



North America Market Trends & Fit with China

COFFI 2018 Meeting

Vancouver

November 6 2018

**By: Russell Taylor, Managing Director
FEA Canada (WOOD MARKETS)**



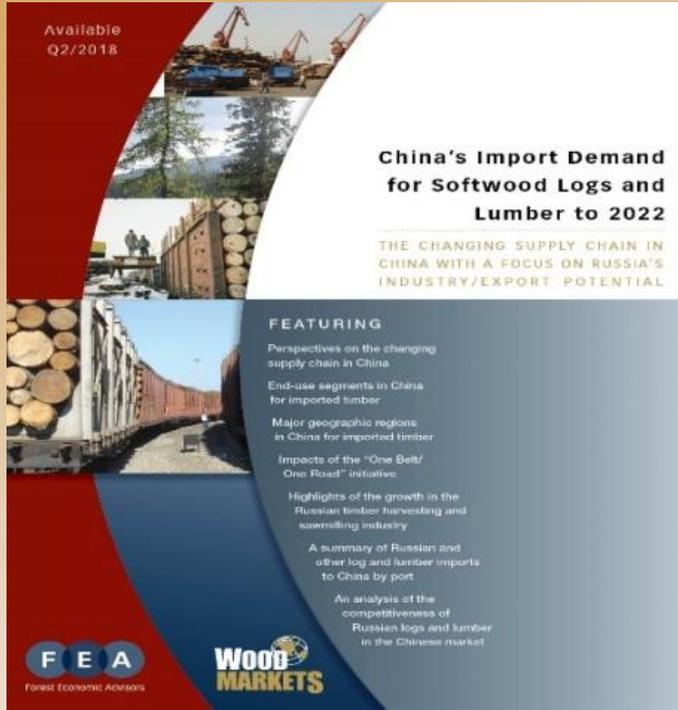
Introduction to: **WOOD MARKETS / FEA Canada**

- We are wood products industry consultants & analysts and develop operational, marketing & business strategies.
- We are known as global market & industry experts/analysts on timber and lumber (panels) in the U.S. & global markets.
- We have had an office in China since 2005.
- WOOD MARKETS produces Multi-Client Reports: Global Lumber/Sawmill Cost Benchmarking; WOOD Markets – North America 5-Year Outlook; WOOD Markets Monthly Report, China Bulletin; Russia – 5-Year Outlook; China 5-Year Outlook;
- Aug 2017: we are now part of **Forest Economic Advisors LLC**
- FEA produces a variety of strategic & outlook reports on North America wood products as well as conferences

FEA/WOOD Markets' Focus on China

- Two of our reports focus on China
- Plus we have our annual China conference

Available
Q2/2018



China's Import Demand for Softwood Logs and Lumber to 2022

THE CHANGING SUPPLY CHAIN IN CHINA WITH A FOCUS ON RUSSIA'S INDUSTRY/EXPORT POTENTIAL

FEATURING

- Perspectives on the changing supply chain in China
- End-use segments in China for imported timber
- Major geographic regions in China for imported timber
- Impacts of the "One Belt/One Road" initiative
- Highlights of the growth in the Russian timber harvesting and sawmilling industry
- A summary of Russian and other log and lumber imports to China by port
- An analysis of the competitiveness of Russian logs and lumber in the Chinese market

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WOOD MARKETS

CHINA BULLETIN

Featuring Industry Trends & Topics of Interest, Statistics & Prices

Since 2007

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WHAT'S INSIDE

Special Report:

Overview on China-EU Wood Products Trade

China is the largest wood products exporter in the world and collectively, the EU members are the second largest partner for China wood products exports. The full article provides a background overview on the following wood products trade between China and EU:

- 1) **Flourish:** China increases share of EU wood flooring imports
- 2) **Secure:** China is the largest single supplier for EU window door imports
- 3) **Gluten:** EU gluten imports from China down 14% in 2012
- 4) **Wood Window:** EU window door imports from China fall to negligible levels
- 5) **Plywood:** China contributed 32% of EU plywood imports in 2012

... MORE on page 4

China Market Synopsis

Log markets remain relatively stable with inventories balanced. Softwood lumber prices that soared have now retreated from unsustainable levels — as has happened in the U.S. market, very few lumber prices have Chinese buyers on the move and that should be good news for exporters over the next few months.

1 - China Industry News in Brief

- 1.1 ARDO Organized Annual Conference
- 1.2 Hainan Reopening Process
- 1.3 Paper Furniture Exports Rise
- 1.4 China Panel Chair Completed the Acquisition of New Zealand Plywood
- 1.5 China Softwood Log Imports at 1.5 Billion Pounds
- 1.6 China Plywood Imports at 1.5 Billion Pounds

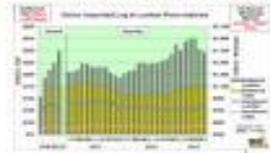
2 - Special Report: Overview on China-EU Wood Products Trade

3 - China Export & Import Statistics

- 3.1 China Exports
- 3.2 China Imports
- 3.3 China Export & Import Tables

4 - China Prices

- 4.1 Log Prices
- 4.2 Panel Prices
- 4.3 Plywood Prices
- 4.4 Softwood Lumber Prices



MONTHLY CHINA PRICE TRENDS

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WOOD MARKETS

FEA/WOOD Markets' Focus on Russia

- And we have our 4th analysis on Russia coming up - which heavily impacts exporters' strategies in China

Introducing WOOD MARKETS/FEA's fourth special report on Russia (the first report was issued in 2004). Through regular travel to Russia, conference and speaker presentations within Russia, industry tours, and more than 30 consulting assignments for Russian companies, our team has gained a deep understanding of where the Russian industry has come from and where, in our estimation, it is headed.

Release Date:
JAN
2019

RUSSIA

Forest Industry Competitiveness & Export Outlook to 2025 (with a focus on China)

Fourth Edition

FEATURING:

- Overview of Russian log harvesting and wood products production trends
- Russia's export fit in China and other key global log and lumber markets
- Cost benchmarking analysis of Russian sawmill costs and EBITDA earnings compared to key competing countries
- Delivered log and lumber costs to China for Russia and other key suppliers
- Outlook for China demand for logs and lumber to 2025 and Russia's expected market share
- Price forecasts to 2025 in China for Russian and competing logs and lumber

LOOKING FOR CHINA



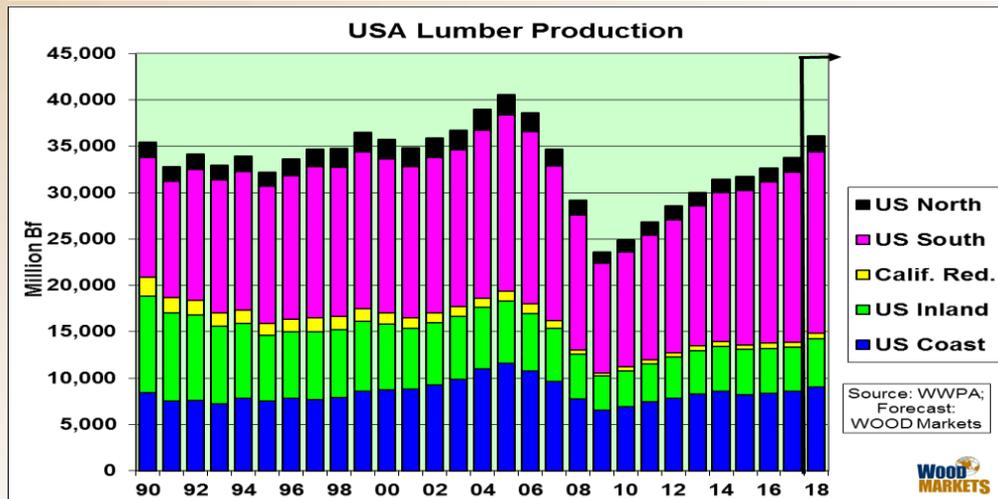
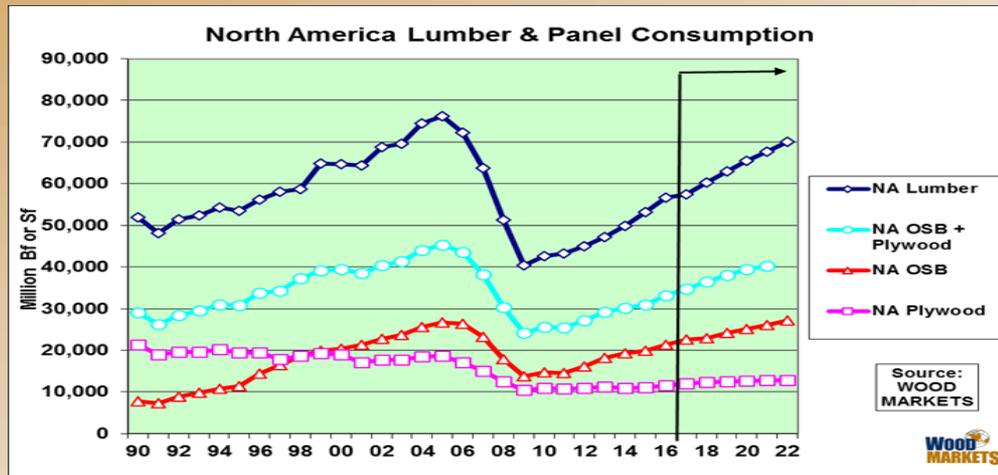
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OUTLINE

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2. US & Canada Lumber Exports
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4. US & Canada Export Trends **in China**
5. Russia Profile
6. Competitiveness Trends **in China** for Lumber Exporters
7. Summary

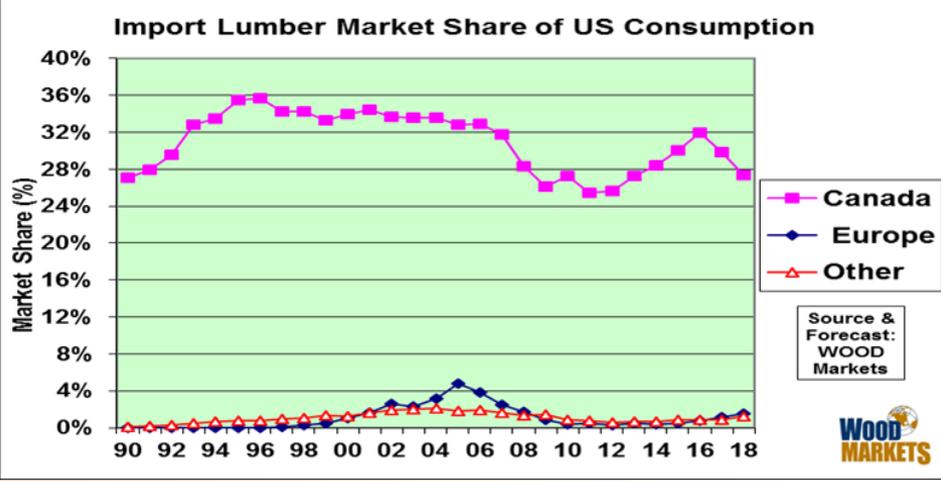
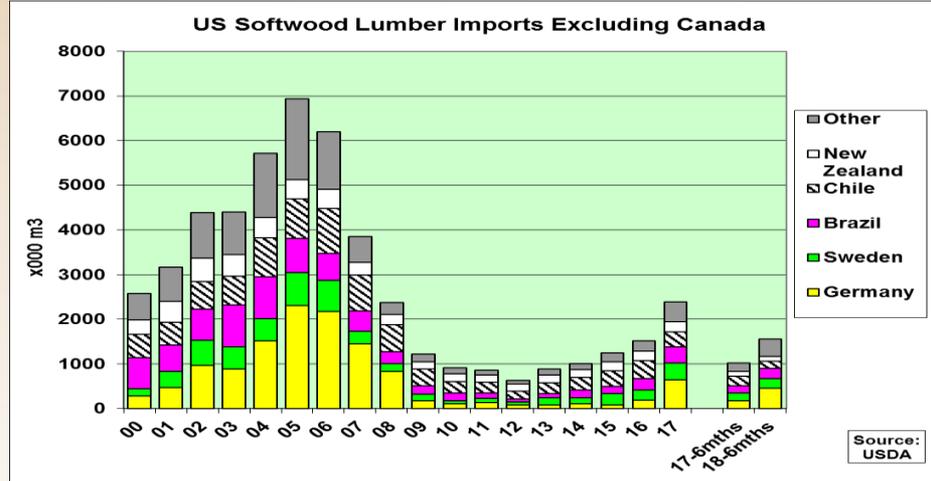
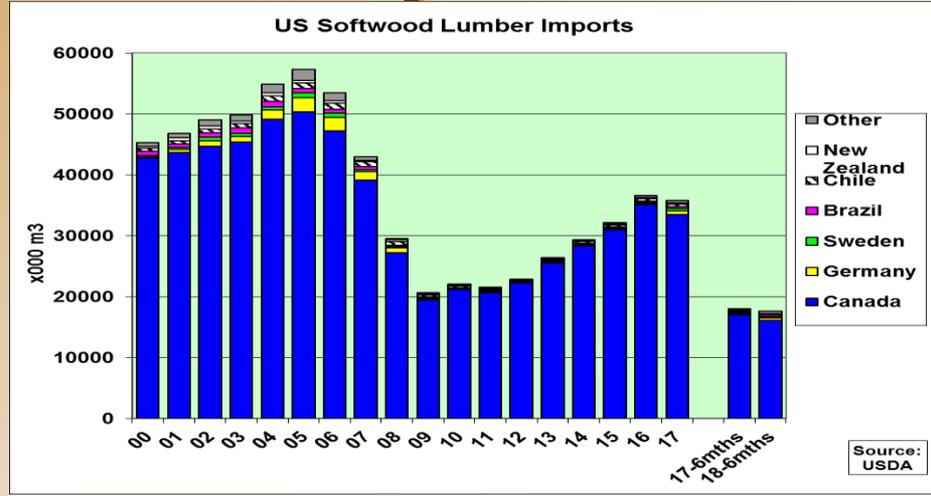
1. US: Softwood Lumber Demand & Prod'n

- U.S. softwood lumber consumption has been rising steadily since 2009 from increasing housing starts, repair & remodelling, and overall strong demand
- U.S. lumber production has been rising, but the U.S. West is somewhat constrained (small increases) while the U.S. South has the standing timber and 1 billion Bf (1.6 million m3) per year of lumber production increases are forecast.



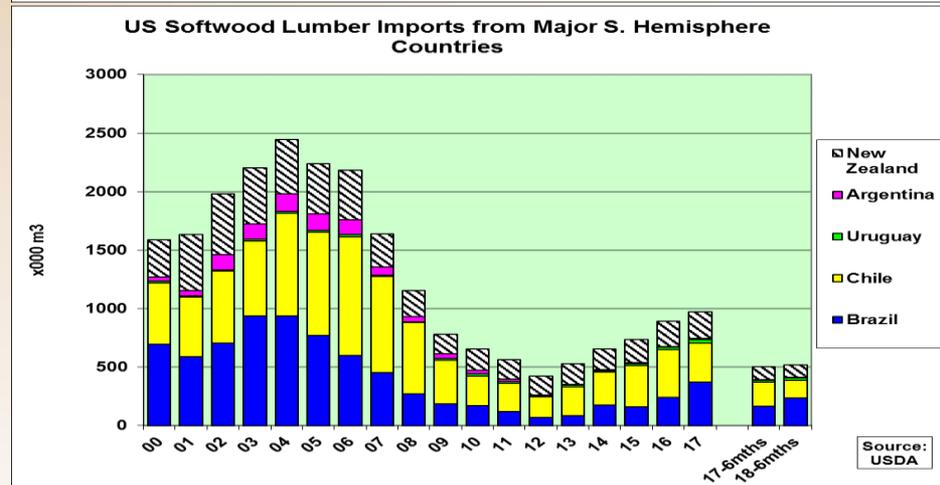
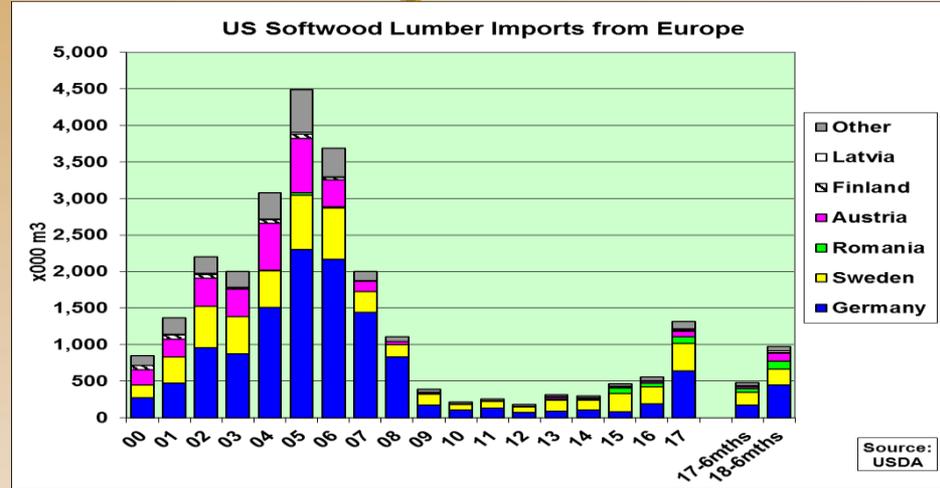
US: Softwood Lumber Imports

- U.S. lumber imports are dominated by **Canada** with a 96% share.
- Reduced production in **Canada** combined with import duties to the U.S. will tend to reduce exports to the U.S.
- With U.S. production unable to meet total demand, imports from other countries are expected to soar, especially from **Europe** (led by Germany/Sweden) & **S. Hemisphere**



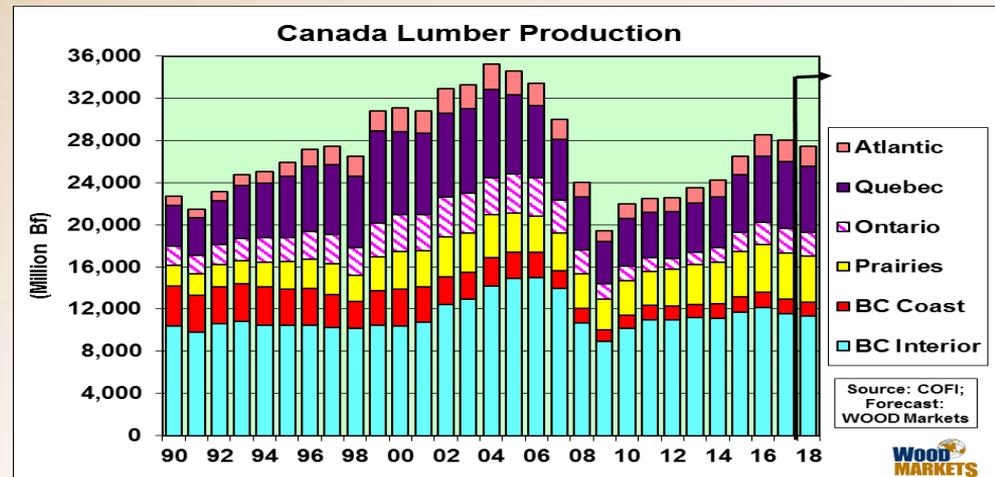
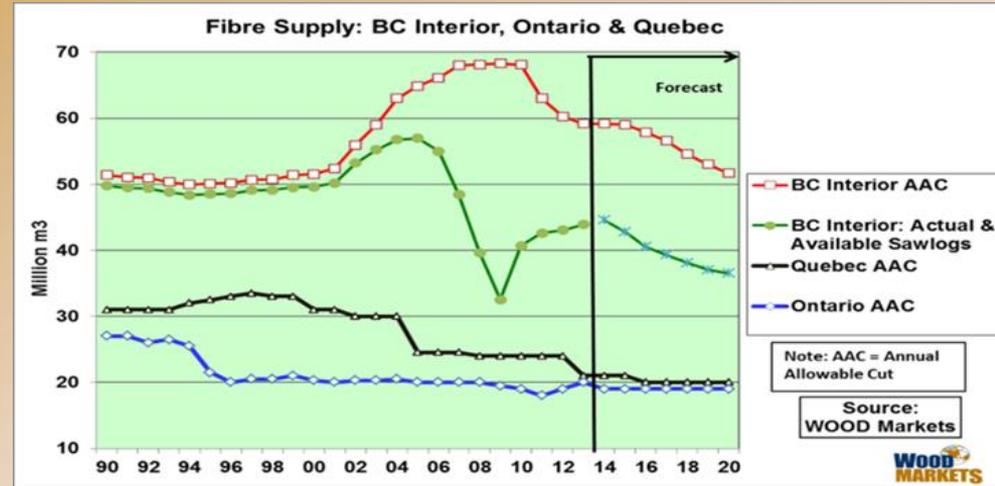
US: Softwood Lumber Imports

- European exports are led by **Germany** and **Sweden** which feature structural lumber (dimension lumber, studs) as well as some boards.
- European softwood lumber imports will not reach the levels of 2005, but should peak around 2-2.5 million m³.
- If returns are not good enough in China, Europeans can ship to the USA, Australia, Japan, or keep it in Europe as prices have been much better.
- Exports from the Southern Hemisphere are led by **Brazil** and **Chile** – typically non-structural lumber (boards, pallet lumber, shop & clear industrial lumber).



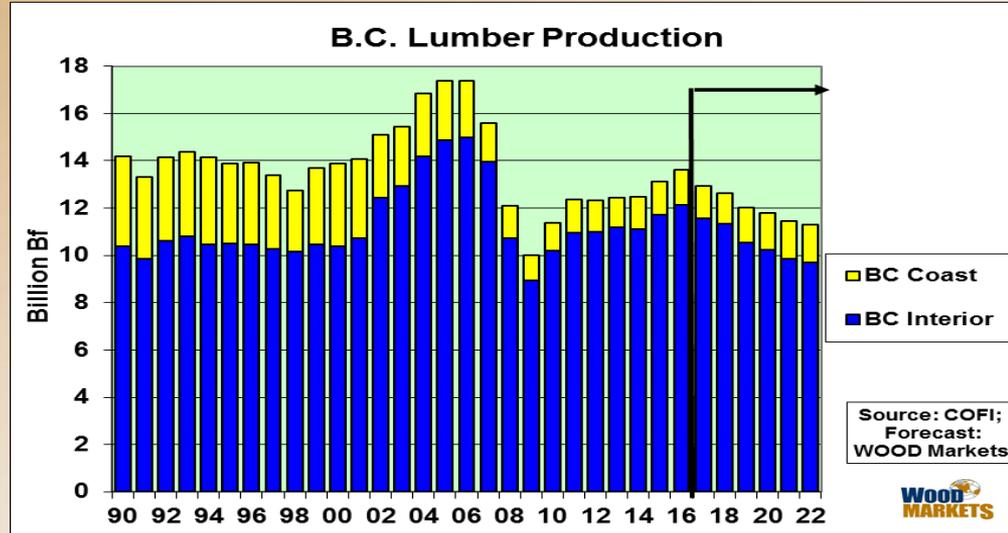
Canada: Softwood Lumber Production

- **BC Interior** Sawlog Harvest in 2020 = 20% below 2000 levels.
- Long-term reductions in harvest and lumber production volumes are now occurring in the B.C. Interior from the impact of the mountain pine beetle.
- **Quebec** and **Ontario** have also had 30% reductions in their AACs.
- As a result, Canadian lumber production is expected to ease lower over the next few years = no more growth!



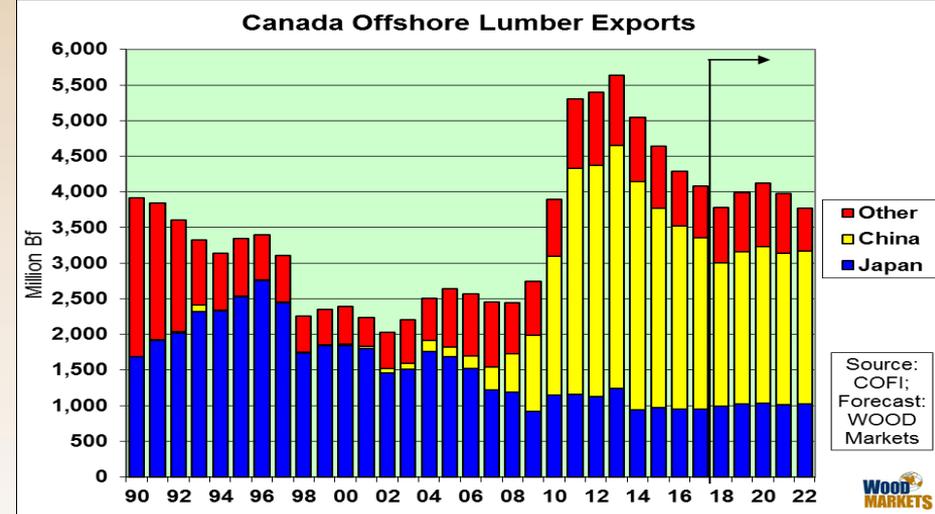
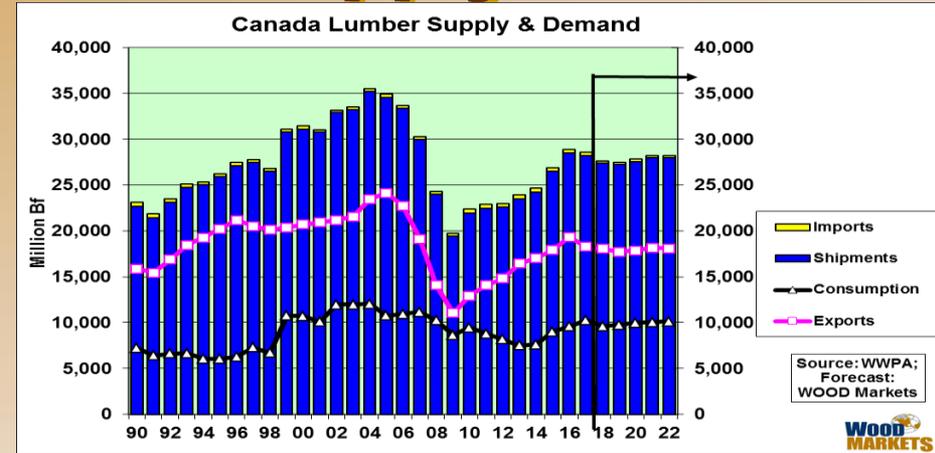
Canada: BC Interior

- The **B.C. Interior** production peaked at 12.1 billion bf in 2016; declined to 11.5 billion bf in 2017; and is 4% lower through the first 6 months of 2018. By 2022, it should dip below 10 billion bf.
- The B.C. Interior representing about 45% of Canada lumber production and 85% exports of off-shore exports, so there will be noticeable impacts on the U.S. and global markets over the next few years.
- The **B.C. Coast** timber harvest and lumber production remain relatively stable and are a shadow of its former self (many reasons).



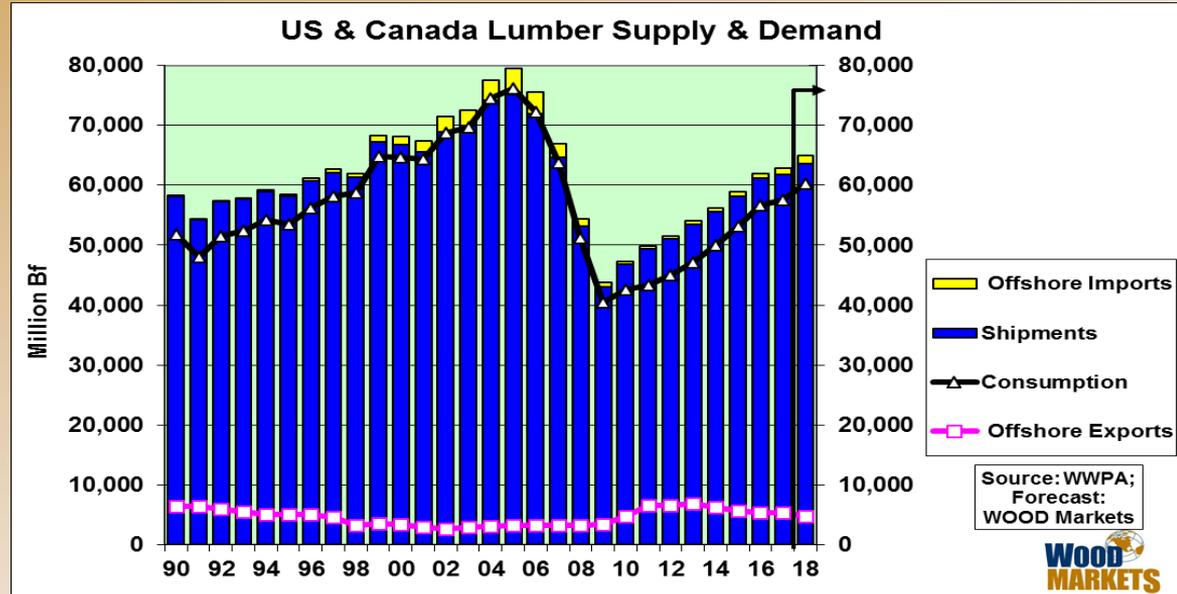
Canada: Softwood Lumber Supply/Demand

- Canada's timber harvest peaked in the 2000s and is shrinking from government reviews of the long-term sustainable harvest. As a result, lumber output will be relatively flat.
- Although limited by tightening timber harvests in the B.C. Interior and Quebec, Canadian lumber shipments dropped in 2017 to 28.0 billion bf from 28.5 billion bf in 2016 and will be 1-2% lower in 2018.
- Most of Canadian lumber exports go to the U.S. and this will continue from strong demand to 2021/22.
- Lumber exports to **China** are expected to increase in 2019, but less will be low grade lumber (less MPB timber).
- Flat production and strong U.S. and Canadian markets will allow for only small increases in Canadian lumber exports to offshore markets.



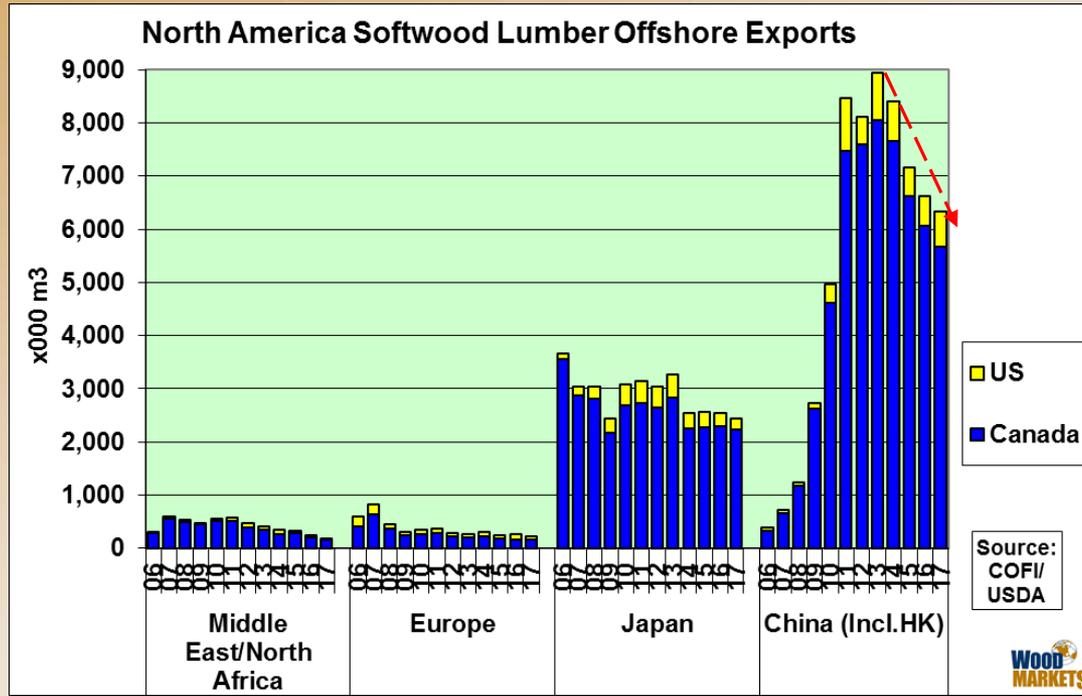
US & Canada: SW Lumber Supply/Demand

- Since 2009, there has been a steady increase in demand and production in North America.
- Offshore exports are relatively small (8% of production) as most lumber is consumed in North America.
- Offshore imports are even smaller (3%), but with reduced Canadian exports, higher prices have re-attracted European lumber to the U.S. market.



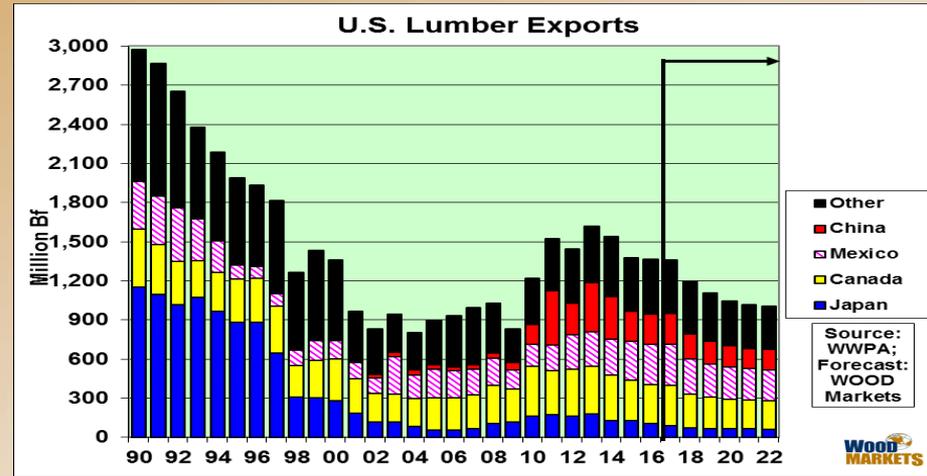
2. US & Canada: Offshore Lumber Exports

- North American softwood lumber exports have been mainly directed at **China** since 2009.
- Exports from **Canada** have declined in consecutive years since 2013 and will be lower again in 2018. Why? Answer to follow...
- This is mainly due to:
 - Higher returns (prices) available in other markets, including in Canada, the U.S., Japan, Australia, etc.
 - Lower volumes of low grade lumber (from the mountain pine beetle-killed trees), so less to China.

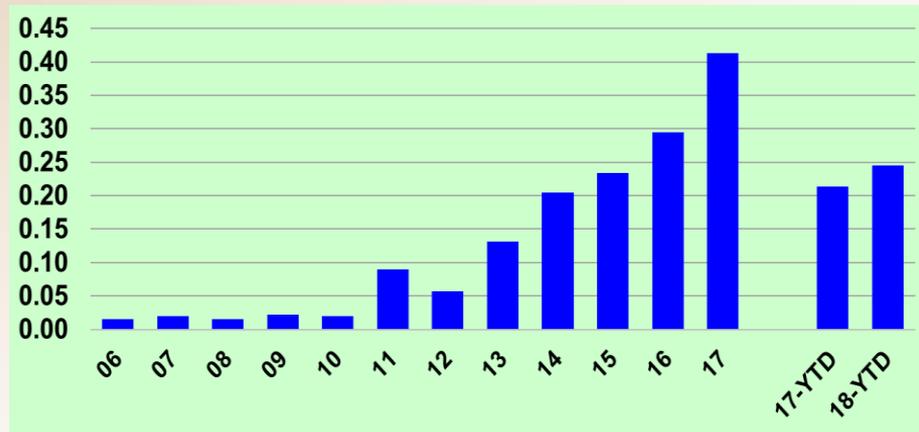


US: Softwood Lumber Exports

- U.S. softwood lumber exports are relatively small = 3.5% of total production
- Canada and Mexico are the largest export markets for US softwood lumber, but China has been growing.
- U.S. lumber exports used to mainly originate in the **U.S. West**, but excess standing timber in the **U.S. South** has allowed more exports despite a strong U.S. market.
- Now the U.S. has a trade war with China, so exports will be more limited going forward.
- U.S. lumber exports are expected to continue declining, in part due to the strong domestic U.S. market, the strong U.S. dollar, and from the trade war with China.

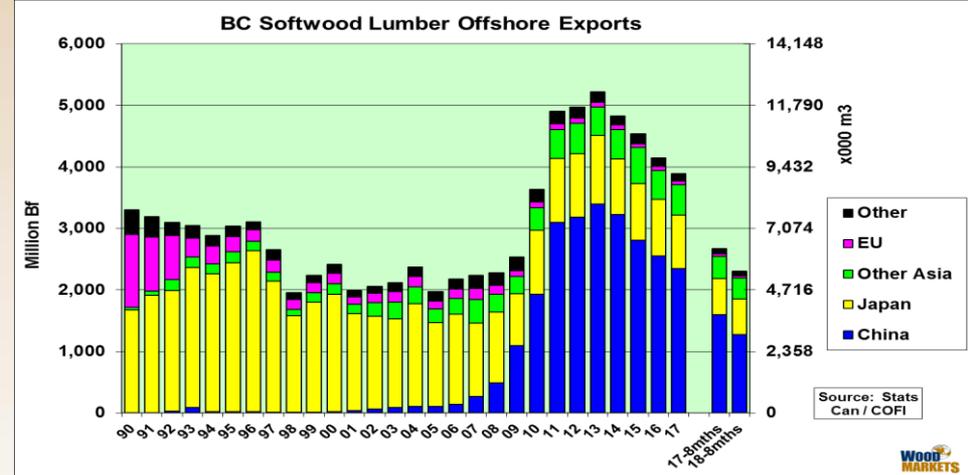
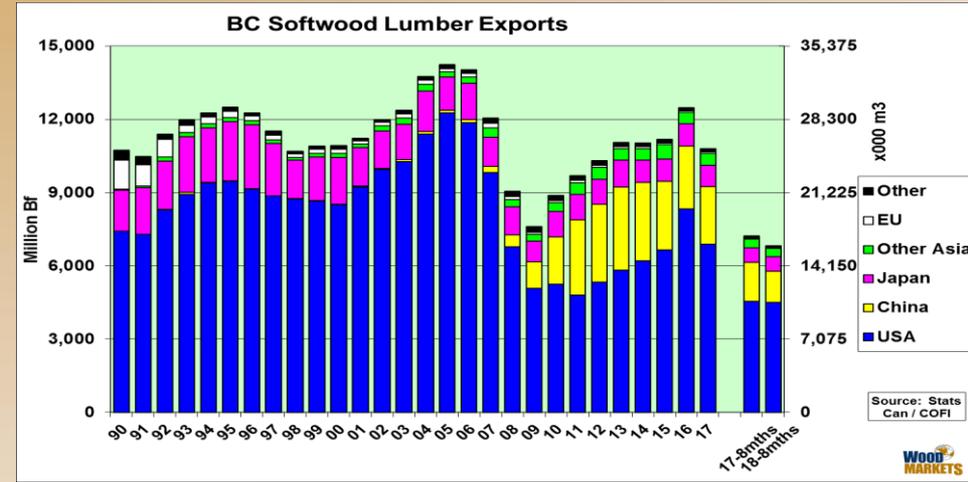


US SYP Lumber Exports: China (Million m3)



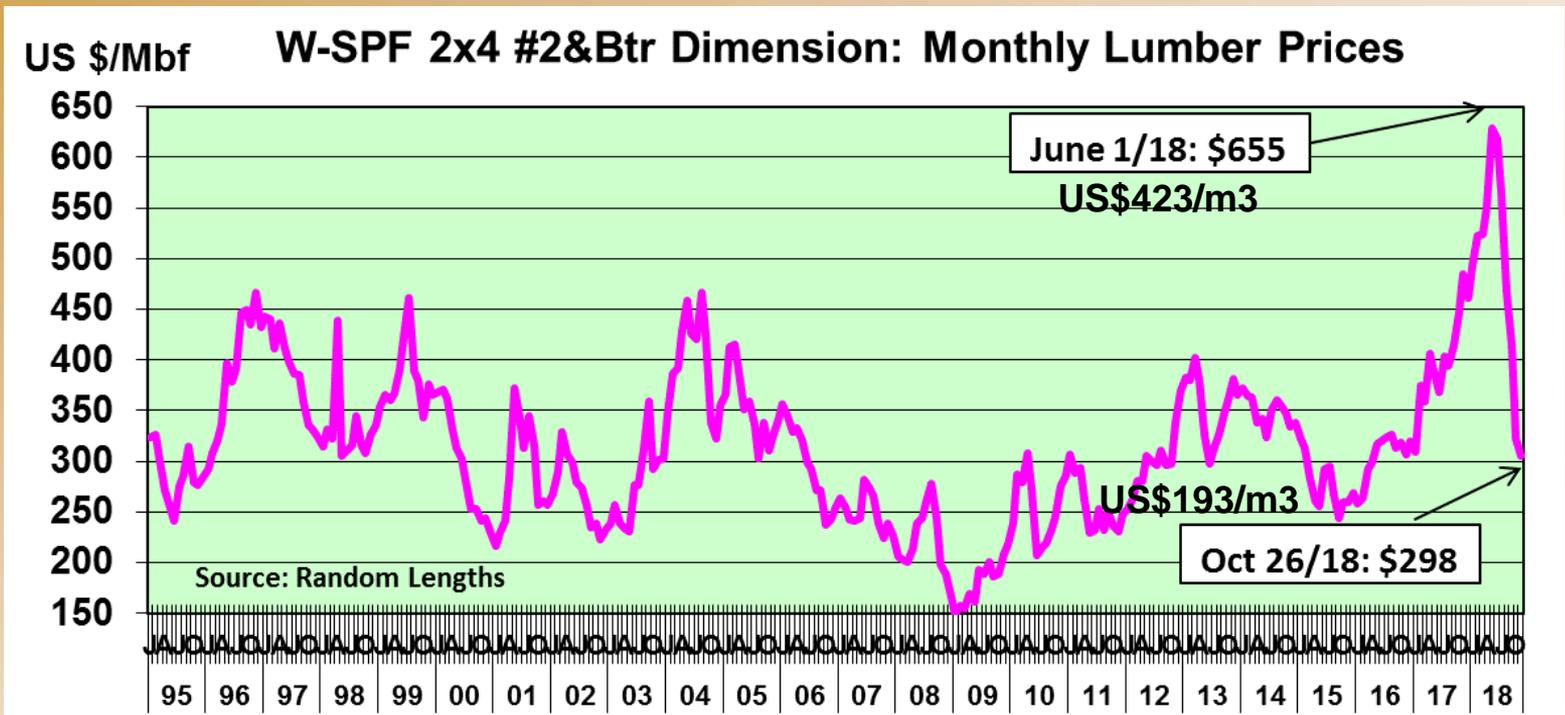
B.C. Softwood Lumber Exports

- With reduced harvests and lower lumber production, B.C. will see lower lumber exports in total.
- BC total exports were flat between 2013-2015, but jumped in 2016. They lower in 2017 and should be slightly lower again in 2018.
- Same trend for the U.S. market in 2017 and 2018 – despite all-time high record lumber prices in 2018!
- Offshore exports have been eroding since 2013, but all of the decline has been in **China**.
- **Japan, Korea and Taiwan** have been relatively stable

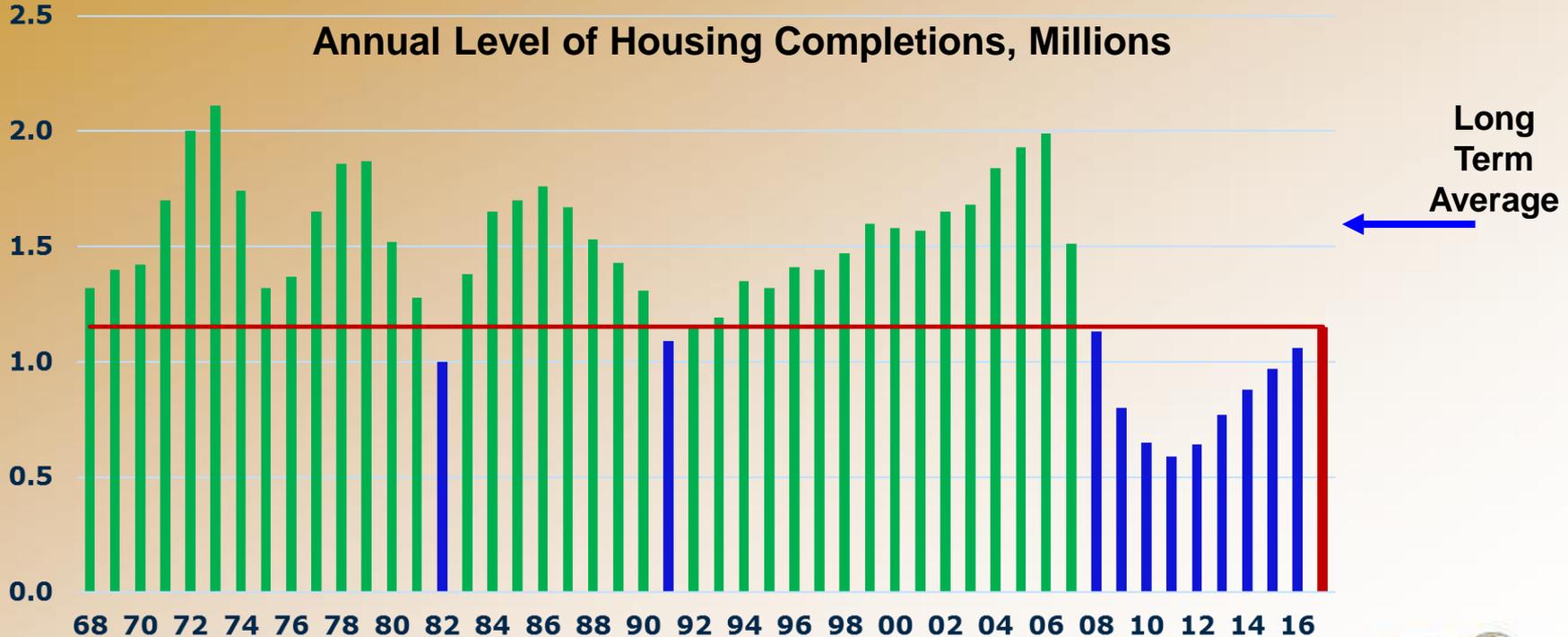


3. US Market Prices For W-SPF 2x4 #2&Btr

- North American softwood lumber prices hit an all-time high in June 2018 at US\$655/Mbf (\$425/m³ – net), 33% higher than in 1993. However, what goes up also comes down.
- Exports from Canada to the U.S. have 20.2% import duties, but the duties (and a lot more) had been completely absorbed by the U.S. consumer until Q4/2018.



The 2017 Level of Housing Completions Was Typical of a Recessionary Low in Previous Economic Cycles

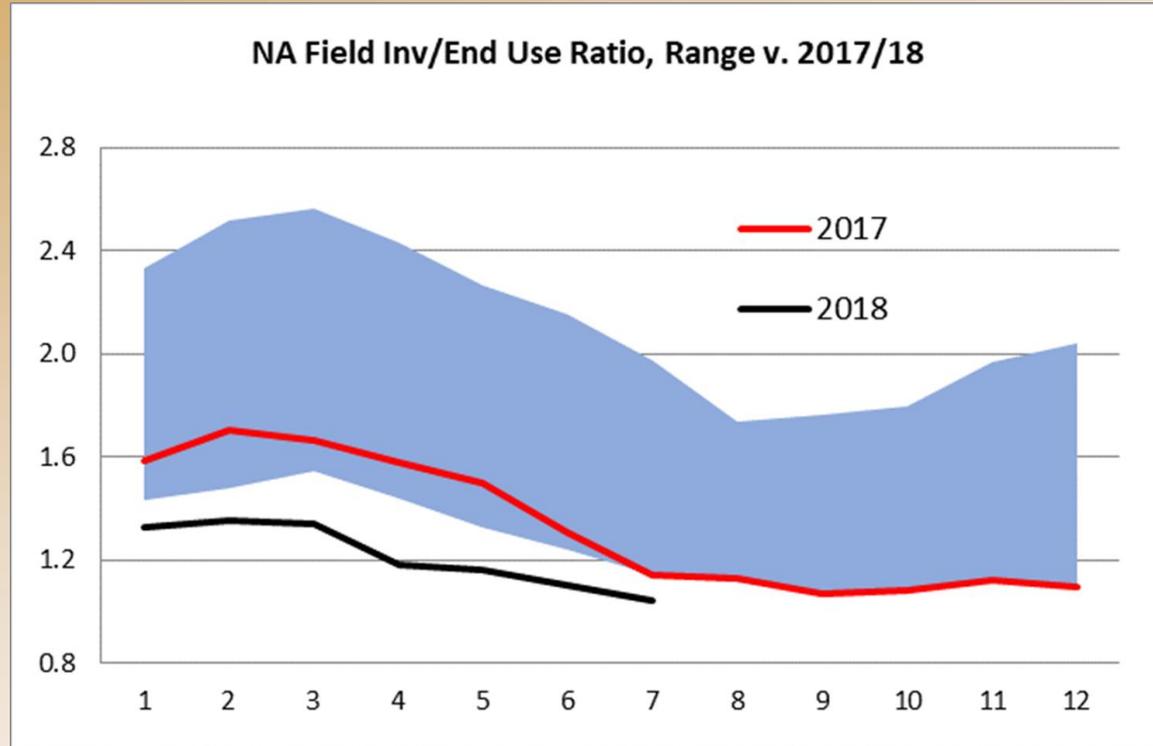


A long way to go before “normal housing” of 1.5-1.6 million



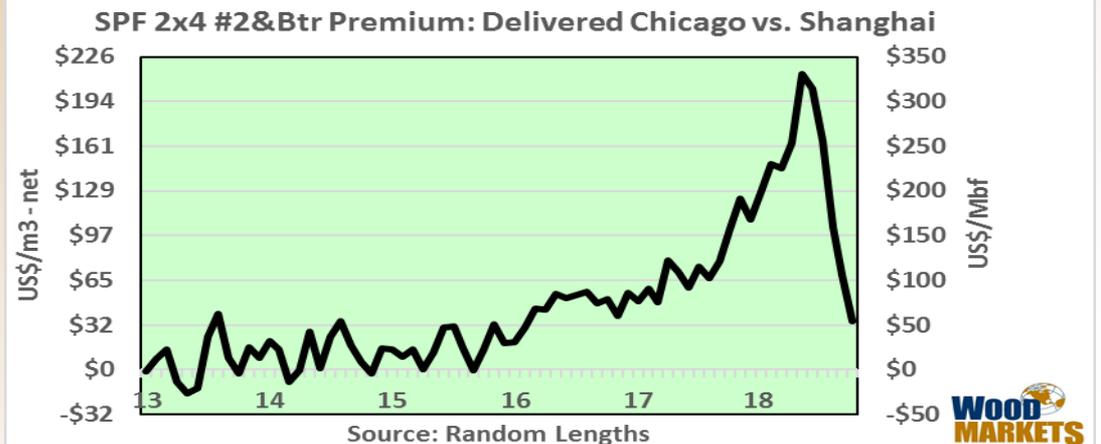
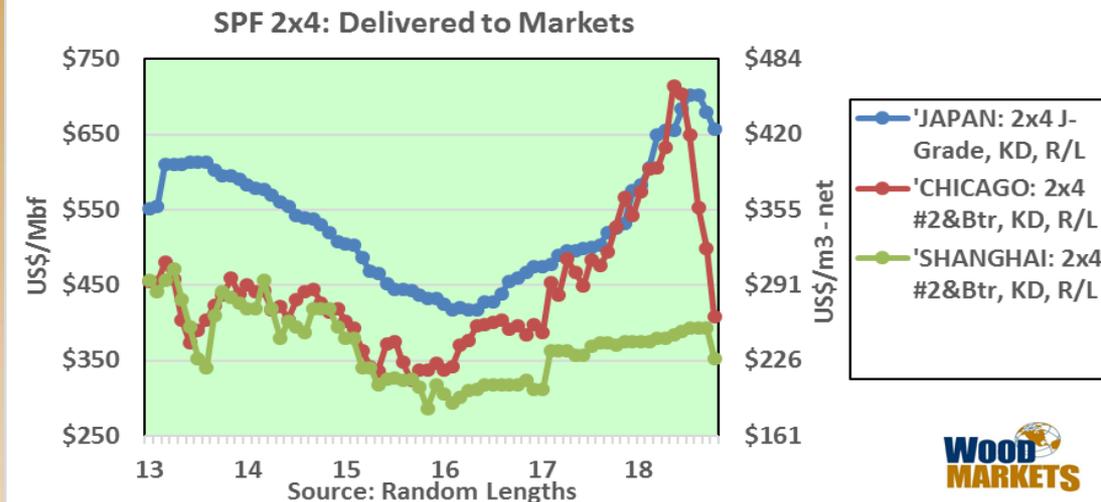
US Lumber Market Inventories

- Despite the price slump since June 2018, US market fundamentals support a stronger market a price rebound given that field inventories are below where they should be.
- Current low U.S. prices are causing mill curtailments, reduced European exports to the U.S., and more Canadian shipments going offshore instead of the U.S. market.
- Look for a price rebound in 2-3 months!

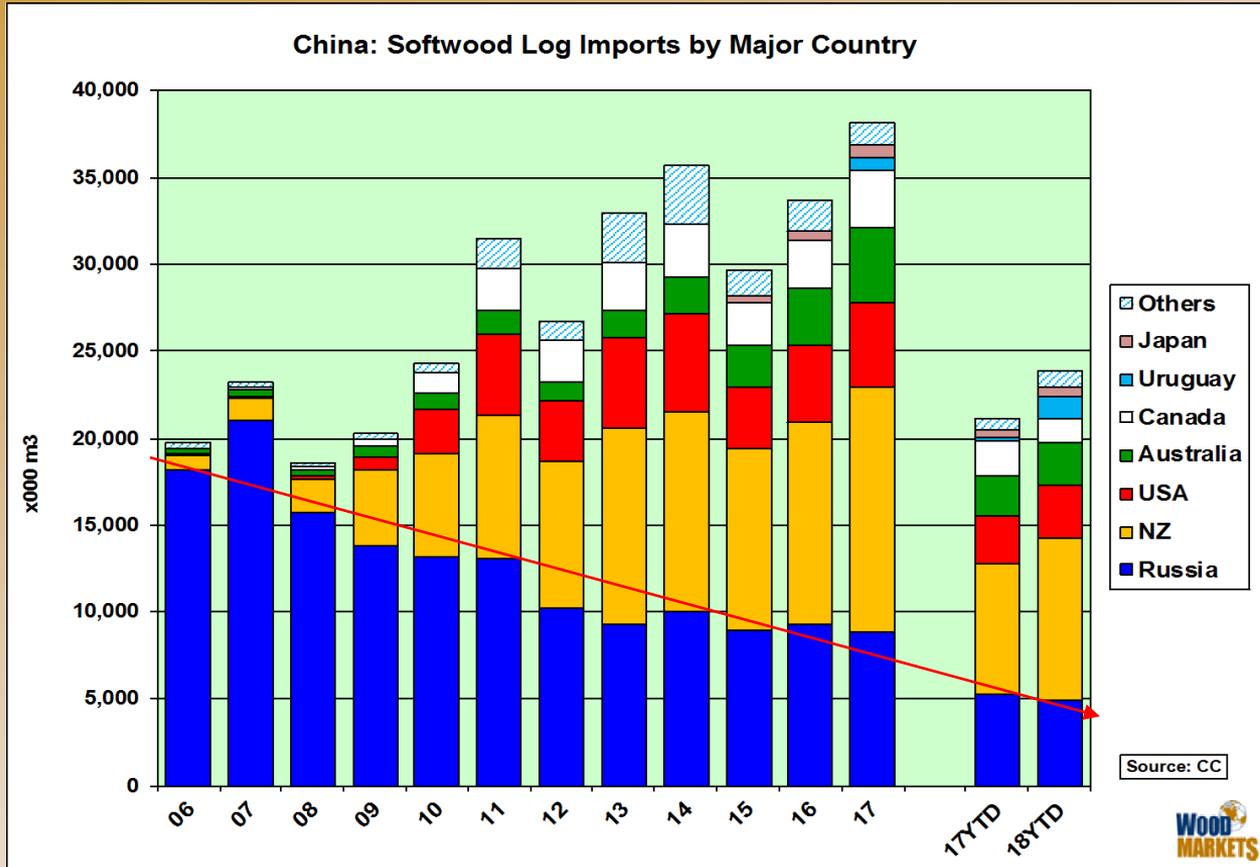


Why Have There been Less SPF Exports to China?

- From 2013-16, the returns to SPF mills was similar as selling to Chicago as China.
- Freight rates to Chicago, China & Japan ~ the same.
- Starting in 2016, the **U.S. premium** started to rise, reaching close to US\$100/Mbf (US\$60/m3 – net)
- The **premium** at the end of 2017 was ~US\$200/Mbf (US\$125/m3 – net).
- At the 2018 peak, the **premium** was US\$330/Mbf (US\$200+/m3), before 20.2% US import duties.
- **Conclusion:** with a huge discount selling to China, less SPF was sold to China (until now...)



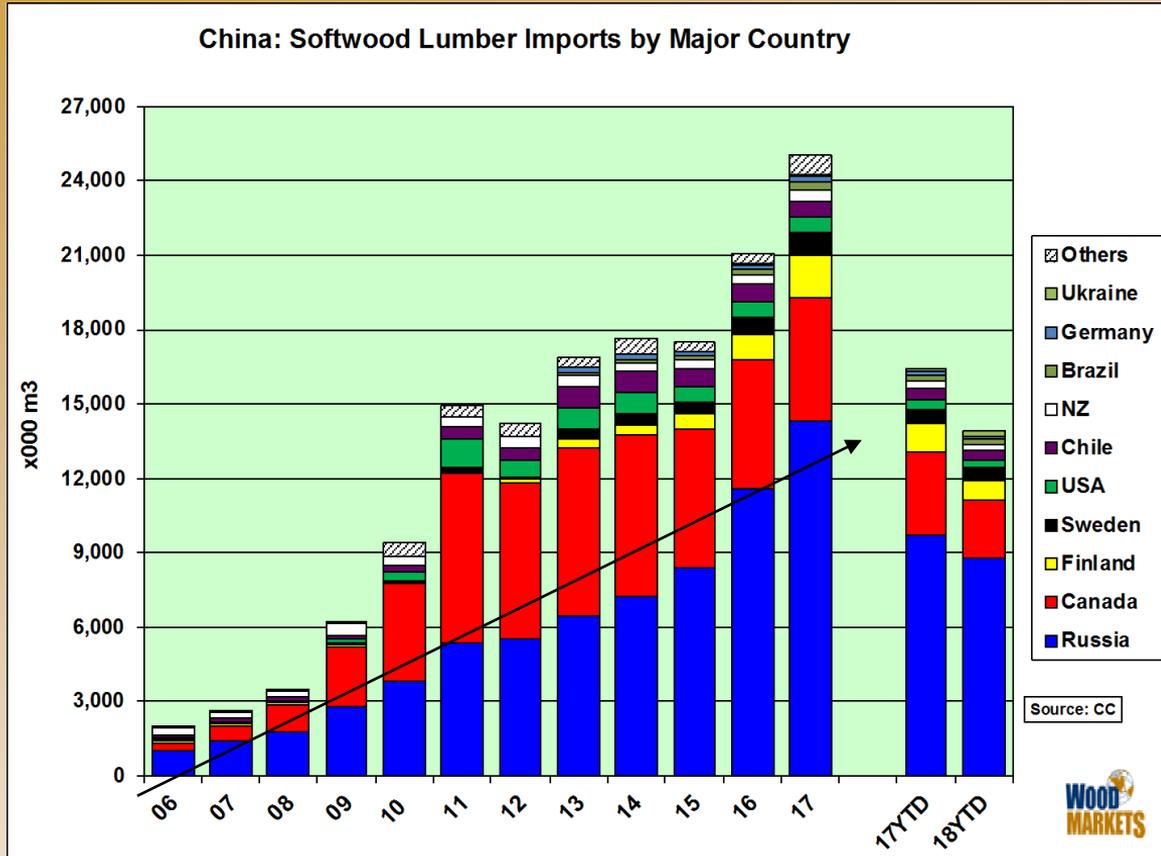
4. China Softwood Log Imports



From: WOOD
MARKETS
Monthly China
Bulletin

New Zealand dominates as Russia slips; USA #3

China's Softwood Lumber Imports

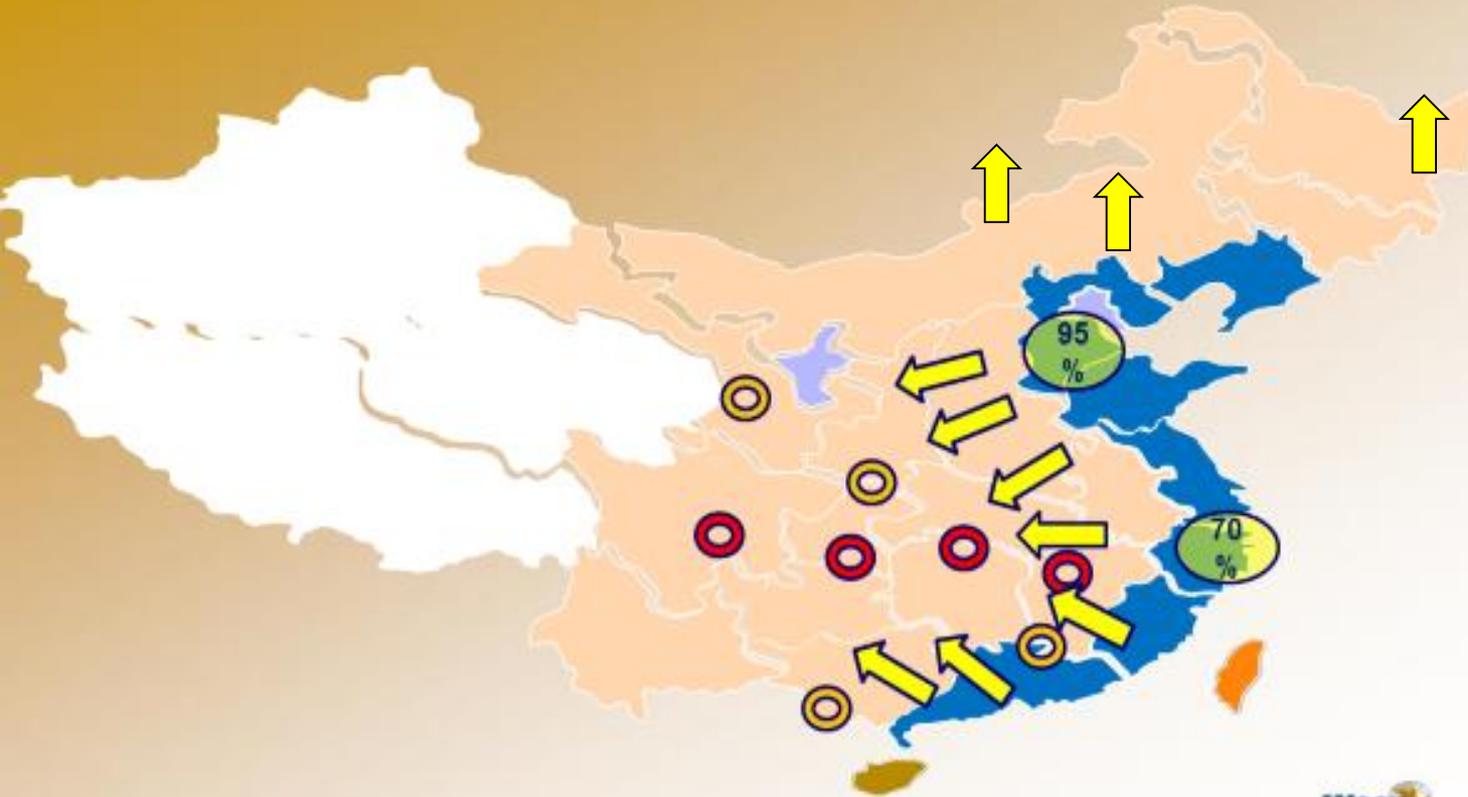


From: WOOD MARKETS Monthly China Bulletin

Russian exports soaring; Canada's drops; Finland #3

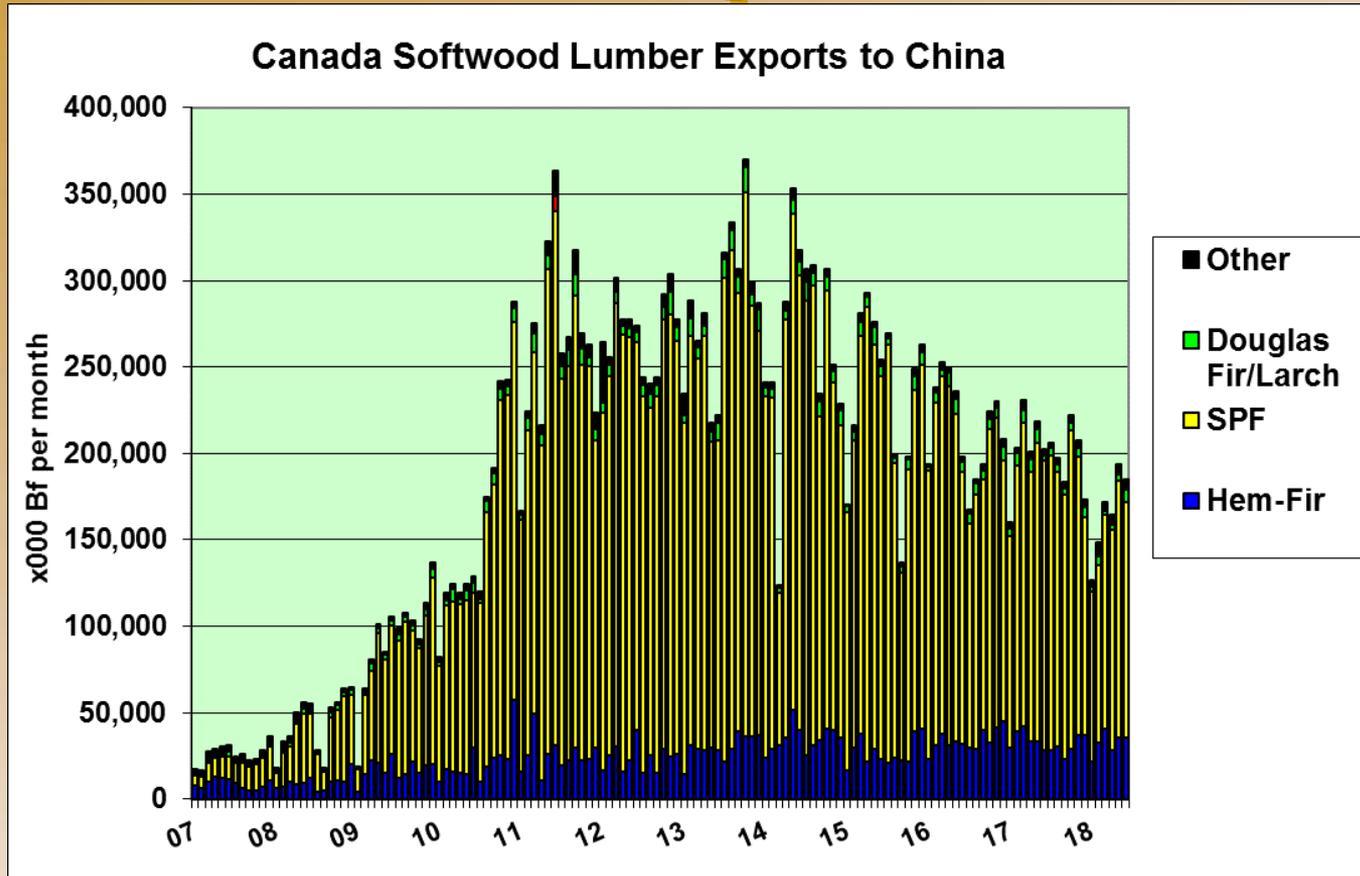


Coastal Regions Impacted by Environmental Policies



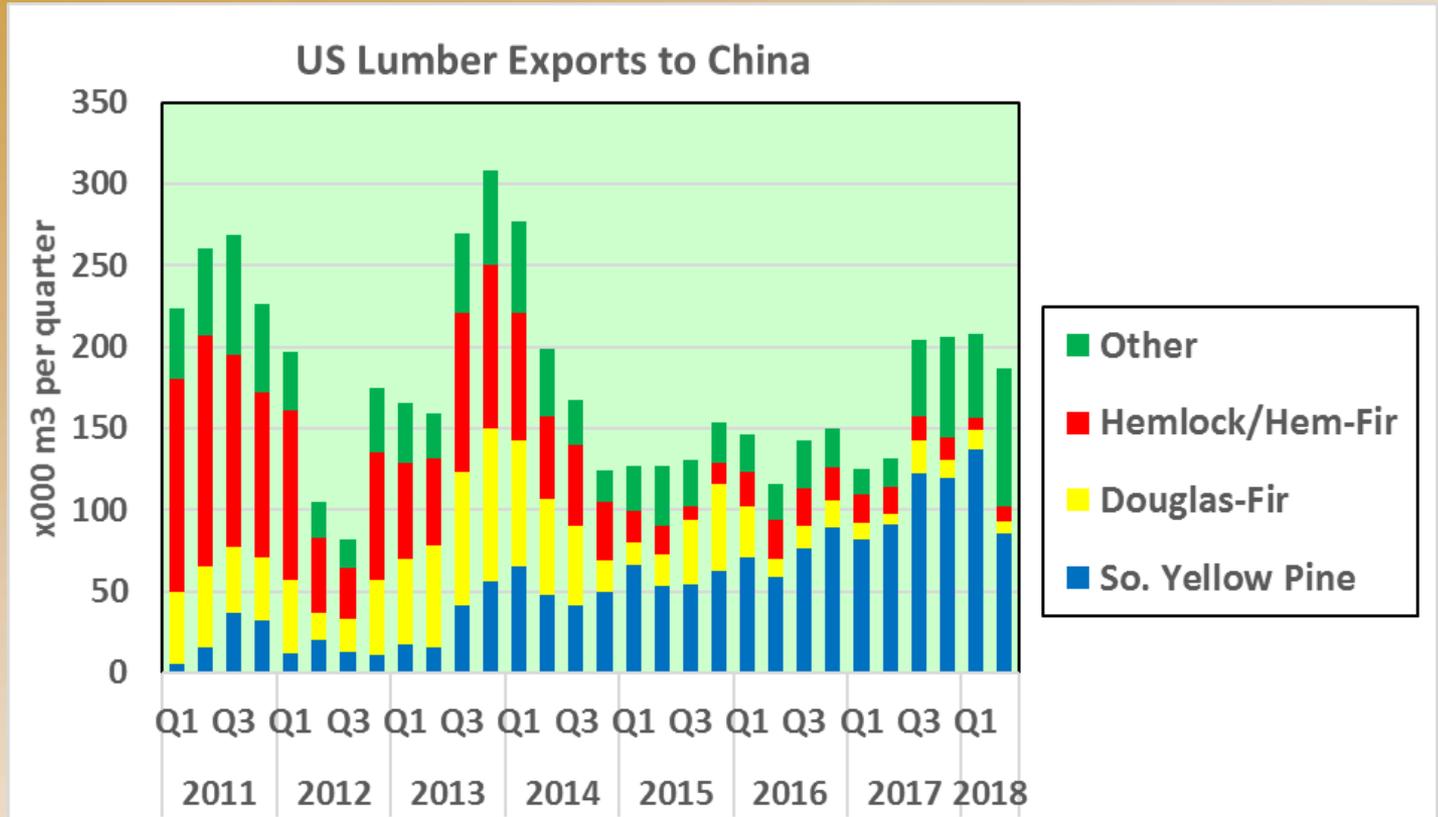
Tianjin & Shanghai areas = already major closures of old technology sawmills, plywood mills, particleboard, MDF & remanufacturing plants

Canada Lumber Exports to China



From: WOOD
MARKETS
Monthly China
Bulletin

US Softwood Lumber Exports to China



From: WOOD MARKETS Monthly China Bulletin

U.S. exports relatively flat, but increasing since Q3/2017 with big increase in SYP lumber

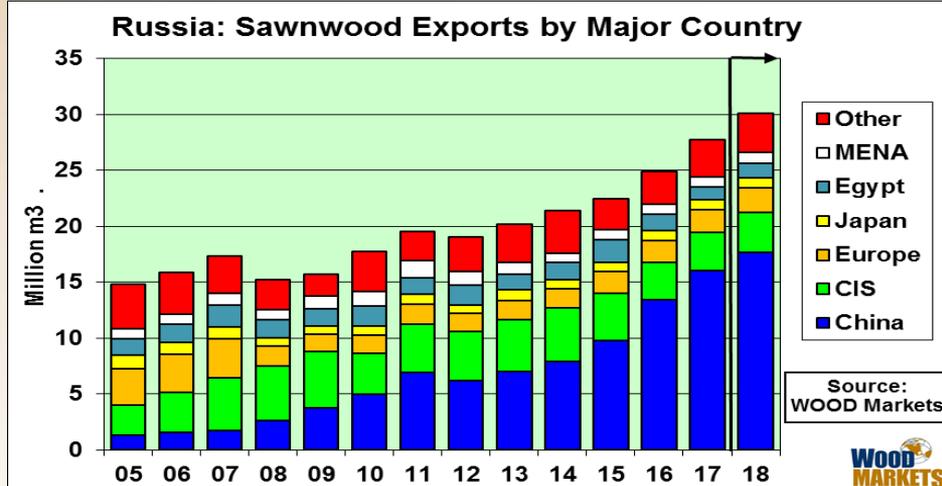
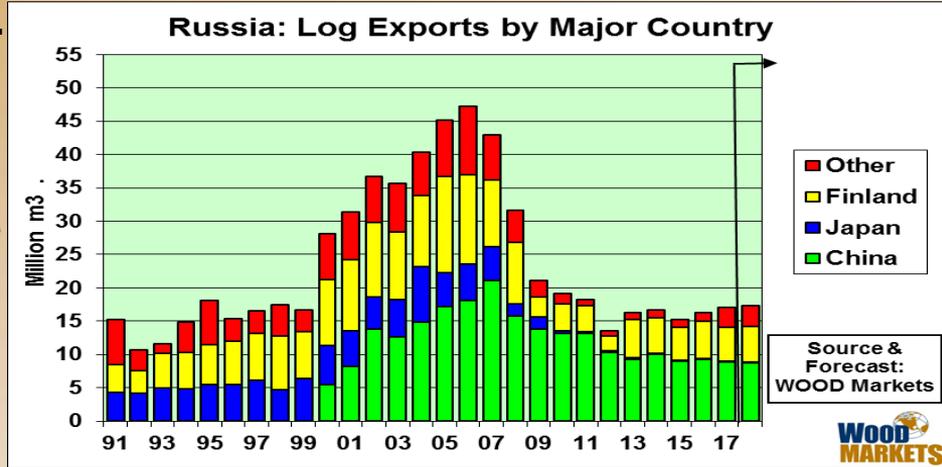


China Tariffs on US Softwood Imports

- SYP was well accepted in China market, and more applications were also being developed during the last several years;
- Now, uncertainty with tariffs is the biggest issue at current situation. Chinese importers will wait until the policies are clearer;
- Starting from August 23rd:
 - SYP log: 25% tariff
- Starting from September 24th
 - Hemlock log, 15cm+: 5% tariff
 - Douglas fir log, 15cm+: 5% tariff
 - Hemlock log, <15cm: 10% tariff
 - Douglas fir log, <15cm:10% tariff
 - Spruce log:10% tariff
 - Douglas fir lumber, SYP lumber, Hemlock lumber: 10% tariff

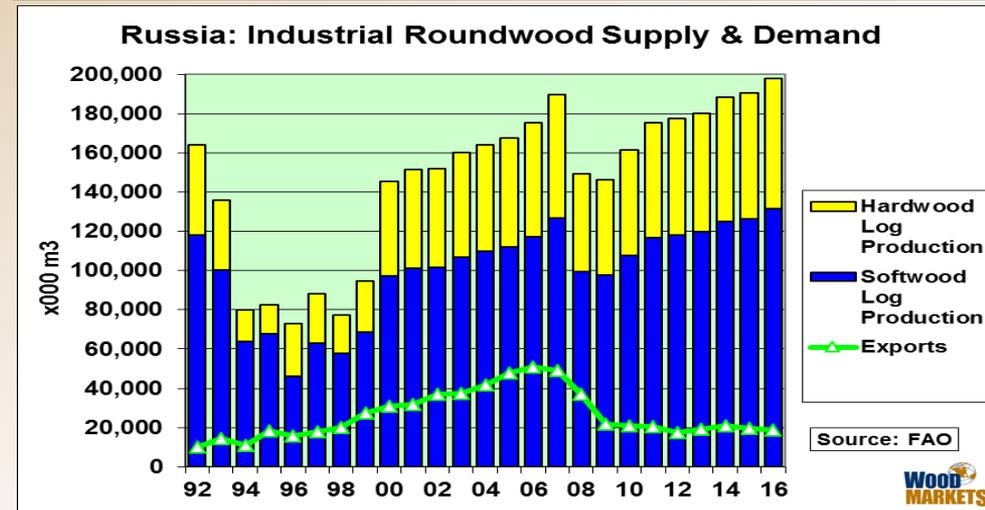
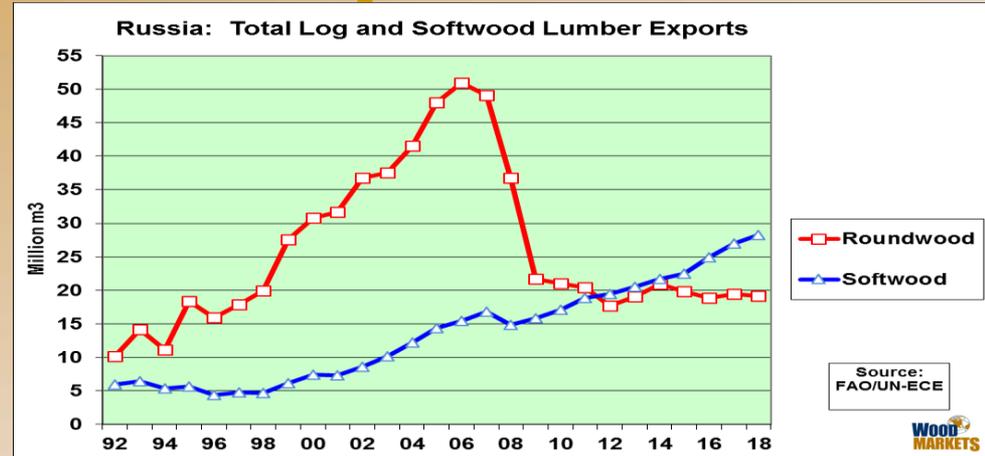
5. Russia: Log & Lumber Exports

- China = Russia's major log & lumber market.
- Russian log exports to Finland and Baltic countries are mainly pulpwood.
- Russian softwood log exports to China were 4.3% lower in 2017 vs 2016 & were 8% lower in 2018-H1.
- In 2016, China imported 11.6 million m3 of softwood lumber from Russia (54% of all Russian exports) and remained its largest market for this product. In 2017, exports to China were 14.3 million m3 (YTD-18 = +5.4%).
- Egypt and other ME-NA exports declined in 2017 while export to China increased.
- The outlook for sawnwood exports in 2018 is for up to a 10% increase.

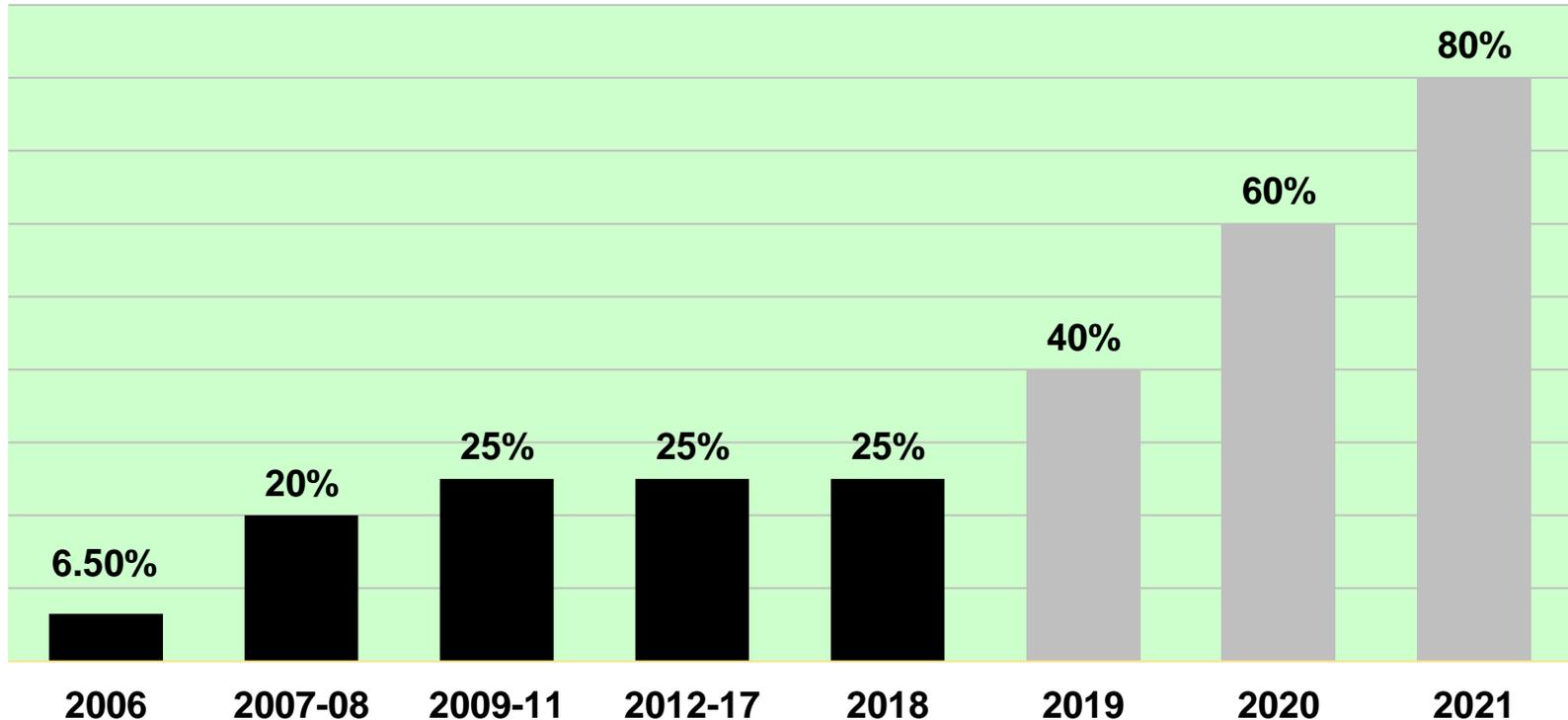


Russia: Trends in Exports

- Russian industrial log exports: flat to lower since 2009.
- Russian softwood lumber exports: rising steadily since 1998. Showing significant growth in the last 12 months into China.
- How competitive is Russia?
 - Depends on the ruble, which has been weakening lately; and
 - Logistics costs; **One Belt & One Road Initiative (OB-OR)** has increased Russia's competitiveness of lumber in China.



Log Export Tax: Russian Far East



Log export quota (6.5%) = 3.5 million m³;
Bottomline: Russian log exports move lower

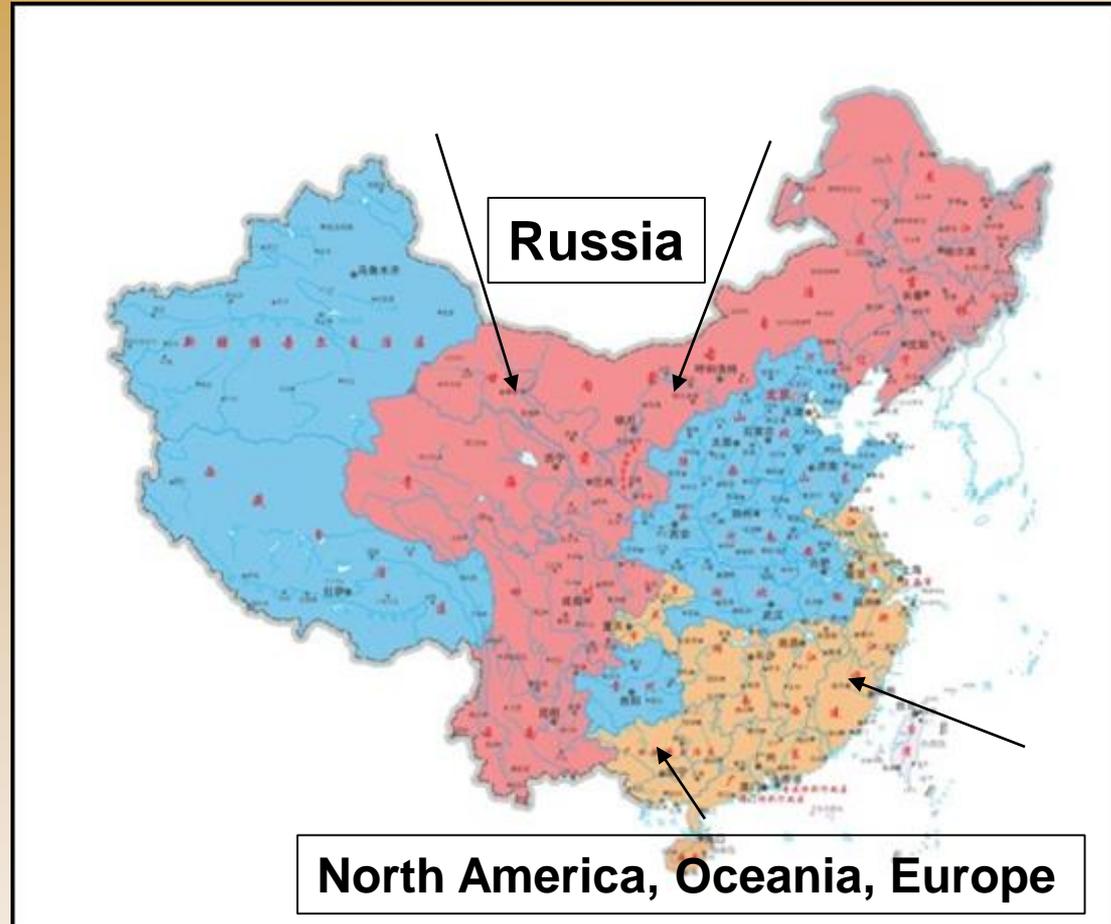
China's "One Belt-One Road" (BRI) Initiative



Rail Competitive Advantage: gained by Russia & Europe

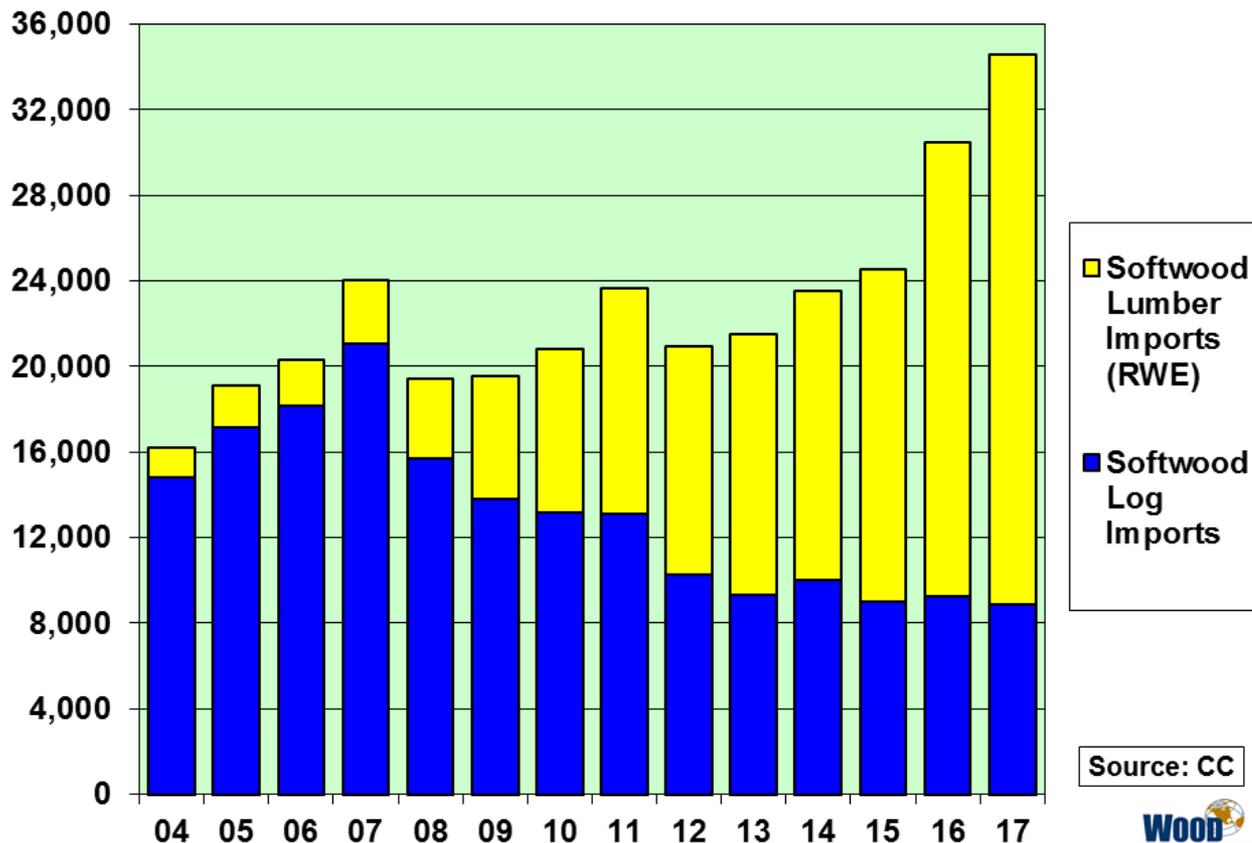
Suppliers' Competitive Positions Shifting

Russia has been pushing into North and Inland China: from lower costs and logistics advantages from OB-OR “block trains”



Russia: Shift from Log to Lumber Exports

China: Russia SW Log & Lumber (RWE) Imports



■ Softwood Lumber Imports (RWE)
■ Softwood Log Imports

Source: CC



The Russian log export tax has worked = clearly has shifted exports away from logs to lumber.

More sawmill expansions are planned by Russian as well as Chinese companies (RFE!).



6. China: Delivered Cost Analysis

China: Delivered Cost Analysis		
	Logs	Lumber
BC Interior		X
BC Coast	X	X
Quebec		X
US W. Coast	X	X
US South East	X	X
Finland		X
So. Sweden		X
Estonia	X	X
Czech Rep		X
Germany		X
Siberia	X	X
NW Russia	X	X
Russia Far East	X	
New Zealand	X	X
Australia	X	X
Chile	X	X
Brazil	X	X
Uruguay	X	

Factors: Delivered logs costs to domestic port; logistics costs to market + others; compared to C&F price

Delivered Log Costs to China by Supplying Country & China “Exporter Margin” (vs. Domestic Sales)

Delivered Lumber Costs to China by Supplying Country & China “Exporter Margin” (vs. Domestic Sales)

Competitive advantage and export premiums vary!



Competitive Analysis: SW Lumber

- The delivered lumber cost curve to Shanghai in 2018-Q2 shows the “lumber export premiums” were achieved in **all 3 regions of Russia**, plus **South America, US South**.
- When the analysis is moved inland to Chengdu, the Russian returns get even better and all other regions get worse.
- **RUSSIA has a competitive advantage in China.**
- **You need to understand how Russia fits in China for evaluating other regions’ competitiveness.**

7. North America SW Lumber Summary

- US demand fundamentals = sound
- US lumber prices = short-term chaos
- US exports = minor; US imports = 30% of demand
- **Canada** exports = key markets = US, China, Japan
- **Asia** is the key export market for US & Canada
- **BC** lumber production to drop, creating a “gap” in US and export markets.
- Competitor analysis: favours **Russia** in China; **US** at a disadvantage with tariff war with China.
- Expect lots of volatility ahead!

Thank You!

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