

Forestry Market Report

September 2011

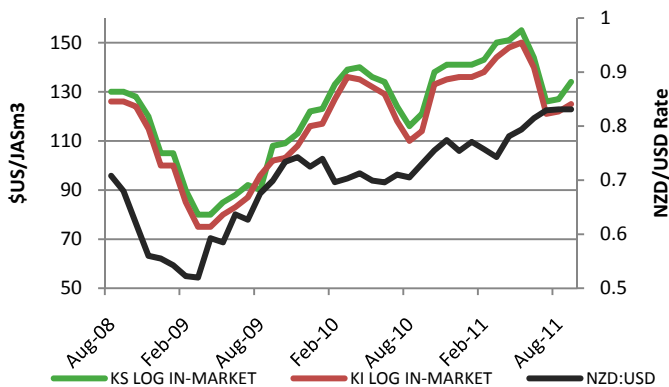
In-Market Log Prices

Prices up in export markets

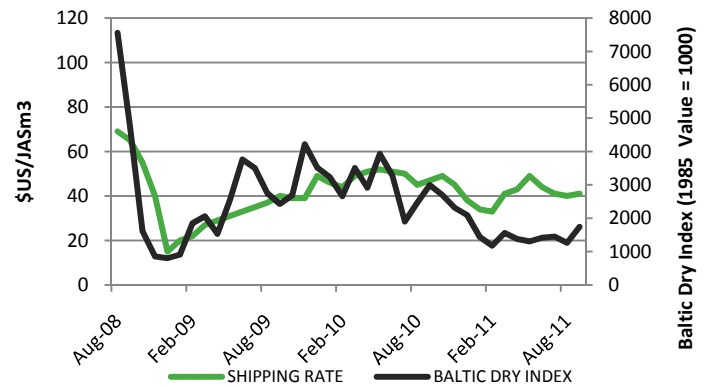
In-market prices are back on the rise in China, the main export destination for New Zealand logs. After prices tumbled during June and July, they are now rapidly rebounding. However prices still remain more than US\$10/JASm³ short of the values they reached earlier this year. Inventory levels are still relatively high in China. The volume of logs being supplied by competing countries is also strong. These two factors will constrain upward price movements within this growth market.

Shipping rates have been relatively steady over the past month and exchange rate movements have been favourable for exporters. These two factors combined with the stronger in-market prices has resulted in stronger prices for export grade logs. On average export grade logs have risen in price by NZ\$15/t over the past month. Demand generally remains subdued for lumber with Asian countries this only markets showing healthy demand.

NZ Pinus Radiata Log Average In-Market Price



NZ Log Shipping Rate vs Baltic Dry Index



Source: Bloomberg, Agrifax

Foreign Exchange and Shipping

New Zealand dollar to remain high

Currency markets continue to put pressure on returns to New Zealand's forest industry. The New Zealand dollar climbed against the US dollar in the later half of August, peaking at over US\$0.85. However during the first half of September the New Zealand dollar has generally weakened against the greenback.

Foreign exchange traders expect the New Zealand dollar will usually remain above the US\$0.80 mark right through 2012. However long-term currency predictions are often notoriously inaccurate. The one fact that is almost a certainty is that foreign exchange prices will remain volatile.

Shipping prices may increase

Shipping costs are currently averaging around US\$41/JASm³. Prices have been relatively flat over the past month but are poised to rise. The Baltic Dry Index, a leading indicator of economic activity, gained 38% over the past month. The Baltic Dry sub-index for handy-sized vessels has also started to track upwards in recent weeks. The general increase in shipping costs is also impacting on freight rates for logs. There is upwards pressure on shipping rates for logs which could increase by as much as US\$5/JASm³ over the next month.

Export Log Markets

Positive signs from China.

New Zealand's most important log market is displaying positive signals. As foreshadowed last month demand for logs from Chinese buyers has increased. This has resulted in a slight firming of prices in this market. The price of a KS log delivered to a Chinese port is currently priced around US\$134/JASm³. This is a US\$7/JASm³ increase on the price recorded by Agrifax last month.

The large piles of logs sitting on the wharfs in China are now being worked through. However inventory levels are still sufficiently high to cover 2 – 3 months supply. The quality of some logs has deteriorated due the length of time they have sat at the docks.

A month ago we began to sense a potential upswing of in-market prices. Therefore the recent increase in buyer activity may be partially driven by clients who are looking to secure product at lower prices than average, by purchasing before prices rise again.

Competition from North America

There is some expectations that prices may bound away again due to the growing demand from China for logs. However price rises are likely to be constrained by plentiful supply. The quantity of logs being supplied to this market by North American countries has more than doubled in the past year.

The US continues to gain market share in China, assisted by the weak US currency. New Zealand and Australian exporters are generally maintaining export quantities but losing market share, as the total market grows. The volume of product entering China from North America will be a key factor influencing prices in Q4 2011.

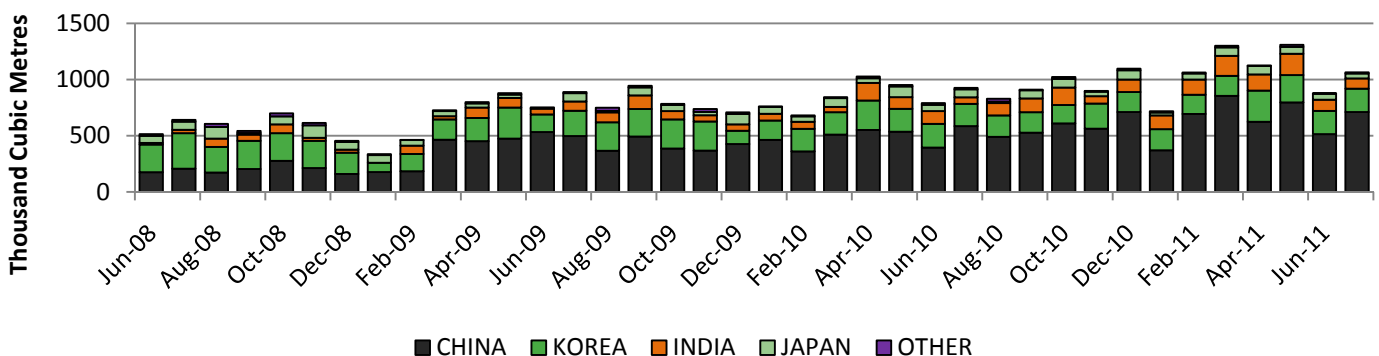
Demand for logs from India has also firmed. Exports from New Zealand to India increased by 60% in the first seven months of 2011, compared with the corresponding period in 2010.

Japan imports down

Japanese demand for imported coniferous logs has fallen in 2011. During the period from January to July 2011 coniferous log imports were down by 9%. Each of the main suppliers being: US, Canada, New Zealand, and Russia, recorded a decrease in the volume of product supplied. In general these suppliers maintained their share of the market. Although the Russian share slipped back to around 10% while New Zealand maintained their 18% share of this market.

Imports of logs by South Korea have also reduced in 2011. New Zealand continues to dominate the supply of logs to South Korea, with a share of more than half of the total market.

NZ Pinus Radiata Log Exports - Main Destinations



Source: Statistics NZ

Log exports exceed NZ\$1 billion

Log exports from New Zealand in 2011 to date are valued at over NZ\$1 billion. More than 60% of this revenue has been earned from exports to China. Total earnings for the period from January to July 2011 were 37% higher than during the same period in 2010. The total volume of logs exported from New Zealand

increased 24% this year. Higher prices achieved in all export markets have also contributed to the increased revenue. The average price of product exported to China has increased by 10% this year, while prices have increased by 12% for New Zealand log exports to South Korea.

Export Lumber Markets

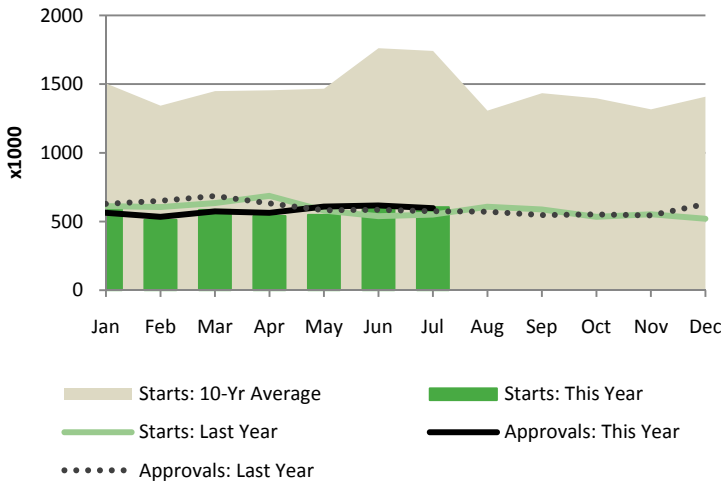
Export revenues fall

Revenue from lumber exports from New Zealand has fallen by 11% in 2011. During the period from January to July 2011 lumber exports were valued at NZ\$484 million. This is NZ\$58 million down on the same period in 2010. Exports to Australia, our nearest and most valuable market have fallen by nearly 10% in value. The Australian housing market currently remains subdued. New dwelling approvals during the month of July 2011 were 10% less than during the same month in 2010.

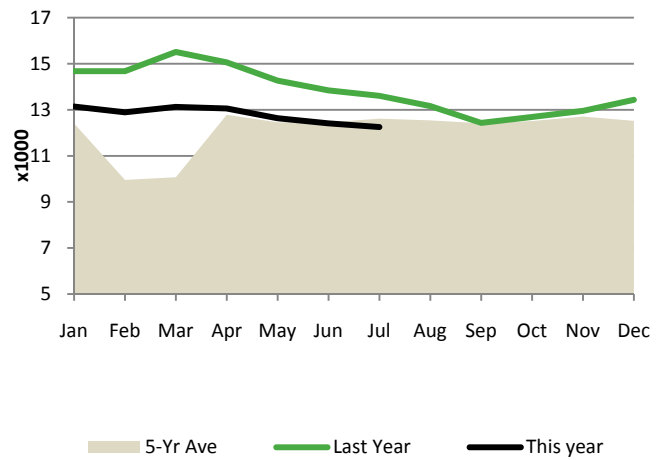
US market recovery can't be relied on

The US continues to be the second most valuable market for New Zealand lumber. However this market is now worth 25% less than it was a year ago. During the 2011 calendar year to July, new housing projects authorized were 6% less than they were the previous year. Most economic data coming out of the US is still very poor. The US will most likely take years to recover from its current economic woes. The value of this market to New Zealand lumber exporters is likely to continue to decrease in the short-term.

US Housing



Australian Dwelling Approvals



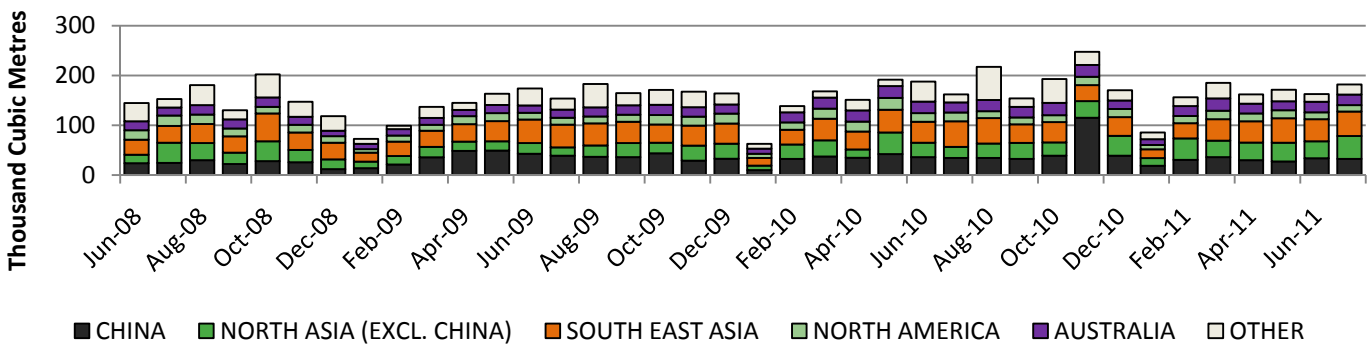
Source: US Census Bureau and Australian Bureau of Statistics (Note: Australian building work done includes non-residential building) Chain value measure as at 2007/08 pricing.

Asian markets present growth opportunities

China remains New Zealand's largest market for lumber exports when measured by volume. This is despite New Zealand lumber exports to China falling by 8% this year. In general the Asian markets are growth markets for our lumber exports.

The advanced Asian economies of Japan, South Korea and Taiwan have increased their demand for New Zealand lumber by 20%, 36% and 59% respectively in 2011. Exports to Vietnam have fallen this year but Vietnam remains New Zealand's third largest market by volume behind China and Australia.

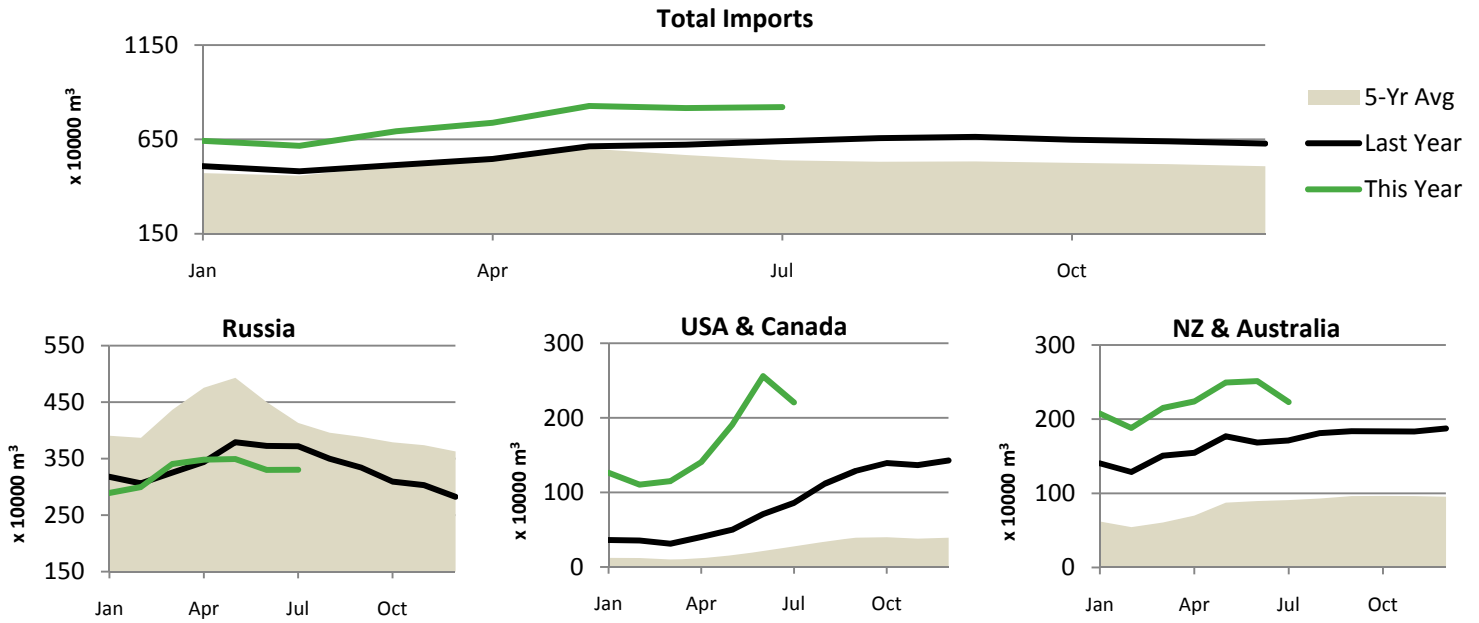
NZ Pinus Radiata Lumber and Sawwood Exports - Main Destinations



Source: Statistics NZ

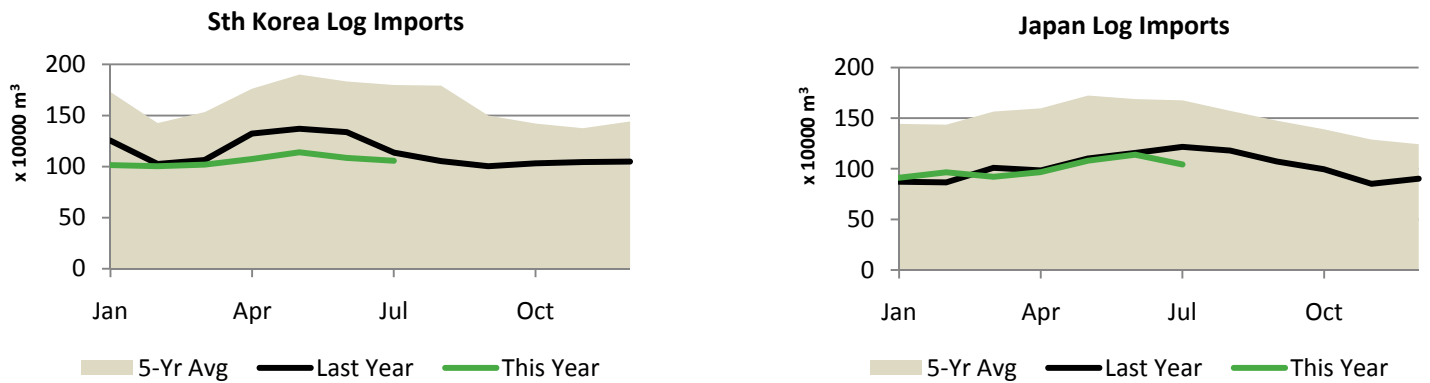
Export Log and Lumber Markets - Trade

CHINA - Coniferous Log Imports - Rolling Quarter Totals (Calendar Year)



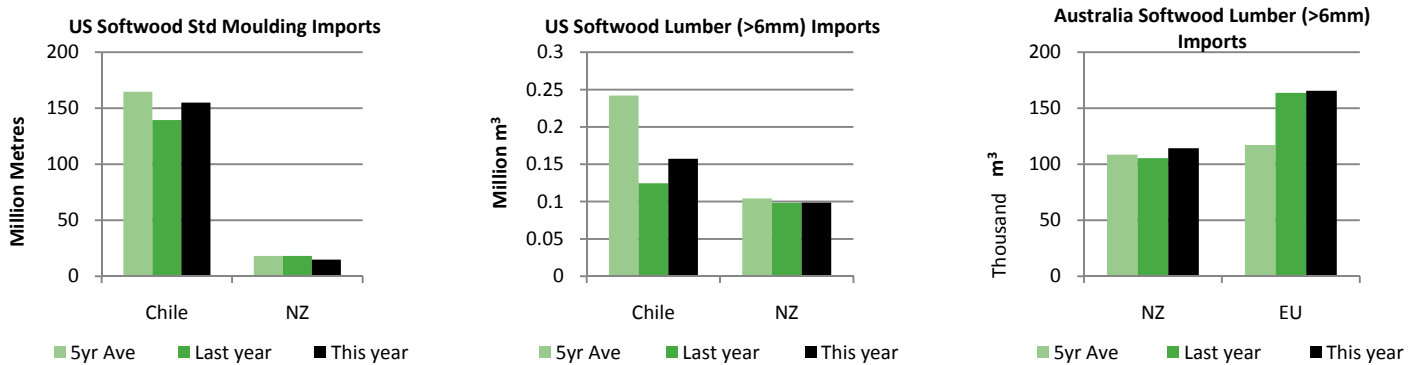
Source: GTIS

Other Asian Markets - Rolling Quarter Totals



Source: GTIS

Softwood Lumber - Seven months to July 2011



Source: GTIS

Domestic Log Markets

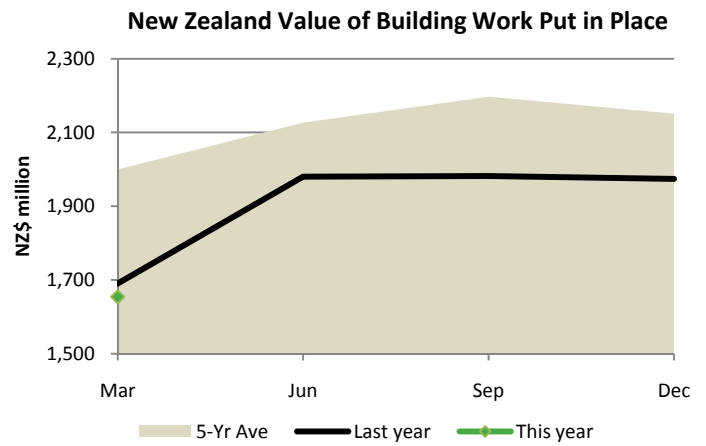
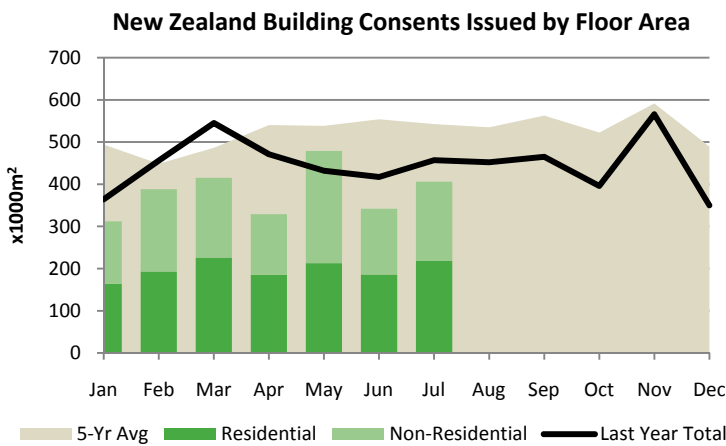
Domestic demand lackluster

The domestic log market remains subdued. Demand is limited for logs to service domestic market requirements. Statistics New Zealand data shows the volume of wood and paper products manufactured in New Zealand is declining. In the 2nd quarter of 2011 wood product manufacture fell by 2.9% compared with Q2 2010. When output was measured on a value basis the decline was less at 1.9%.

These figures will come as no surprise to those in the industry. Continual tight margins for sawmill operators has resulted in the reduction in industry

capacity. There has been a number of sawmills close recently and it is expected that more will follow. New Zealand processors are not the only ones having to cope with high input costs and subdued demand for product. In North American sawmill capacity is also being reduced. And interestingly the Chinese lumber companies, which are often blamed for the demise of our own domestic industry, are also complaining of tighter operating margins.

The price of export logs rebounded this month, but domestic log prices were generally stable. Domestic log supply continues to exceed current requirements,



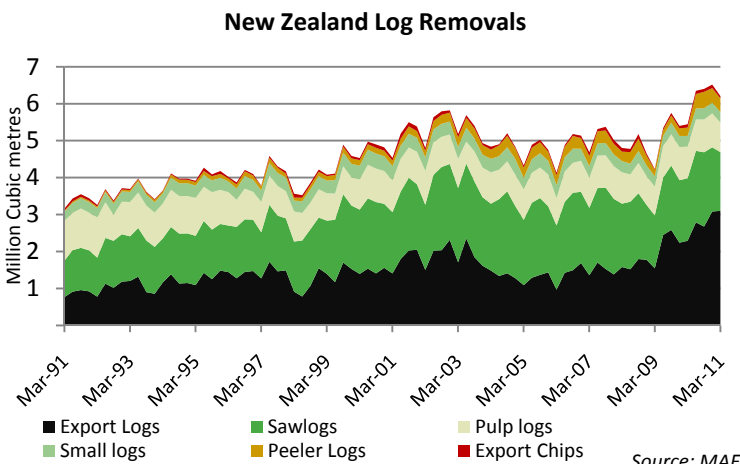
Source: Statistics NZ

, but prices are generally holding for most log grades. However an increase in the supply of pulp logs has resulted in a softening in pulp prices in the North Island.

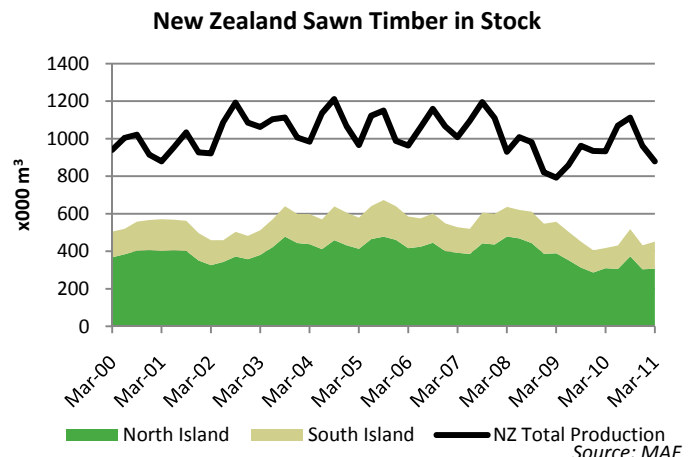
Building consents up

During the month of July 2011 new building consents were up by 19% on the previous month when considered on a floor area basis. But total proposed building activity is still down by 11% on the same

month the previous year. While residential housing activity remains subdued, non-residential building activity looks more positive. In July 2011 consents were issued for 187,000m² of non-residential buildings. This is 12,000m² more floor space than was granted consent for in July 2010.



Source: MAF



Source: MAF

Carbon Spot Settlement Pricing

Unit	This Month	Last Month	3 Months Ago	6 Months Ago	1 Year Ago
New Zealand Units (NZ\$/t CO ²)	14.50	14.00	19.92	20.24	18.25
Carbon Emission Reduction (€/t CO ²)	8.27	8.77	12.52	13.08	11.75
European Union Allowance (€/t CO ²)	11.75	12.46	16.48	16.60	13.96

Pricing taken around the 12th of the month (Source ICE, Point Carbon and Carbon News)

Carbon demand is soft.

The New Zealand carbon trading market has firmed slightly over the past month. However demand is still subdued. New Zealand Units (NZU's) have recently traded in the range of \$14.50 to \$15.50/t. Current prices for NZU's are 26% down on this time last year. Forward prices for NZU's are slightly firmer than spot prices but traded volumes are low.

Underpinning the weak New Zealand prices for carbon is the subdued European carbon market. The economic woes of Europe are resulting in a softening in demand for carbon credits. Certified Emission Reduction (CER) units are currently valued at €8.27 per tonne. This is 40% lower than CER's were trading at a year ago. In New Zealand dollar terms a CER is currently valued below NZ\$14/t. The value of an EU Emission Allowance (EUA) has also slid over the past month. EUA's are currently worth 29% less than they were a year ago.

The value of carbon units will potentially be impacted by carbon emissions initiative in a number of countries. Recently Australian parliament passed the Carbon Farming Initiative (CFI) into law. Australia will have their own carbon credits scheme with the units known as Australian Carbon Credit Units (ACCU's). Details such as how the units will trade and whether the units will be compatible with NZU's are yet to be decided. The issue is causing intense debate within Australia. At this stage it is expected the scheme will be limited to the highest polluting companies. Approximately 500 companies are likely to be taxed on their carbon emissions. It is too early to judge whether NZU's will be compatible with the ACCU's. However Australia does plan to investigate opportunities to link their carbon market with the EU carbon market.

Overall Log Index and Summary

The Agrifax Log Price Index, which measures returns from the whole forest, rebounded this month. The index regained the NZ\$3/t which is lost last month to reach NZ\$85/t in September. An increase in unpruned log prices was the component which drove the index up this month. Unpruned logs prices were generally stable. The Agrifax Log Price Index is currently \$3/t higher than it was a year ago.

Report Editor:

Susan Kilsby, Phone: 0800 85 25 80 ; Email: info@nzxagrifax.co.nz

This report is published by NZX Agrifax Limited (NZX Agrifax) for your information only. This report does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or financial product. No part of this publication may be redistributed or reproduced in any form or by any means or used to make any derivative work without written permission from NZX Agrifax. NZX Agrifax (including its group companies and each of their directors, officers, employees and contractors) shall not be liable (except the extent strictly required by law) for the use of the information contained in this report, however arising. This report is published with due care and attention, but NZX Agrifax and its group companies accepts no liability in relation to the completeness, accuracy or timeliness of this report and its contents.

NZX Agrifax Limited^(c) 2011