

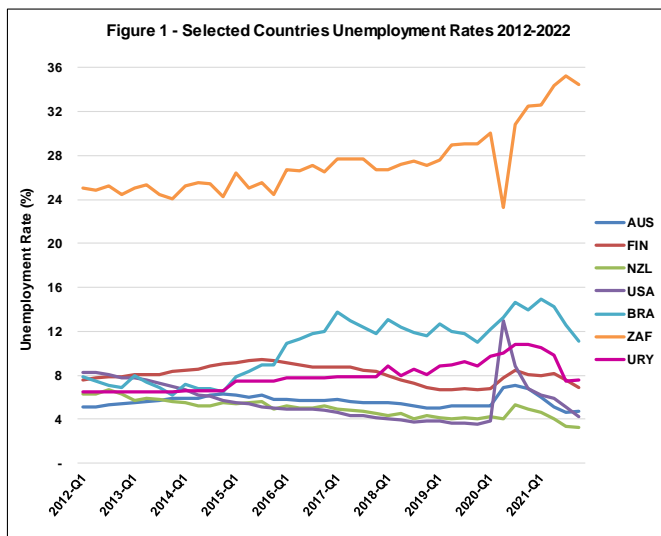
# Timberland Market Update

## Global Consulting Alliance

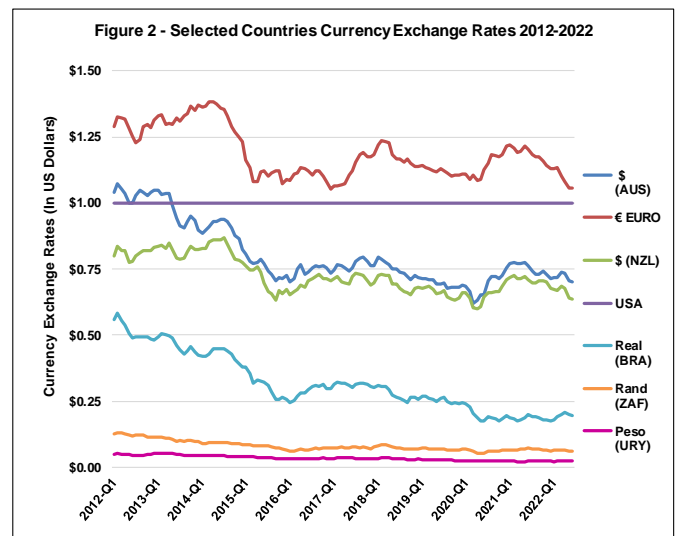
Quarterly Edition June 2022

### ECONOMIC DASHBOARD

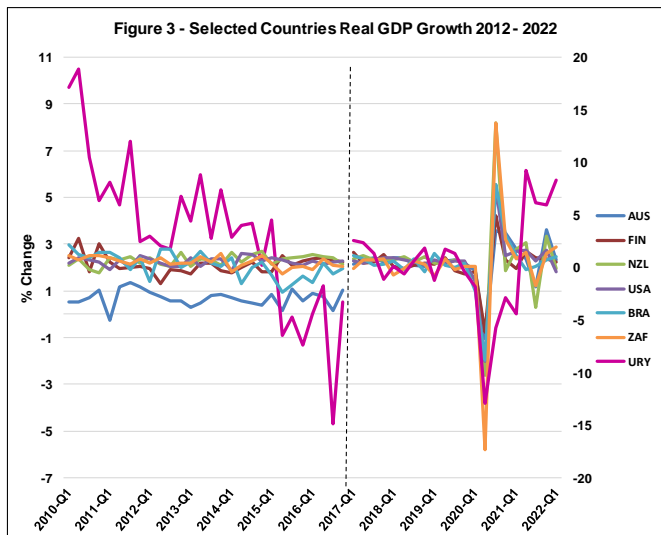
Figures 1 to 4 illustrate four key macroeconomic indicators as observed over the past decade, on a quarterly basis. These can be useful particularly to monitor the effects of the COVID-19 pandemic. Figure 4 rates are nominal.



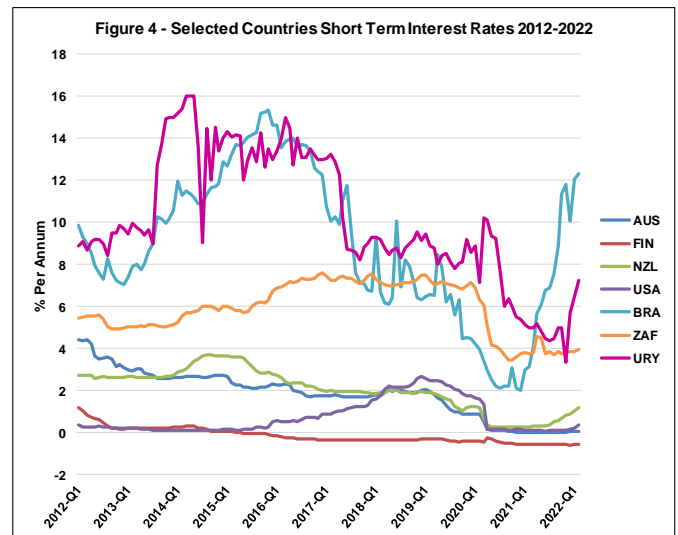
Sources: OEDC, Brazilian Institute of Geography and Statistics, macrotrends.net (World Bank), Statistics South Africa



Source: Federal Reserve, Uruguay Statistics National Institute



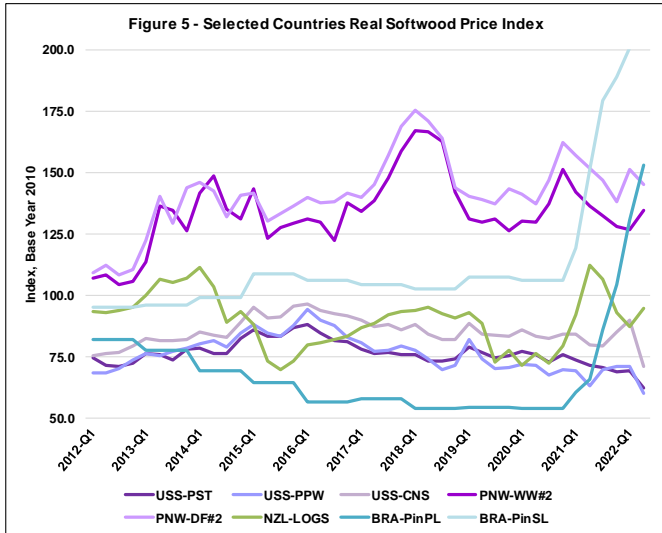
Source: OEDC, Chamber of Commerce and Services of Uruguay



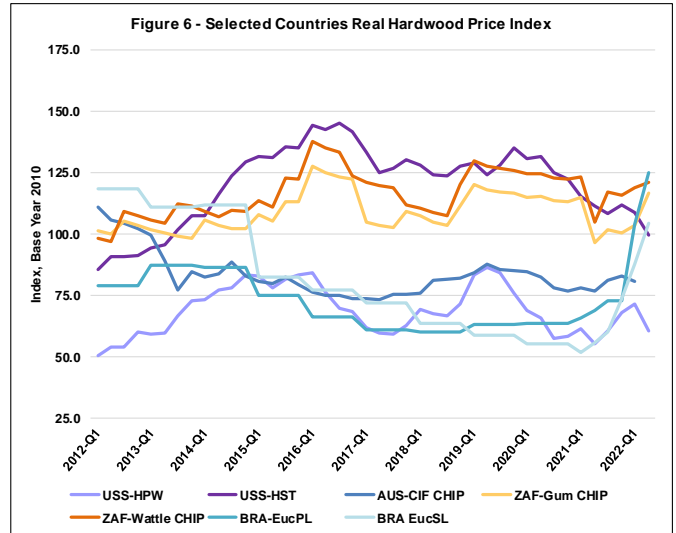
Source: OEDC, FRED - St. Louis Fed, Banco Central Del Uruguay, CEIC Data

Figures 5 and 6 show indexed real pricing for select softwood and hardwoods – with Q1 2010 the base quarter-year.

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Source: Timber-Mart South, RISI Log Lines, AgriHQ; USS = US South, PNW = US Pacific Northwest



Source: Timber-Mart South, RISI Log Lines, NCT; USS = US South

## Legend:

USS-PST = US South Pine Sawtimber, USS PPW = US South Pine Pulpwood, USS-CNS = US South Chip n' Saw, PNW-WW#2 = US Pacific Northwest Whitewood #2 Saw Avg. Columbia River, PNW-DF#2 = US Pacific Northwest #2 Saw Avg. Columbia River, NZL-LOGS = New Zealand Softwood Logs Composite, BRA-PinPL = Brazil Pine Pulplogs, BRA-PinSL = Brazil Pine Sawlogs.

USS-HPW = US South Hardwood Pulpwood, USS-HST = US South Hardwood Sawtimber, AUS-CIF CHIP = Australia Hardwood CIF Chip, ZAF Gum CHIP = South Africa Gum CHIP, ZAF Wattle CHIP = South Africa Wattle Chip, BRA-EucPL = Brazil Eucalyptus Pulplogs, BRA-EucSL = Brazil Eucalyptus Sawlogs.

## ECONOMIC HIGHLIGHTS

### Global

- The severe economic consequences of the now six-months old Russian invasion of Ukraine are beginning to compound with the IMF predicting the Ukraine and Russia economies will shrink by 35% and by 8.5% respectively in 2022. Early in the conflict on the 24 March, the UNCTAD estimated a 1% reduction in global growth to 2.6% for 2022, this now looks optimistic.
- Many EU countries are heavily dependent on Russian gas and oil for energy and so are exposed to substantial economic downside risk. Restrictions on gas supply are impacting German industry in particular. Fuel prices initially soared and supply chain disruptions driven by the conflict intensified the logistics constraints brought about by the global pandemic. This is fueling rapid inflation in the world economy leading to political instability in some third world countries.
- The high oil prices due to the conflict have now caused reduced demand causing prices to drop by around USD 20/bbl to around USD 96/bbl (WTI) according to Bloomberg.
- Sanctions on Russia and Belarus have intensified causing further restrictions to global trade.
- US GDP – Forecasters have been steadily revising forecasts of real GDP growth downward to account for expected impacts of record high inflation and the associated fiscal and monetary policy responses. The third estimate for Q1 2022 GDP growth from the Bureau of Economic Analysis showed that the US economy grew at an annual rate of 1.6% over the preceding quarter. GDP growth was due to consumer spending and business investment, which increased, while decreases in exports, government spending, and inventory investment negatively impacted growth. Imports increased, which are a subtraction from GDP. The Federal Reserve Bank of Philadelphia released the Second Quarter 2022 Survey of Professional Forecasters on May 13. The panel of

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34 forecasters reduced the 2022 prediction from 3.7% in the Q1 survey to 2.5%. Real GDP growth for 2023 was similarly reduced from 2.7% to 2.3%.

- US Unemployment – The Bureau of Labor Statistics reported that nonfarm payroll increased by 372 000 and unemployment remained at 3.6% in June 2022, close to the pre-pandemic rate of 3.5%. The number of unemployed persons was 5.9 million, compared to 5.7 million in February 2020 and the workforce participation rate came in 1.2% lower than in February 2020, before the pandemic began. The Philadelphia Federal Reserve Bank Second Quarter 2022 Survey of Professional Forecasters projected that unemployment will average 3.6% in 2022 and 2023, and 3.8% in 2024 and 2025.
- Brazil – According to the Central Bank’s FOCUS bulletin (July 11th), since early January, the market prospects improved significantly for the year-end GDP, from 0.25% to 1.6% and marginally for the USD/BRL exchange rate, from 5.6 to 5.1. However, the expectations worsened for inflation (up from 5% to 7.7%) and base interest rates (up from 11% to 13.8%).

## REGIONAL MARKET UPDATES

### Asia Pacific

#### Australia

- Consensus Economics’ June 2022 edition maintains growth expectations for the Australian economy at 4% for CY 2022 but revised its outlook for CY 2023 down from 3.1% to 2.6%.
- Previously unemployment was expected to drop below 4% in 2023 but the Australian Bureau of Statistics reported an unexpected decline in unemployment in June 2022 to 3.5% with the creation of 88 000 new jobs in June. This is Australia’s lowest unemployment rate since 1974 and the country is now experiencing significant labor shortages.
- Australia’s inflation rate is currently 5.1%. Commentators expect inflation to peak at ~7% in the December quarter before moderating. Consensus Economics’ June 2022 edition estimates a calendar year average of 5.4%, moderating to 3.3% in CY 2023.
- The Reserve Bank of Australia (RBA) implemented a series of interest rate hikes in May (+0.25 bps), June (+0.5 bps) and July (+0.5 bps) bringing the target cash rate to 1.35% in response to the high inflation figures. The RBA is expected to increase the target cash rate further by year’s end, possibly to 2.5%.
- The spot price for Australian Carbon Credit Units (ACCUs) dropped by ~37% in Q1 2022, following the Federal Government’s announcement to allow project owners to exit their ‘fixed delivery’ carbon abatement contracts under the Emissions Reduction Fund (ERF). Q2 prices now appear to have stabilised in the AUD 32-36/ACCU range.
- Trading conditions for Australian hardwood woodchip exports remains good as Chinese BHKP market prices further increased and are currently trading around USD 650/ADt to USD 675/ADt. TradeTree reports that planned and unplanned mill downtime globally during the first and second quarter of CY 2022 continues to support the market and that logistics remains a challenge for pulp. TradeTree expects pulp prices to revert to its mean towards year-end as other commodity prices are already declining.
- The momentum in the Australian housing construction sector and hence the strong demand for structural timber is expected to continue into CY 2023. However, several construction companies have faced bankruptcy since the start of CY 2022 due to increased material costs under fixed price arrangements.
- Chinese trade restrictions on Australia continue to affect the export of roundwood but not woodchip. There is now a glimmer of hope for the situation to improve following the first ministerial level contact and discussions after a three-year hiatus.

## New Zealand

- The consumer price index in New Zealand was 7.3% in the June 2022 quarter compared with 3.3% in the June 2021 quarter; housing and household utilities increased 9.1% and transport increased 14% in this period.
- The RBNZ continued its OCR strengthening cycle with two further 50 bps increases on the 25 May and 13 July, taking the OCR to 2.50%. RBNZ guidance is that it will continue to tighten monetary conditions at pace to maintain price stability and support maximum sustainable employment. The RBNZ is expecting the OCR to peak at ~4% by the end of 2023 to bring inflation to within the target 1-3% band before easing to a more neutral level.
- Building material costs continue to escalate strongly causing the failure of more construction companies locked into fixed price contracts. Over the 12 months up to 21 March 2022, the EBOSS Construction Supply Chain Update survey indicates trade and retail prices of building products increased by an average of 34%. However, the increased cost to suppliers was 37% leading to a 3% squeeze on margins. Prices are expected to continue increasing over the remainder of 2022. The shortages of materials, especially wallboard forced one major construction company to cancel its supply contract with Fletcher Building (the local manufacturer) and to seek certification of and import supplies from Thailand. This is a first in the New Zealand industry.
- With the headwind conditions facing the New Zealand economy, growth is being constrained, with Consensus Economics' July 2022 forecasting a reduced 2.1% GDP growth for 2022 compared to 3.4% before the start of the Russia/Ukraine conflict. The GDP forecast for 2023 is also a modest 2.2%, down from 3.0% in February.
- New Zealand is also facing a further COVID-19 wave with the Omicron variant with daily cases spiking up to over 10 000 and the seven-day rolling average daily deaths at 19. After the anti-mandate protests in February and March 2022, the government is taking a relatively hands off approach.
- Although there have been some modest drops in house prices, REINZ figures show a minor spike upwards (1.2% month on month) occurred in June resulting in an overall positive increase for the June 2022 year. Interestingly, this was against a backdrop of a 90% increase in housing stock on the market and a 13-day increase in days to sell, to 44 days. Along with increasing mortgage rates, this is likely to lead to further house price declines over the coming year.
- The trend in recovering softwood log prices in China reversed strongly in May and June 2022 with reduced demand due to COVID-19 lockdowns in some cities. June A grade prices averaged around USD 154/JAS m<sup>3</sup> CIF. This was accompanied by further sharp increases in shipping rates to over USD 76/JAS m<sup>3</sup>. Wharf stocks were estimated at slightly over 5 million m<sup>3</sup> in early July with some improvement in daily offtakes. Given current conditions, a short-term price recovery is not expected. Medium term the reduced volumes being shipped from New Zealand are likely to eventually turn demand and prices positive.
- At the June primary carbon market auction of New Zealand Units (NZUs) the clearing price was NZD 76/NZU. NZUs in the government's Cost Containment Reserve (CCR) have been sold out in the first two auctions of the year meaning the spot price is likely to grow without constraints over the rest of the year. The spot market price recovered to NZD 76/NZU after dropping to and holding at NZD 72/NZU in Q1. Negative reaction against international investors acquiring land for permanent forest carbon farming is increasing with a petition being raised against the practice on the East Coast. Following the April 2022 consultation deadline, the government is considering the submissions received on its proposal to disallow permanent carbon forests using exotic species in the ETS. The decision will be a difficult one with influential lobby groups on both sides of the argument.

## Asia

- Vietnam's woodchip prices have finally started to increase after years of trading flat. There are reports of Vietnamese chip now selling at ~USD 180/DBMt, up from ~USD 120-140/DBMt.
- Consensus Economics' July 2022 outlook for China's GDP growth declined from 4.3% to 4.2% but is expected to increase to 5.4% in 2023. The actual June quarter GDP rate of 0.4% however does not look promising for these forecasts. Headwinds such as China's troubled real estate construction sector and COVID-19 infections

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continue to affect growth. There are now fears that China's heavily indebted construction sector is starting to contaminate its banking sector.

- Tensions between China and the United States have increased with China's overtures to and increasing influence with the Pacific Island nations. This is also causing concern with Australia and New Zealand potentially leading to some realignment of interests. This has the potential to impact trade relations with China and along with the Russia/Ukraine war is generating concerns in the United States over the security of critical/strategic materials and products.
- Earlier expectations were that more lumber and log exports were expected to be directed to China from eastern Russia due to inaccessibility of the Baltic ports, sanction restrictions and the need for Russia to generate revenue to finance the war. This has not happened with log exports which virtually ceased from February 2022. This indicates that Russia appears to be holding to its log export ban and tariff policies.
- In contrast to logs, Russia's lumber exports have however shown a 20% increase from the low point of February 2022, although this remains 37% below the peak of July 2021. China's total lumber imports for the first five months of 2022 are 33% below the same period in 2021 and despite Russia's reduced volumes to China its market share remained ~73%. There were however signs of Russia increasing its market share in April and March 2022 to ~76% as other suppliers redirected their exports to higher paying markets.
- To date, New Zealand has not been able to capitalize on China's loss of log export suppliers (Russia, Australia and Belarus and reduced volumes from Europe) due to lockdowns in China, port disruption and high logistics costs.

### Europe

- The short-term outlook for the European forest industry is good but the development of the situation in Ukraine, increasing inflation, the scarce availability of energy, and the tightening of monetary policy, bring uncertainty to the economic development of the rest of the year and the continued demand for forest industry products.
- The war in Ukraine and related sanctions on Russia have increased the demand for Nordic sawn timber in Europe. The demand for sawn timber is also growing in North Africa. Nordic lumber exports and production are predicted to grow this year from last year due to good export markets and sawmill investments. The export prices of sawn timber are predicted to remain high in the coming months but will most likely decline at the end of the year due to the weak outlook for the construction industry in Europe.
- The exit of Russian birch plywood from the European market caused a shortage of supply and increased product prices. The possibilities for Finnish producers to compensate for the shortage is difficult, and efforts are being made to partially replace birch plywood with other plywood qualities. The demand for softwood plywood is also strong and the prices are increasing.
- During the first half of this year, the paper market has been distorted, not only by Russia's attack on Ukraine, but due to the labor market disputes and strikes in Finland and increasing production costs in Europe. A significant number of paper machines have also been closed in Europe in recent years, which has led to an exceptionally scarce supply compared to demand. Although production and export volumes are expected to normalize during the rest of the year, European paper producers will benefit from exceptionally high prices during the remaining part of this year.
- The pulp market is also expected to remain strong. Despite many market uncertainties, the demand for softwood pulp in Europe and China is expected to remain good and prices are estimated to remain high during the rest of the year. The average prices for pulp exported from the Nordics is expected to increase by 8% from last year.
- The Nordic wood market is gradually adapting to new market conditions but will experience price increases, at least in a short-to-mid-term perspective.
- As a result of the Russian war, the import of raw wood from Russia has been suspended since March. According to the Natural Resources Institute Finland (Luke), the import of raw wood to Finland will decrease this year by

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more than 60% to 4.5 million m<sup>3</sup>. The Finnish wood imports from Russia has been about 7-9 million m<sup>3</sup>, predominantly birch pulpwood, plywood logs, and chips from sawmills.

- The demand for pulp, paper and packaging is anticipated to remain high, and the imported wood into Finland will gradually be replaced by increasing domestic harvesting of pulpwood. However, at the beginning of the year, the good harvesting conditions during the winter combined with the labor market conflicts in Finland increased the industry's wood inventories. Consequently, the harvesting of pulpwood is expected to remain at last year's level, below 40 million m<sup>3</sup>. The harvesting volume of sawlogs is expected to decrease up to 9% compared with last year's level, to just over 26 million m<sup>3</sup>. In 2022, the total harvesting of industrial wood in Finland is expected to decrease up to 4% from last year's peak level.
- Although only ~5% of total Swedish wood imports has come from Russia, the war will also have a notable impact on the Swedish wood market. The suspended wood flows to Finland, the Baltics and some other countries will indirectly affect Sweden when large players seek new sources for wood.
- The high export prices and production volumes of sawn timber will increase the stumpage prices of softwood sawlogs in Finland by some 5-8% this year. The stumpage prices of pulpwood are expected to increase by some 4-7% this year. The suspension of imports from Russia of woodchips, firewood, and also industrial wood containing energy fractions will increase the demand and prices of energy wood both in Finland and Sweden. The amount of woodchips imported to Finland from Russia for energy use has been reasonably large, estimated at 2 million m<sup>3</sup>, or up to 20% of the domestic use of woodchips. Consequently, the average price of woodchips for energy use is expected to increase by as much as 20-30% this year in Finland and in certain parts of Sweden. Regional differences are expected to be large.
- Wood prices in Sweden have also increased significantly this year. According to the Swedish Forest Agency's figures, the prices of sawlogs and pulpwood have increased on average some 13% and 8% respectively when comparing delivered prices for the first half of 2022 to the same 2021 period.
- Russian sanctions only started fully impacting wood supply in European forest industries (especially in Finland) from 10 July onwards, when long-term supply contracts officially terminated. This is likely to be observed in market prices. Moreover, various companies have continued to close/sell or are still deciding to sell their business units in Russia, which in some cases has impacted their supply security. However, the construction sector across EU is starting to show signs of a slow-down, which will likely decrease demand for timber.
- Sawn wood demand and prices have started to decrease due to market uncertainty. This includes economic instability, inflation, changes in consumption patterns after COVID-19 and the rise in interest rates. However, sawlog prices remain strong.
- The price for A1 wood pellets has increased multiple times over the past six weeks in Europe, by an average of EUR 15-20/t at the start of July. Producers and retailers are still concerned that during the second half of the year, availability will be scarce making it difficult to build up stocks for the winter 2022/2023. The availability of silo trucks and shortage of drivers is also impacting deliveries.
- The European Wood-based Panels Federation (EPF) was able to report impressive figures for 2021 in its latest annual report, with an overall output growth for wood-based panels of 9.8% to 63.7 million m<sup>3</sup>. Increases from the prior year were seen for all product classes. However, they claim that the European wood-based panel industry will face sizable challenges in the coming months. Including rising concerns in the energy and raw materials markets carried over or made worse by the conflict in Ukraine, the economic sanctions imposed on Russia and Belarus, changes in the world's logistics networks, and worsening capacity utilization in a variety of customer industries during the second quarter.

### Russia

- There are five acute problems arising from the imposed sanctions that impact Russian industry. Mentioned in order of priority, they include:

#### Logistics:

- Russian ports are closed for all vessels that come from "non-friendly" countries.



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- Russian ports, on the Black Sea, in the Russian Far East, and at the border into China, are clogged with physical goods on rail cars or trucks.
- Rail costs and ocean freight rates for Russian exports have soared.

### Spare Parts:

- A shortage of spare parts for logging trucks, harvesting equipment, sawing lines and other imported technology from other countries is likely to occur later in the year.

### Currency Transfers and Payment Terms:

- While transactions using SWIFT and foreign currencies are not possible, countries that are friendly to Russia are willing to pay for goods (including oil) in rubles, typically at discounted prices. This has caused the ruble to appreciate, negatively impacting exporters.

### Certification Systems (EUTR/PEFC/FSC):

- PEFC and FSC have officially been suspended for now and will only be reinstated once the war ends.

### Sanctions on Russian Owners of Assets:

- This could affect specific companies, as mills that are affiliated with targeted oligarchs would likely be sanctioned, preventing foreign banks from conducting transactions with these companies.
- Northwest Russia mills will mainly be impacted by the sanctions, as they must bypass Europe and their only logistics options are ports in the Black Sea and the Russian Far East or land ports in China – all involving huge logistic costs. The delivered lumber price to China has been below USD 300/m<sup>3</sup> as compared to the delivered price in Europe of over USD 500/m<sup>3</sup> (with much lower logistics costs).

## North America

- US housing starts fell to 1.549 million units (Seasonally Adjusted Annual Rate, SAAR) in May, down 14.4% from 1.810 million units in April, and down 3.5% from 1.605 million units year-over-year. Building permits for privately-owned housing units decreased to 1.695 million units (SAAR) in May, down 7% from 1.823 million units in April. Housing completions increased to 1.465 million units (SAAR) in May, up 9.1% from 1.343 million units in April and 9.3% above last year. The NAHB Builder Confidence Index slid eight points to 69 in May, based on rising interest rates, increasing costs of materials, and home price appreciation, all of which are affecting affordability. Total housing starts in 2022 are projected to total 1.664 million units. Starts are now predicted by Morningstar to decrease to 1.435 million units in 2023 and 1.3 million units in 2024 before recovering at 1.55 million units by 2026 and averaging approximately 1.45 million units for the rest of the decade.
- While US housing starts have moved steadily higher during the pandemic, what is troublesome is that mortgage rates are rising (over 6%) and housing is becoming less affordable as home prices keep rising amid higher borrowing rates. Housing completions are lagging starts by a widening factor due to supply chain disruptions. Further, cancellations are rising. Increasingly, market evidence points toward a reversal of the housing market, a trend that would adversely impact lumber and panel markets during the rest of 2022 and into 2023.
- Pulpwood prices vary by region and season. In the Lake States region, hardwood roundwood prices are up sharply due to high fuel bonuses and low wood supplies due to an extended wet spring season. In the South-Central region, acute labor shortages and high fuel costs have kept softwood roundwood prices elevated just as they would normally be reaching a seasonal low. South Atlantic region prices dropped a few dollars for hardwood and softwood roundwood but were still up moderately year-over-year. The permanent closure of a Westrock pulp and paper facility in the panhandle of Florida is disrupting suppliers as far away as East Texas, who now have few hardwood markets that are within trucking distance.
- Pacific Northwest Douglas-fir log prices continue to be strong in the face of rapidly declining lumber prices; however, they are showing signs of softening. A cool, wet spring on the west side of the Cascades suggests the fire season will be less impactful than in recent years, keeping logs flowing.

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- US lumber production – Western lumber production through May is off 5.3% from 2021 levels. On a percentage basis, declines were sharpest in the California Coast (-19.1%) and Inland NW (-8.2%) regions. Production in the Coast region was down 2.7% from 2021 levels. Southern yellow pine production YTD, at 7.0 bbf through April, is up marginally from 2021 figures with log and lumber exports down 64% and 10% YTD from 2021.
- Canada lumber production – Production levels were lower by 10.6% through April from 2021 levels, while shipments were even lower by 16.4% (due to the many logistical problems). Canada’s lumber exports were lower by 9.0%, with exports to the US off by 10.9% and offshore exports were lower by 25.5%.
- Lumber prices at the end of June were at USD 616 per thousand board feet, off 58% from the most recent high, in early March, of USD 1 465. Prices rose to USD 660 in mid-July but are expected to drop lower in August. Expectations are that the worst of the lumber market volatility, caused by COVID-related supply chain disruptions, is behind us.
- In June, the US hardwood lumber market was in the 20th month of elevated prices driven by supply shortages of logs and labor. However, these shortages seem to be improving helped along by drier summer weather helping to increase log supply. US hardwood lumber exports reached an almost three-year high of 340 000 m<sup>3</sup> lumber utilization in March 2022 with steady demand from Asia and the Middle East. Demand is expected to cool in the second half of 2022.
- The first half of 2022 has been relatively slow for US Timberland transactions. However, right around the end of the second quarter, many transactions in the works since the end of 2021 started to close. PotlatchDeltic Corp. plans to merge with CatchMark Timber Trust including over 350 000 acres in the South in an all-stock transaction. Manulife Investment Management sold nearly 118 000 acres in Texas and Louisiana to Molpus Woodlands Group. Molpus sold 58 000 acres in Arkansas and Louisiana to Superior Pine Products. In April, Weyerhaeuser acquired almost 81 000 acres of timberland in the Carolinas from Campbell Global.
- The BC government’s temporary deferral to avoid the harvesting of old growth timber and other policies related to reallocating forest tenures to First Nations as well as land set asides for caribou protection are all starting to create log shortages for sawmills in various regions.
- It is difficult for companies to switch from logging in old-growth areas to second-growth regions due to bureaucracy delays at the Ministry level. A wet June has also delayed logging activities in much of BC.
- Ongoing logistics problems in obtaining rail cars and trucks in BC (as well as Western Canada) have caused huge lumber inventory build ups at dozens of mills. West Fraser has reduced production at most of its BC mills to three-day weeks since the second quarter, while Canfor, Sinclair and a few independents are operating on four-day weeks.
- BC government stumpage rates increased on July 1, 2022, by an estimated CAD 30/m<sup>3</sup> (USD 23/m<sup>3</sup>; USD 160/Mbf, Scribner) that will be in effect during the third quarter. The breakeven price for BC lumber, after including 18% US import duties, is estimated at around USD 600/Mbf, and higher at older, smaller mills.
- The reduced fiber supply and government forest policy in BC threatens up to a dozen sawmills (or equivalent output) as well as the potential closure of one pulp mill as well as pellet mills over the next five years.
- The Bank of Canada raised its prime lending rate by 1.0% to 2.5% in mid-July after a 0.75% increase in late April to combat soaring inflation.

## South America

### Brazil

#### Brazilian Forest Industry – Context and Trends

After two years of production expansion, Brazil’s forest-based industries now face a less certain market. The certainty is that the coming months will be challenging, and the question is whether the market contraction will take place via a prolonged slowdown (soft landing) or a sharp recession (hard landing).

Throughout Q2 2022, the forest industry saw inflation and high-interest rates impact sales, however, with different impacts according to the segment and wood.





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Producers of lumber, plywood, moldings, and composite panels saw their order backlogs drop from the usual two to three months of production to one month. In addition to the drop in demand, excess inventories in the hands of dealers also contributed to this reduction.

In Brazil's solid products sector, two additional events are shaping developments: first, the drop in exports of pine plywood for structural purposes due to the certification suspension; second, the higher resilience of eucalyptus product sales compared to pine, due to their emerging market profile and the lower wood cost.

As expected, pulp, cardboard, and tissue sales have proved to be more resilient to the economic crisis. Probably, due to the Brazilian industry's international competitiveness and the nature of these products.

Brazilian tree growers expect that sawlog prices will remain close to current levels, and pulplog prices will continue to rise despite the adverse market environment and outlook for the industry and producers. This expectation is based on three reasons: the present and near-future sawlog deficit resulting from the last two years of excessive consumption; the recent and significant industrial expansions unaccompanied by the proper forest base; and the shrinking of spot markets due to the timberland assets purchase by prominent industrial players to guarantee long-term supply.

The coming months will reveal how the market will unfold against expectations. Even if grower expectations are correct, the profitability of forestry will most likely decline due to significant inflationary impacts on capex and opex.

### Q2 2022 Exports and Wood Prices

Compared to the same quarter of 2021, wood prices, in actual terms, and exports have changed as follows:

- Pine Exports:
  - Solid Products (lumber, molding and plywood): -2% QTY, -2% USD, -12% in BRL
  - Pulp: +7% QTY, +18% USD, +6% BRL
- Eucalyptus Export:
  - Solid Products (lumber, molding and plywood): +9% QTY, +11% USD, +1% BRL
  - Pulp: +17% QTY, +7% USD, -4% BRL
- Pine Wood Prices:
  - Sawlog: from +2% to +9%, according to the assortment
  - Pulplog: + 13%
- Eucalyptus Wood Prices:
  - Sawlog: +21%
  - Pulplog: +22%

### Uruguay

- UPM's second pulp mill project in the central region of Uruguay is proceeding according to plan, and official sources informed that the new pulp mill will start operations during the first trimester of 2023.
- The new railway, that will transport the pulp between UPM2 and the port of Montevideo is also currently being built at a good pace, and official sources reported that it will also be operational in 2023.
- Both UPM1 and the Montes del Plata (MdP) pulp mills are operating at full capacity during 2022. As of Q2 2022, MdP consumed 2.39 million m<sup>3</sup> and UPM 2.43 million m<sup>3</sup> of logs. Average mill gate prices are similar as the ones registered during 2021, even though prices for third party suppliers decreased around 5% between 2021 and 2022.
- As of Q2 2022, 13 eucalyptus woodchip vessels have been exported, showing an increase in FOB price close to USD 10/BDMt compared with 2021, reaching FOB values between USD 155/BDMt and USD 158/BDMt. During 2022, Uruguay's *Eucalyptus globulus* woodchips exports will increase compared with 2021, Portugal being the main destination. So far this year two vessels have been exported to China and one vessel to Sweden.
- Pine logs exports continued at good pace during Q2 2022, with a total exported volume of 1 million JAS m<sup>3</sup>, representing 20 vessels (47% to China and 53% to India). Average FOB price for Q2 2022 is around USD 84/JAS m<sup>3</sup>.



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- Uruguay's eucalypt sawlog exports also continued at good pace during 2022, expecting to export higher volumes than 2021, even though sanitary issues in China impacted negatively during June. Average FOB prices for Q2 2022 are around USD 138/m<sup>3</sup> for logs +30 SED. Also, during Q2 2022, holds on bulk vessels were loaded with *Eucalyptus grandis* sawlogs (SED +20), and by doing this, exported volumes will continue to grow.
- Only one plywood company in Uruguay is still operational. As of Q2 2022, exported volume has reached 100 000 m<sup>3</sup>, with average prices around USD 480/m<sup>3</sup>.
- A new plywood mill is being installed in Uruguay. This is a USD 5.2 million investment in the city of Treinta y Tres, located in the Center-East region of the country. This small mill will consume approximately 25 000 m<sup>3</sup> of logs per year and will start production in mid-2023.
- Carbon credits from Uruguay's forest projects are still in high demand, with prices higher than USD 12/CCBvcu (CCBvcu= Climate, Community & Biodiversity Verified Carbon Unit).

### Africa

- Economic growth projections for Sub-Saharan Africa have been adjusted downwards from 4.5% to 3.6% by the World Bank and IMF for 2022 due to the global economic impact of the Russian invasion of the Ukraine. Surging oil and food prices are contributing to economic turmoil and civil strife. According to the World Bank, the number of countries in the region that are at moderate to high risk of debt distress has grown from 53% to 61% since October 2021.
- The East African Community (EAC) adopted a 4th band of the East Africa common external tariff (CET). This band sets a maximum import duty rate of 35%. This is meant as a way of promoting regional uniformity for goods imported and to protect local manufacturers from competition. The new tariff band is however also affecting wood products such as particleboard, OSB, MDF, plywood and blackboard, used in local furniture manufacturing. Previously taxed at 25%, these wood products are now taxed at the same rate as finished furniture products.
- In Tanzania, the export permit fee per truck has increased from USD 12 to USD 22 in a bid to increased export revenues.
- Following a review of logging permits in the Democratic Republic of the Congo the government has suspended 12 logging concessions in the eastern and western parts of the country. This is the result of an audit by the General Inspectorate of Finance (IGF) that found numerous irregularities in the management of the forestry concession process.
- In a drive to stop illegal logging, Gambia has revoked all export/re-export permits for timber. The felling and import of kino (*Pterocarpus erinaceus*) and felling of wild mango (*Cordyla africana*) are banned with immediate effect.
- TotalEnergies SE has acquired a 49% stake in Gabonese forestry company Compagnie des Bois du Gabon from Criterion Africa Partners. Compagnie des Bois du Gabon manages 600 000 hectares of FSC certified forests in Gabon.
- The Japanese government has provided USD 2.6 million (Kenya Shilling 310 million) to support forest restoration in Kenya. This money will be used in Elgeyo Marakwet, Kakamega and Kajiado ecosystems. The Kenya Association of Manufacturers has also partnered with the Kenya Forest Service (KFS) to assist with the rehabilitation of 10 000 hectares of degraded forest areas.
- The French Development Agency has agreed with the Moroccan National Agency for Water and Forests to contribute EUR 103 million to promote the sustainable management of Morocco's forests and national parks.
- Severe weather conditions in April 2022 in KwaZulu-Natal, South Africa, have led to the flooding of the Mondi Merebank mill and disruptions in the flow of goods through the port of Durban. Timber supply to major mills was also affected.
- Manufacturing output in South Africa fell 2.3% year-over-year in May 2022. The wood and paper sector saw an 8.1% decline which contributed 0.8 of a percentage point to the overall reduction.
- South Africa exported just over 1 million Mt of woodchips through the ports of Richards Bay and Durban between January and May 2022. This is an increase of 255 000 Mt over the same time period in 2021. Pulp

## Global Consulting Alliance Timberland Market Update

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exports increased by 10% with 410 000 ADt of chemical wood pulp exported between January and May 2022 compared to 374 000 ADt over the same period in 2021.



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