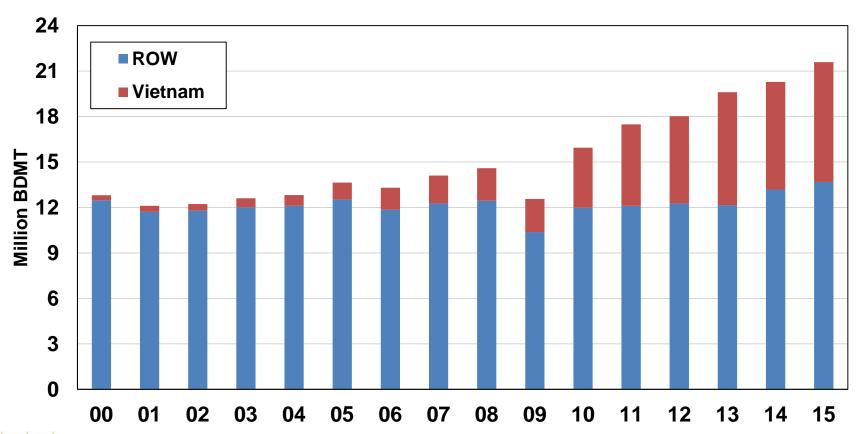
Asia-Pacific Woodchip Imports



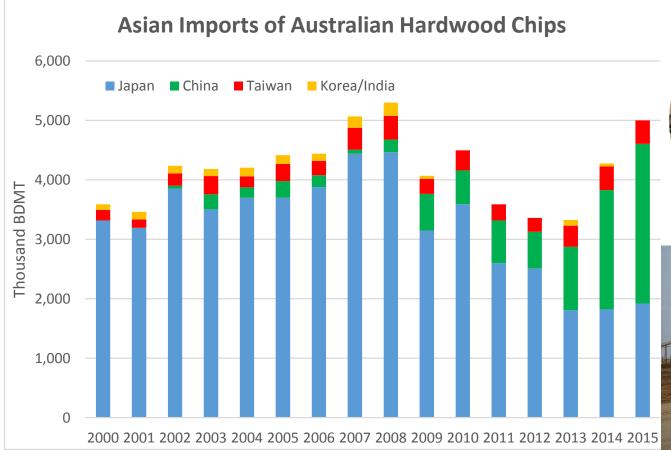


Since 2000, 86% of the growth in hardwood chip imports has been from Vietnam, but for how much longer?

Asian Hardwood Chip Imports, Vietnam and ROW



There has also been a revival in exports from Australia



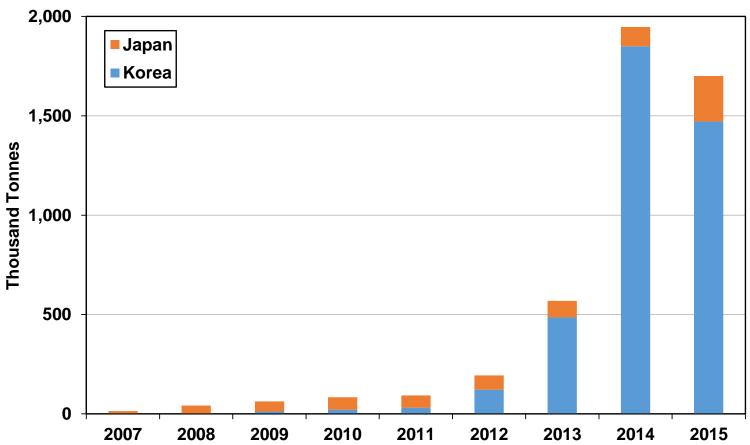






Total wood pellet imports in Asia remain below 2.0 M tonnes per year; in 2015, the UK imported 6.5 M tonnes of wood pellets, but Asian demand could grow quickly

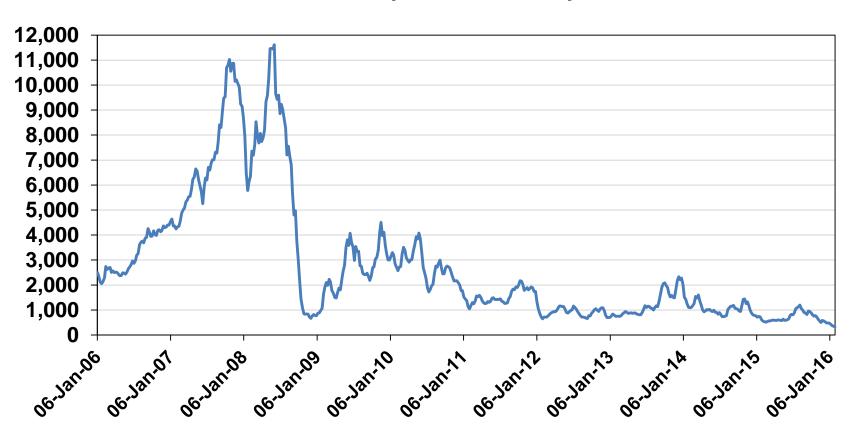
Japan and South Korea Wood Pellet Imports





Historically low ocean freight rates levels and weak bunker fuel prices have reduced transport costs to historically low levels – it's all up from here!

Baltic Dry Index, Weekly





Summary

- Growth in China's demand for imported wood fiber will continue, although at a much slower pace than in the past 5-10 years
- The USA will continue to have a tough time competing in the China market because of the strong dollar and relatively high timber prices
- Other markets like India present excellent long-term growth potential, but will not repeat the explosive growth seen in China
- Woodchip markets are still setting new records, but most of the growth in Asian fiber imports will be in the form of pulp, rather than woodchips, in the future



Mark your calendars: 9th International Woodfiber Resources and Trade Conference to be held in Da Nang, Vietnam, February 13-15, 2017!



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The only conference focused on international trade in woodchips and biomass, and the first one to be held in the Vietnam.

Previous conferences have proved to be valuable business networking events for those involved in the trade, attracting buyers, sellers and traders from more than 30 countries.

