

# The FORME Report

## RADIATA PINE LOG PRICES: 2nd Quarter 2008



Grade	Market	SED	\$ Low	\$ Mean	\$ High	Trend
Pruned P1	Domestic	40cm	\$122	\$129.3	\$140	↓1
Pruned P1P2	Domestic	35cm	\$110	\$121.0	\$132	↓3
Pruned P2	Domestic	30-35cm	\$98	\$103.3	\$115	-
S30	Domestic	30cm	\$70	\$83.7	\$90	↓2
S20	Domestic	20cm	\$65	\$67.0	\$69	↓2
L/R	Domestic	30cm	\$58	\$66.6	\$74	↓1
A Grade	Export	30/34cm	\$57	\$63.5	\$79	↑1
K Grade	Export	20/26cm	\$51	\$58.3	\$77	↑1
KI Grade	Export	26cm	\$37	\$53.0	\$69	-
Pulp logs	Domestic		\$32	\$44.4	\$57	-

Note: The log prices stated above are for radiata pine logs delivered to wharf or mill gate (export prices are reported as NZ\$/JASm<sup>3</sup> and domestic prices have been converted to NZ\$/m<sup>3</sup>). Log prices are indicative of the last quarter only and may not necessarily fit with actual grades and prices paid in recent market transactions in your region.

### Commentary

Our quarterly log price survey noted only slight changes to log prices for the 2<sup>nd</sup> quarter of 2008. Prices for domestic log grades, both pruned and structural, continued their steady downward trend, however small gains in export log prices (in NZD terms) were recorded.

We recorded only price reductions for pruned logs and demand for pruned logs remains weak – the downward trend continues. Forest owners of pruned stands are very dependent on the US markets and with ongoing weak demand there is no expectation of any price increases in the near future.

The domestic markets for structural sawlog grades worsened in most regions and our survey contributors advised of downward corrections averaging \$2 per tonne on delivered log prices. We are aware of a number of Sawmills with excess stocks of timber – some stock “dumping” has already occurred in the South Island. Forme also understands that some mills are processing more industrial grade logs to reduce their raw material costs and/or reducing the number of shifts. The ongoing downward trend in new housing activity and the weak property market is also having an adverse effect on domestic log prices – this is expected to continue into 2009.

Export log prices in USD increased by about 1-2NZD/JASm<sup>3</sup> on the back of a slight fall in the NZD/USD foreign exchange rate. Ocean shipping rates were noted to be “up and down” over the 2<sup>nd</sup> quarter. The NZD/USD hovered in the 0.75 to 0.80 range over the quarter – down a little on 1Q2008. Forme understands that log inventories in Korea and China are falling quickly and export log demand will improve as a result.

Domestic pulp log prices were steady during the quarter with few changes noted.

### Outlook

We have read some optimistic reports for the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2008, however we have heard this sort of talk before and suspect any immediate log export price increases will be absorbed quickly by freight rate increases. Our pick is that any sustained recovery in log prices won't occur till 1Q2009.

- Export log prices are up \$5/JASm<sup>3</sup> to kick off the 3<sup>rd</sup> quarter 2008.
- Ocean freight rates are hard to pick, though we expect they will probably follow log prices.
- The NZD/USD foreign exchange rate may trend slowly down against the USD.
- Further downward pressure on domestic sawlog prices.
- Expect to read about a few more sawmill closures before the end of the year.