

Forestry Market Report

August 2010

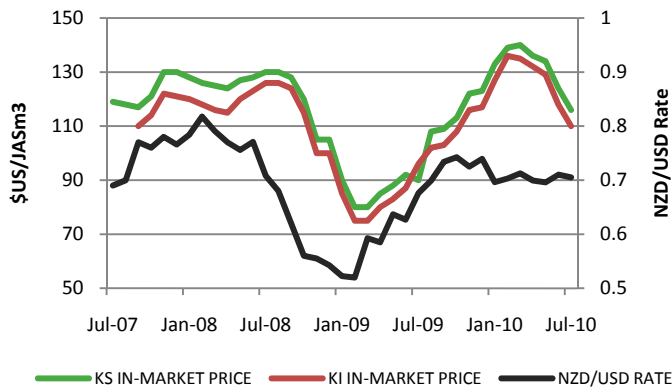
In-Market Log Prices

There has been a further decline in CFR (in-market) log prices in the past month. A KS log is now priced at US\$116/JASm³ and a KI Log is priced at US\$110/JASm³. Prices are now 15% below what they were three months ago and are now back at levels last seen in November 2009.

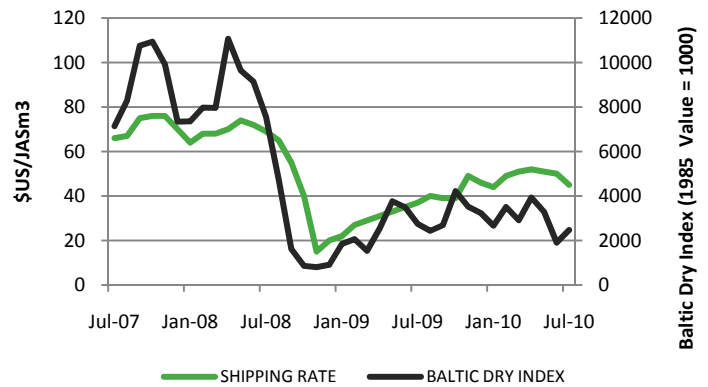
Inventories in the main markets of China and Korea are reported to have been near full since late April. This is due to record exports from New Zealand coinciding with the Russian seasonal peak supply. However, in China, product is moving and inventories are expected to be reduced in the coming months as Russian supplies begin their seasonal wind down, and consumption of pinus radiata again increases.

Prices at wharf gate (AWG) have slipped by similar amounts. However, a small reduction in shipping costs has shielded these prices from larger falls.

NZ Pinus Radiata Log Average In-Market Price



NZ Log Shipping Rate vs Baltic Dry Index



Source: Bloomberg, Agrifax

Foreign Exchange and Shipping

After a flourish into the US72c to US75c range during the month, the New Zealand currency has lost ground in the past week to be back around US70c, and slightly below last month's value. A wave of poor economic data released from around the globe has resulted in cash moving back to the US dollar, thus increasing its value against most trading partners including the New Zealand currency. However, in the medium term the New Zealand dollar is expected to maintain strength as a commodity based currency.

During the month the Bank of Japan informed the market that they are not comfortable with the current strength of the Yen. As such, they are prepared to take action to encourage a currency move into a range that is more favourable to Japanese exporters. The Japanese Yen has gained 8% in value against the US dollar this year, while against the New Zealand dollar, it has gained 9%. The five-year average for the New Zealand dollar against the Yen is 73.1Y.

The Baltic Dry Index is again on the rise, lifting 30% in the past month. However, most of this gain is attributed to the Capesize index, with the Handysize index a little slower to respond. Shipping rates had declined through July, down to US\$45/JASm³ however, a rise in the Baltic Dry Index generally precedes increases in bulk shipping rates from New Zealand.

Export Log Markets

The Chinese State Information Centre reported that they expect economic growth in China to cool to 9.2% in the Q3 of 2010 compared to the same period the previous year. Growth has been slowing in the economy over the past two quarters. Q1 2010 registered 11.9% growth, while Q2 registered 10.7%.

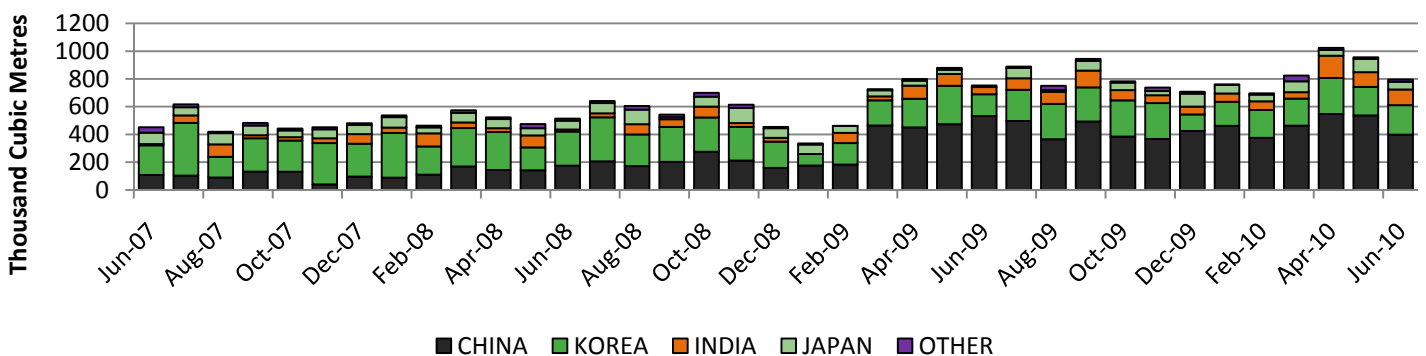
Total coniferous log imports to China for the months April to June 2010 were over 6.2 million m³, which was 7% above the same period in 2009. This is despite a decline in imports from Russia which were down 8% over the same period.

Imports to China from the US Pacific North-West have been rapidly climbing in recent months. However, much of this may be attributed to a change in shipping methods. Dry bulk shipping has become more cost effective compared to container shipping which was the preferred method previously. It is argued that container shipped logs are not assessed under the same HS codes as they are when shipped as Dry Bulk. However, poor local housing activity data will be encouraging North American exporters to look for markets outside of the US.

Total merchandise exports from India surged 34% in May 2010 compared to May 2009. It has become increasingly clear that the Indian economy has been relatively unaffected by the economic situation globally. New Zealand log exports to India are continuing to increase in volume as demand for lower grade logs from this region remains strong. New Zealand log exports to India for the 12 months to June 2010 were over 1 million m³, which is over 100% more than the previous 12 months and the five-year average. Over 400 000m³ were exported to India in the period April 2010 to June 2010 alone.

The slight drop-off in total New Zealand log exports for June 2010, compared to April and May, will help to prevent further large falls of in-market log prices in the short term. There is confidence that strong demand from Asian markets will continue. Therefore a reduction in inventories, coupled with controlled New Zealand log supplies could translate to a leveling off in pricing for New Zealand log exporters.

NZ Pinus Radiata Log Exports - Main Destinations



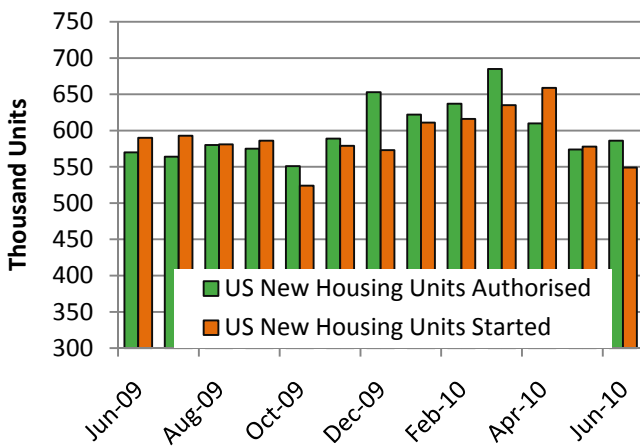
Source: Statistics NZ

Export Lumber Markets

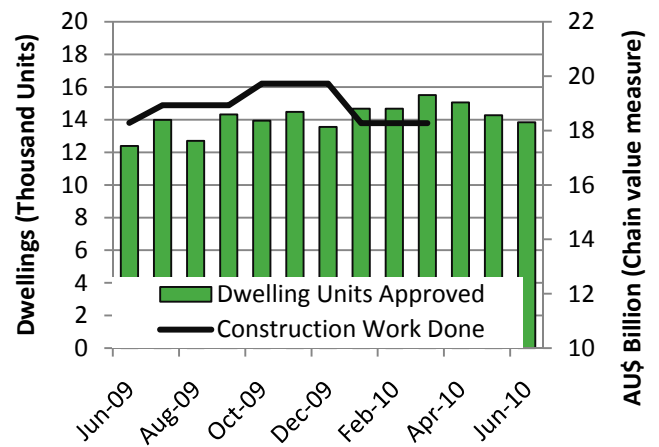
The US market for New Zealand radiata clear wood has slowed dramatically in recent weeks. Prices have slipped to those last seen in March 2010 prior to the Chilean earthquake taking effect. Controlled supplies from New Zealand are keeping prices at this level, however further pressure on prices is expected. This is because supplies have returned to normal levels from competitor Chile, and there has been a softening in alternative markets for New Zealand product.

US housing data for June 2010 was gloomy, with starts dropping 5% to their lowest level since October. Meanwhile housing permit applications rose by 2.1% which suggests that building activity in the US market may increase modestly in coming months. New Zealand lumber exports to the US for the past 12 months are 15% above the previous 12 months but 26% below the five-year average for that period. Meanwhile, New Zealand lumber exports to Australia for the past 12 months are 7% above their five-year average.

US Housing Data



Australian Construction Data

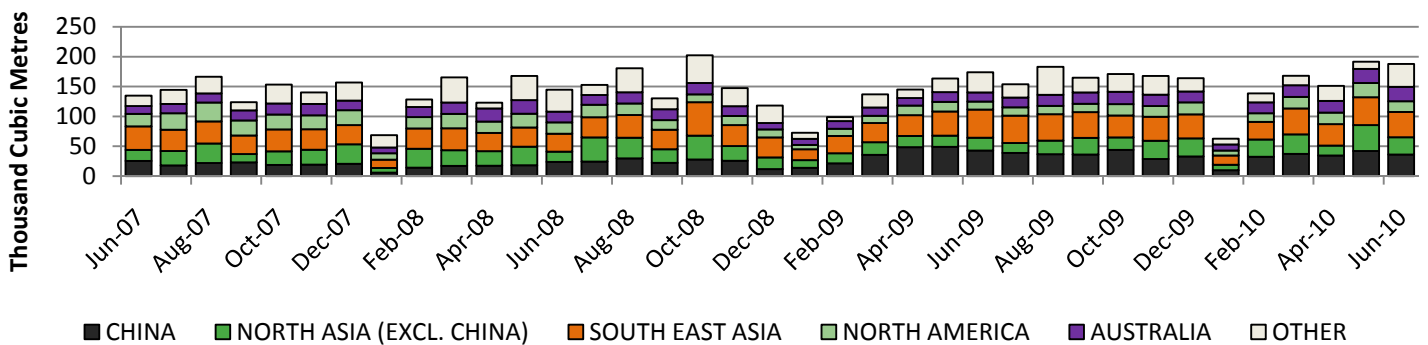


Source: US Census Bureau and Australian Bureau of Statistics (Note: Australian building work done includes non-residential building) Chain value measure as at 2007/08 pricing.

NZ Exports to China and South East Asia have been growing. To China, they are 35% above the 5-year average for the 12 months to June 2010 and 88% above the same period 2 years ago. To South East Asia, they are 11% ahead of the five-year average and 21% above the same period two years ago.

The decline in Chinese log imports from Russia has been offset by an increase in lumber imports. For the calendar year to date, China has imported 34% more >6mm thickness softwood lumber from Russia than the same period in 2009, and more than double that of 2008. This can be attributed to export taxes on logs in Russia encouraging more processing of raw materials prior to export to China.

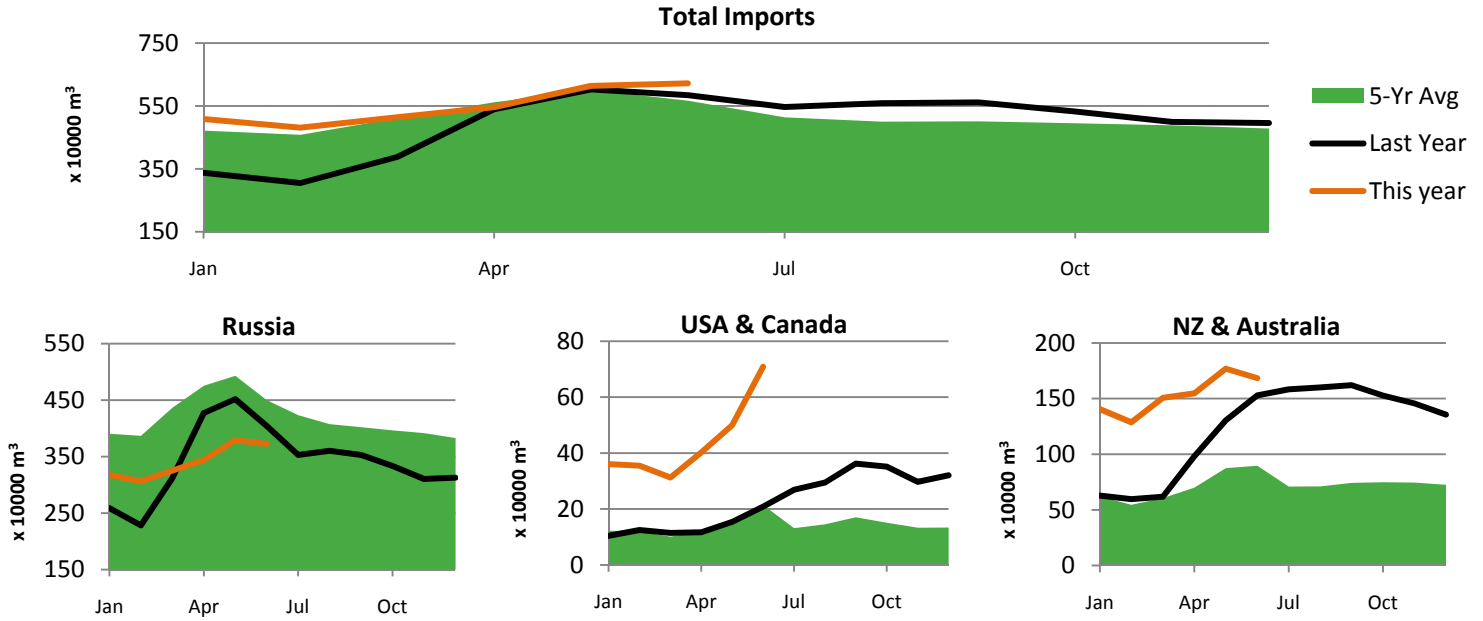
NZ Pinus Radiata Lumber and Sawnwood Exports - Main Destinations



Source: Statistics NZ

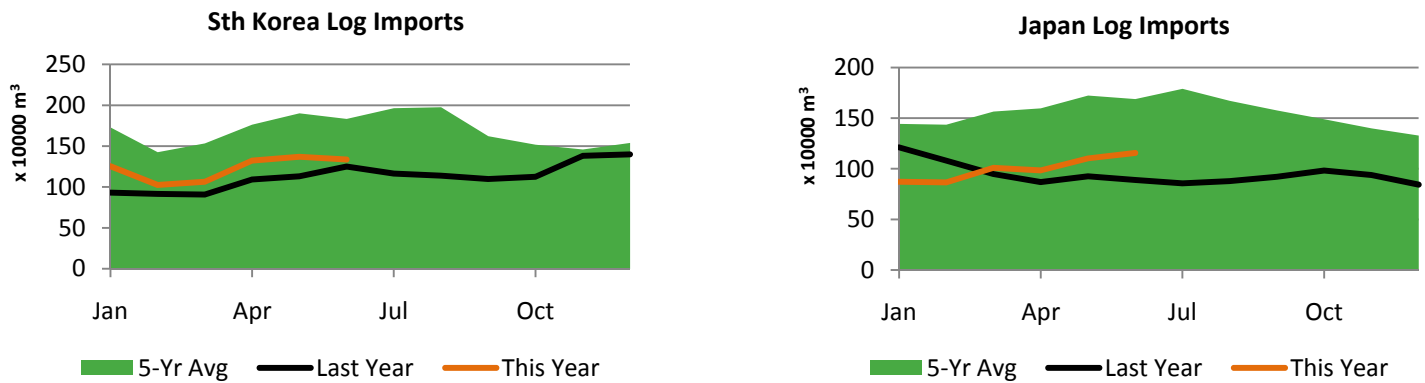
Export Log and Lumber Markets - Trade

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



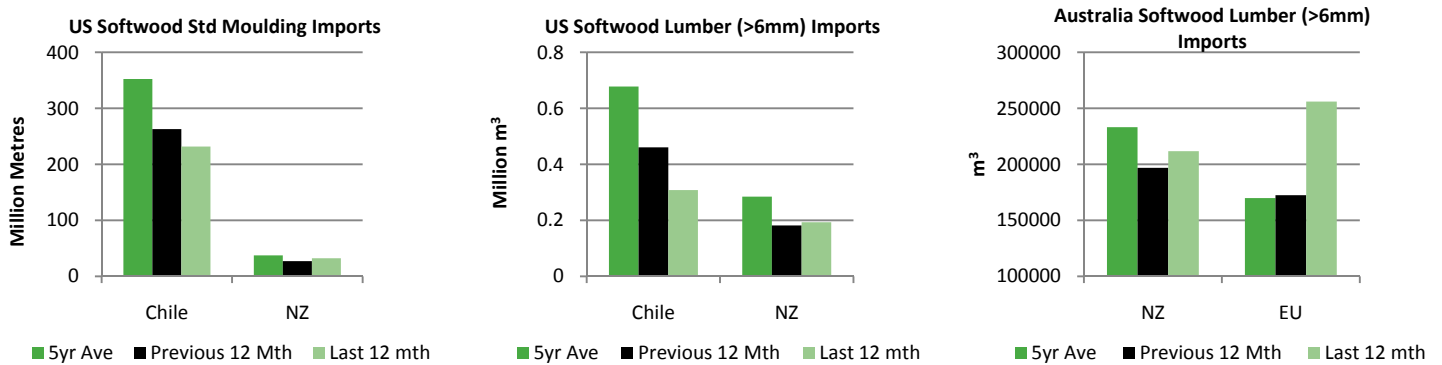
Source: GTIS

Other Asian Markets - Rolling Quarter Totals



Source: GTIS

Softwood Lumber - Year to June 2010



Source: GTIS

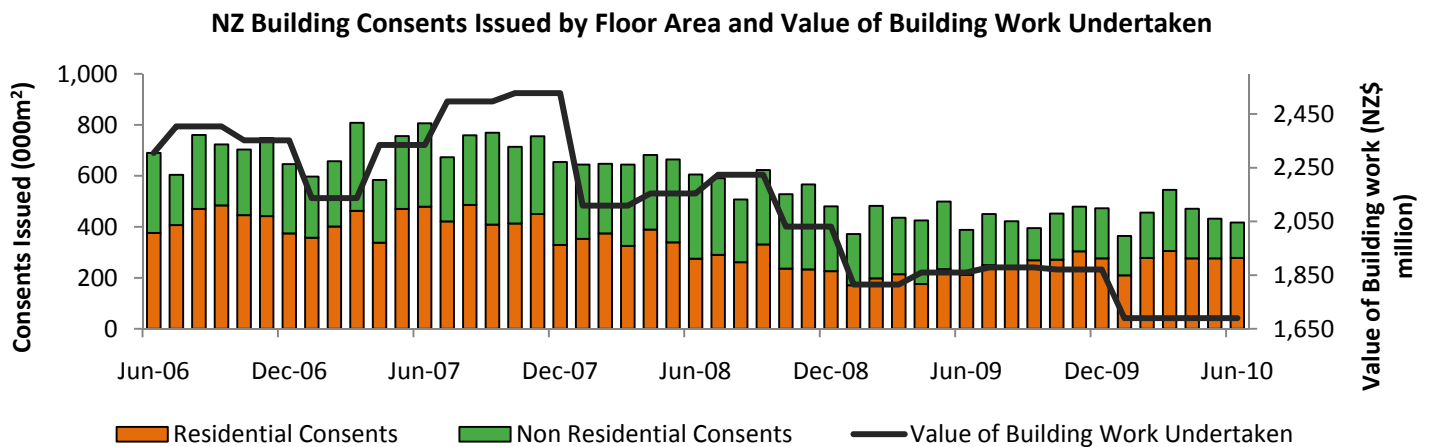
Domestic Log Markets

On the domestic market, structural log prices have remained mostly stable due to quarterly pricing being the norm in this market. However, where pricing is set monthly, slight declines have been witnessed this month.

Log prices for other grades have seen declines this month. P1 and P2 grades have softened NZ\$2/T to NZ\$4/T while pulp and industrial grade logs have slipped by up to NZ\$5/T. An Industrial grade log is now priced at NZ\$61/T.

Softer export demand has seen domestic log supplies increase and lower prices are expected in the coming months.

Processed timber exporters have recently enjoyed strong demand from overseas markets recently however, this demand appears to have dropped off in many markets alongside demand for export logs.



Source: Statistics NZ

The New Zealand construction sector remains weak. Permits issued in June 2010 by floor area have remained stable in the residential sector, while the non-residential sector is showing continued decline. For the period April to June 2010, residential permits issued by floor area were 33% higher than the same period in 2009. However, they were 17% below the same period in 2008. Meanwhile total permits issued by floor area for the same period remain 24% below the five-year average. Non-residential permits issued by floor area have been declining over the past three months and are now back at levels last seen in September 2009.

Carbon Spot Settlement Pricing

Unit	This Month	Last Month	3 Months Ago
New Zealand Units (NZ\$/T CO ²)	18.35	18.25	17.75
Carbon Emission Reduction (€/T CO ²)	12.28	11.75	12.89
European Union Allowance (€/T CO ²)	14.39	13.96	14.93

Pricing taken at market close on the 15th of the month (Source ECX and Carbon News)

Carbon trading activity in New Zealand remains muted. However, there are reports of some forward transactions from sellers who are anticipating falls in pricing for New Zealand Units (NZU's). Carbon issuances to fisheries, Emissions Intensive Trade Exposed companies and pre-1990 forest owners (EITE's) are imminent and an influx on the supply side may drive prices downwards. Over July, around 1 million NZU's traded, which is a similar level to June 2010

An NZU is currently priced around NZ\$18.50/TCO², however bids and offers range between \$18.30/T CO² and \$18.70/TCO². In comparison, a Carbon Emissions Reduction unit (CER) is priced at NZ\$22.30/TCO² and a European Union Allowance (EUA) is priced at NZ\$27/TCO². This makes EUA's in particular, too expensive as an option for buyers from New Zealand. NZU's remain priced below the New Zealand government CAP value of NZ\$25/TCO².

An EU report in the past week indicated that Assigned Amount Units (AAU) may have a surplus of 2.5 billion units for the 2008-2012 Kyoto period, which is a billion units more than previously predicted.

In Australia, a price on carbon remains off the table during election campaigns. However, the Labour Party has indicated that should they win the election, they hope to introduce a carbon emission reduction scheme 'if the community consensus is there'.

Overall Log Index and Summary

The Agrifax Log Price Index which measures returns from the whole forest has slumped NZ\$4/T this month to be at NZ\$81/T. Over the past two months, the Combined Unpruned index has fallen NZ\$7/T which is a result of weaker export log markets. Further falls in the index are anticipated in coming months due to expected declines in domestic log prices at the next round of quarterly price setting.

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) 2010