

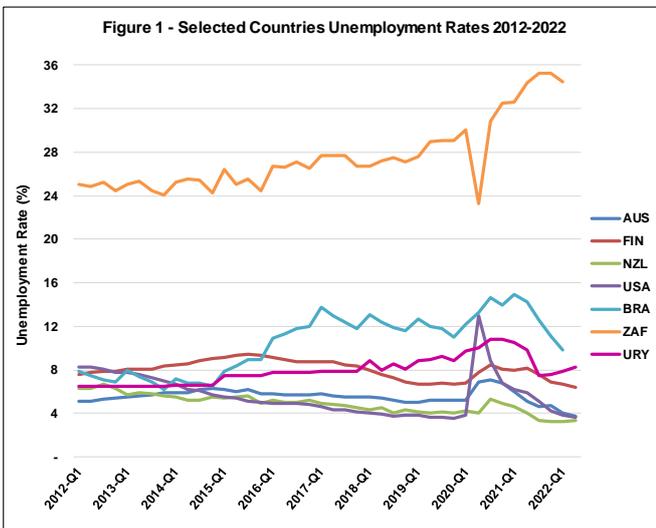
# Timberland Market Update

## Global Consulting Alliance

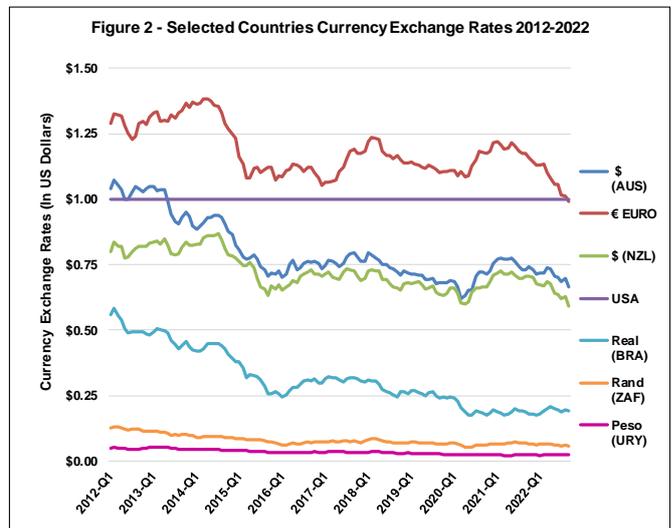
Quarterly Edition September 2022

### ECONOMIC DASHBOARD

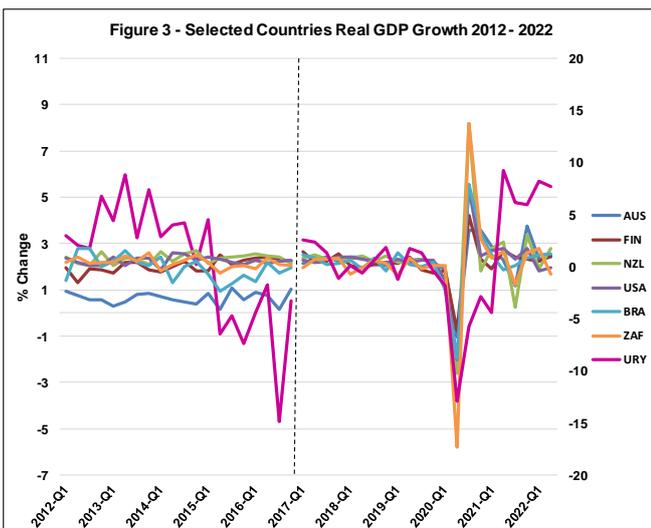
Figures 1 to 4 illustrate four key macroeconomic indicators as observed over the past decade, on a quarterly basis. These can be useful particularly to monitor the aftermath of the COVID-19 pandemic and the market implications of the ongoing Russia-Ukraine war. Figure 4 rates are nominal.



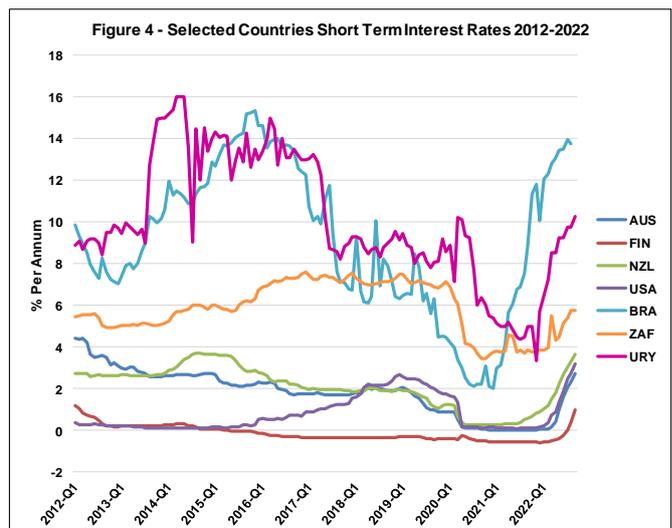
Sources: OEDC, Brazilian Institute of Geography and Statistics, [macro.trends.net](http://macro.trends.net) (World Bank), Statistics South Africa



Source: Federal Reserve, Uruguay Statistics National Institute



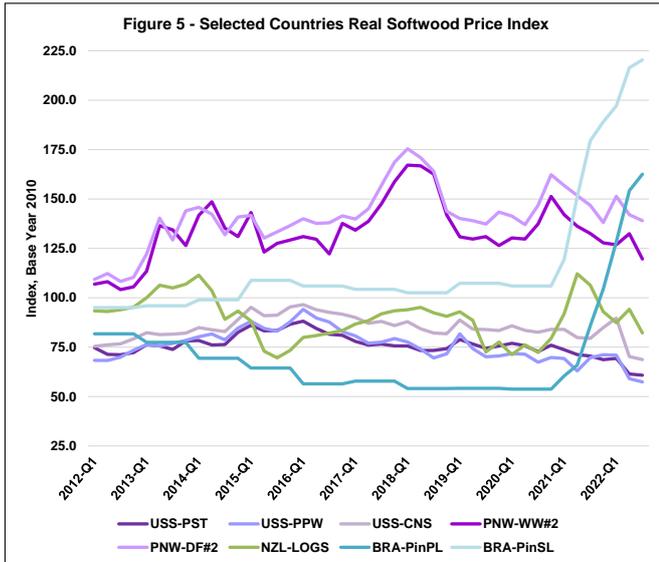
Source: OEDC, Chamber of Commerce and Services of Uruguay



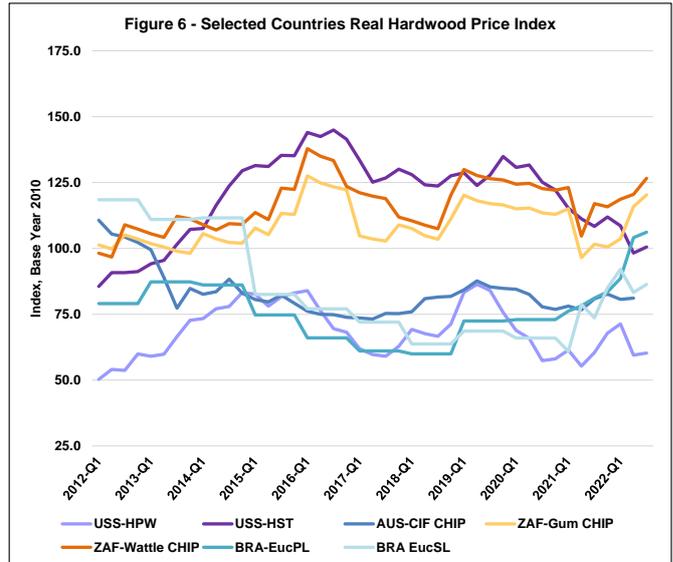
Source: OEDC, FRED - St. Louis Fed, Banco Central Del Uruguay, CEIC Data

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 UNCTAD is indicating that the world is on the edge of a recession. It argues that monetary and fiscal policies in advanced economies, including continued interest rate hikes have the potential to push the world toward a global recession and stagnation.
- The UNCTAD believes that a global slowdown could potentially inflict worse damage than the financial crisis in 2008 and the COVID-19 shock in 2020. It estimates that this year's interest rate hikes in the US will cut an estimated USD 360 billion of future income for developing nations excluding China, while net capital flows to developing countries have turned negative. UNCTAD expects East Asia to grow at 3.3% this year, compared to 6.5% last year.
- US GDP – Forecasters have been steadily revising forecasts of real GDP growth downward to account for high inflation and the associated fiscal and monetary policy responses. The third estimate for Q2 2022 GDP growth from the Bureau of Economic Analysis showed that the US economy decreased at an annual rate of 0.6% from the preceding quarter. We previously reported in error that Q1 2022 growth was 1.6%, when it did in fact decrease by 1.6%. GDP reductions in Q2 were due to decreases in inventory investment, residential fixed investment, and all levels of government spending. The reductions were partially offset by increases in consumer spending and exports. The Federal Reserve Bank of Philadelphia released the Third Quarter 2022 Survey of Professional Forecasters on August 12. The panel of 35 forecasters reduced the 2022 prediction from 2.5% in the Q2 survey to 1.6%. Real GDP growth for 2023 was similarly reduced from 2.3% to 1.3%.

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- US Unemployment – The Bureau of Labor Statistics reported that nonfarm payroll increased by 263 000 and unemployment dropped to 3.5% in September 2022, matching the pre-pandemic rate. The number of unemployed persons was 5.8 million, compared to 5.7 million in February 2020 and the workforce participation rate came in 1.1% lower than in February 2020, before the pandemic began. The Philadelphia Federal Reserve Bank Third Quarter 2022 Survey of Professional Forecasters projected that unemployment will average 3.7% in 2022, and 3.9% in 2023 through 2025.
- Brazil – Expectations for the Brazilian economy changed significantly throughout the year, mainly due to the increase in the basic interest rate carried out by the Central Bank, from 2% in March 2021 to 13.75% in August 2022, and the recent price control of gasoline and diesel oil.
- According to the Central Bank’s FOCUS bulletin, the market predicts that the Brazilian economy will grow 2.7% in 2022, against an expectation of 1.5% in July. The USD/BRL exchange rate is expected to close at 5.2 in December and the annual inflation (IPCA) at 5.7%. If this rate becomes a fact, it will mean a significant drop of against the inflation verified in April (12.1%).

## REGIONAL MARKET UPDATES

### Asia Pacific

#### Australia

- Consensus Economics’ September 2022 edition estimates growth expectations for the Australian economy to remain at ~4% for CY 2022 but revised its outlook for CY 2023 down from 2.6% to 2.1%.
- Australia’s unemployment rate is expected to remain low, estimated at 3.7% for CY 2022, increasing to 3.8% in CY 2023.
- Australia’s inflation rate is forecasted to be 6.3% for CY 2022, with an expected decline to 4.4% in CY 2023. Housing approvals are expected to slow from 196 000 units in CY 2022 to 183 000 units in CY 2023 as the HomeBuilder COVID induced stimulus package of June 2020 continues to unwind and borrowers face higher borrowing costs.
- The Reserve Bank of Australia (RBA) implemented a series of interest rate hikes in May (+0.25 bps), June (+0.5 bps), July (+0.5 bps), August (+0.5 bps), September (+0.5 bps) and October (+0.25 bps), bringing the target cash rate to 2.60% in response to the high inflation figures. The RBA is expected to increase the target cash rate further, exceeding 4% in CY 2023.
- 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). Q3 prices now appear to have stabilised in the AUD 30-34/ACCU range.
- Trading conditions for Australian hardwood woodchip exports remain good as Chinese BHKP market prices further increased to trade around USD 850/ADt. However, TradeTree reports challenges ahead: a possible global recession in 2023, geopolitical challenges, OPEC oil production cuts, elections in Brazil, Sweden and Italy, the real estate market in China and its upcoming party congress. Trade Tree expects pulp prices to fall across all regions and all grades and as prices start to drop, they are expected to drop quickly. Trade Tree further suggests that a strong USD typically correlates with weaker commodity prices, including pulp that is often traded in USD. Costs remain elevated for pulp producers due to inflation and this will dictate how low prices can go in the upcoming down cycle.
- 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.

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## New Zealand

- Consensus Economics are forecasting the June 2022 consumer price index of 7.3% to drop to 6.6% y-o-y by year's end despite the RBNZ's recent aggressive moves. Food and energy price inflation is severely affecting the less well off. In response, the Government has provided a handout of NZD 350 split into three payments to those who earned less than NZD 70 000 in the previous tax year. Implementation was poor with payments going to some deceased people and others who had left New Zealand permanently. This has provided useful ammunition for the opposition party (National).
- The RBNZ again increased the cash rate by 50 bps on 5 October to 3.5%. This represents the eighth increase in this strengthening cycle. The next review date is the 23rd of November with market expectations of a 4% rate by year end.
- The aggressive increase in interest rates, with fixed mortgage rates in the 5% to 6% range and floating rates over 6%, has dampened the housing market with house prices firmly in retreat. Core Logic reported a nationwide house price drop of 4.1% in the September quarter, essentially returning house prices to near September 2021 levels. With the impact of the interest rate increases delayed (most borrowers are on fixed rates), and the expectation of further rate increases to come, house prices are expected to see further reductions in 2023. However, the market is not expecting the drops to fully reverse the 41% national increase in house prices that has occurred since June 2020.
- The Government's popularity rating continues to fall, with the September 1News Kantar opinion poll indicating a close election in 2023. The National opposition at 37% is now polling above the ruling Labour party at 34%. A coalition of National and the further right Act party would be in a position to govern on these results.
- Building material shortages remain a concern as does the availability of skilled construction labor. In Auckland in particular, many builders still have a strong pipeline of construction work, well into 2023. Consequently domestic sawmills still have strong order books and are operating at near capacity.
- The rapid increase in interest rates along with capacity constraints and high inflation are restricting economic growth, with these headwinds Consensus Economics' September forecasts further reduced 2022 GDP growth to 1.9% with 2023 reducing to 1.6%. The latter reflects an absolute change of 1.4% from the pre Russia-Ukraine war February forecast of 3.0%.
- New Zealand is facing severe skilled labor shortages affecting healthcare, education, agriculture, transport and industry. The Government has eased entry restrictions somewhat in recent days but this is too little too late. The official statistics suggest the economy is at or above full employment at around 3.0%.
- China market log prices have declined USD 7/JAS from June although the at wharf log price in NZD has increased strongly from NZD 98/JAS to NZD 134/JAS due to reduced shipping costs and a weakening of the exchange rate from 0.639 NZD/USD to 0.596 NZD/USD. Shipping has also reduced from the very high level of ~USD 77/JAS to ~USD 49/JAS. These changes are not related to the China market itself, but to external factors including the Russia-Ukraine war.
- The NZU spot price was NZD 79 as at 6 October and averaged over NZD 80/NZU for September. There is a significant overhang of supply at present with over 120 million units held in private accounts. This has the potential to weigh on prices as this represents nearly three years demand from the key emitters. Many holders of NZU's don't necessarily intend selling them in the short-term so actual supply is effectively lower. The future path of NZU prices remains uncertain despite the auction floor price ratcheting up sharply for 2023. This overhang is concerning the Government and may need to be addressed. However, the Climate Change Commission's recommendations require an increasing carbon price to bring about the behavioural changes necessary to address climate change.

## Asia

- China's national real estate development investment through August 2022 was lower year-on-year by 7.4%, indicating a depressed market, including worries about the Chinese construction companies huge debt issues. Residential investment was also lower – by 6.9%. New residential starts (by floor area) was down 37.2%.



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- Normally the busy season for wood products business in China is after the harvest of agriculture products, or starting in mid-September. Field reports indicate business is slow with imported logs and lumber easing.
- Bottlenecks at China land ports with Russia appear to be improving, but there are still many logistical issues and delays with transporting lumber into China from Russia.

### Europe

- The near-term outlook for European forest products is uncertain considering the worsening situation in Ukraine, increasing inflation, scarce availability and high cost of energy, and the tightening of monetary policy.
- On the 13th of September 2022, the European Parliament finally adopted the new European Union (EU) forest strategy, *A new EU Forest Strategy for 2030 – Sustainable Forest Management in Europe*.<sup>1</sup> The final version was mostly well received by the wood industry, especially with statements that “wood is the only substantial natural renewable resource that has the ability to replace some very energy-intensive commodities, such as cement and plastics, and will be in higher demand in the future.”
- The European Parliament also voted to continue to recognise primary woody biomass as a renewable energy source, as part of updating the EU’s Renewable Energy Directive (RED III). This decision was criticised by some members of the Parliament and environmental associations stating that this will continue to endanger biodiversity and fuel climate change. Other decisions made during this meeting included a higher target for renewable energy share (RES) from 32% to 45% by 2030, a 7% threshold on crop-based biofuels, and the end of subsidies for burning wood in electricity-only installations. Following this vote, the EU Parliament, the Council of the EU, and the EU Commission will commence triologue negotiations, which are expected to result in a final compromise on RED III in the first half of 2023.
- On the 20th of September 2022, the European Forest Institute (EFI) released a comprehensive study on how forests and forestry play a key role in policy targets to achieve climate neutrality. According to the study, forests and wood products in the EU currently remove approximately 380 MtCO<sub>2</sub>eq/year (around 10% of EU annual gas emissions). However, to help achieve expected EU policy targets, the sector will need to increase by 50 MtCO<sub>2</sub>eq/year by 2030, 100 MtCO<sub>2</sub>eq/year by 2035, and 170 MtCO<sub>2</sub>eq/year by 2050.
- Following the current energy crisis in Europe and the increase in inflation, production prices for wood-based panels and surface companies have been impacted. According to industry insiders, some companies, mostly in central Europe, are considering slowing or halting production. This is specifically true for high gas and electricity dependent mills such as MDF/HDF and décor paper production.
- In general, prices for wood products in Europe appear now to be stabilising or even slightly declining compared with the start of the year. However, prices for wood-based energy are still on the rise; wood pellets in September were 104% higher compared with January prices, for the same period sawmill residues such as woodchips and sawdust were higher, 58% higher and 63% higher respectively<sup>2</sup>. The sawmilling sector is now experiencing a gradual decline in prices and facing a wait-and-see market among buyers in all markets. The order situation is weakening, and stocks are increasing.
- The market slightly overestimated the immediate war effect and ban of imports from Russia. Many contracts were signed before the sanction decision came into force. In practice, imports were not stopped before July and many clients were building up their stocks before that. Exports from Russia has now stopped completely, which will slightly soften the impact of market decline for sawmillers in the near future.
- Despite weakening markets, we anticipate that a price bottom for sawn goods will end up at a significantly higher level than the last recession. We believe that wood will be a product that is prioritized to a higher degree in a variety of different uses. Most of the sawmilling companies’ balance sheets are also now much healthier than two years ago, making the industry much better prepared for the expected market slowdown.

<sup>1</sup> European Parliament (13 Sep. 2022). *Texts adopted - New EU forest strategy for 2030 – Sustainable Forest Management in Europe*. Retrieved from: the Legislative Observatory.

<sup>2</sup> According to reports by proPellets (Austria), the German Energy Wood and Pellet Association (DEPV) and EUWID

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- The energy crisis has in a short time drastically raised costs for paper and board producers in continental Europe. This structural lack of energy as a result of decommissioned nuclear power, increased taxes on fossil fuels, and lower gas deliveries from Russia has changed the competitiveness pattern in Europe. There is now a huge difference in energy costs between non-integrated mills on the continent and the Nordic integrated producers. This is the main reason why the operating margins for the Nordic companies' paper and packaging operations have increased significantly in the past year. We foresee that this situation will not change very rapidly.
- The price of long fiber sulfate pulp in Europe has increased to historic record levels. In Europe, these record prices are explained by continued good demand and limited production capacity. In China, the pulp market is under pressure as demand for paper declines. There are signs of a weaker market and an incipient price decline in China while European market prices are holding up so far. We do not see any significant pulp capacity additions in the world until the end of next year. Metsä Group's new pulp mill in Kemi in northern Finland (net increase some 880 000 tonnes per annum) is not expected to start production until the third quarter of 2023.
- Wood prices in the Nordics have increased from the levels during the first half of this year, especially in Sweden. The prices for pulplogs in Sweden have increased notably whereas the prices in Finland have been more stable. In Finland pulp producers have to a larger extent been balancing domestic demand by purchasing marginal volumes from the Baltics at relative high prices.

### Russia

- Northwest Russia sawmills have been negatively impacted by sanctions and are facing rising logistics costs and slumping prices in China. As a result, the economics of operating sawmills in Northwest Russia is causing huge losses, with mill curtailments now the rule. In Siberia, the situation is also difficult, but most sawmills are facing breakeven costs at best in selling to China under the current market conditions.
- With the Russian ruble continuing to strengthen and currently below 60 to the USD, exporters are facing difficulties in export markets. Many traders in non-sanctioned countries appear to be getting worried about the potential negative ramifications from customers or banking institutions of owning Russian lumber or plywood.

### North America

- US housing starts increased to 1.575 million units (Seasonally Adjusted Annual Rate, SAAR) in August, up 12.2% from 1.404 million units in July, but down 0.1% from 1.576 million units year-over-year. Building permits for privately-owned housing units decreased to 1.517 million units (SAAR) in August, down 10% from 1.685 million units in July and down 14.4% year-over-year. Housing completions decreased to 1.342 million units (SAAR) in August, down 5.4% from 1.419 million units in July but increased 3.1% above last year. The NAHB Builder Confidence Index slid three more points in September to 46 based on rising interest rates, building material supply chain disruptions, and high home prices, all of which are affecting affordability. According to the NAHB, total housing starts are projected to total 1.543 million units in 2022. Additionally, housing starts in 2023 are expected to decrease to 1.429 million units before recovering at 1.555 million units in 2024. Homes that have been sold but not started are keeping starts from falling as sharply by offsetting losses due to declining new sales.
- While US housing starts moved steadily higher during the pandemic, what is troublesome is that mortgage rates are rising (over 6.6%) making housing less affordable to many buyers. This is putting pressure on home prices as median home prices have decreased 2.4% for existing homes and 6.3% for new construction thus far. Housing completions are lagging starts by a widening factor due to supply chain disruptions. Increasingly, market evidence points toward a shallow recession in the housing market, a trend that would adversely impact lumber and panel markets during the rest of 2022 and into 2023.



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- Pulpwood prices vary by region and season. In the Lake States region, Q3 hardwood roundwood prices remained elevated and softwood roundwood followed due to high fuel bonuses and short trucking capacity. In the South-Central region, acute labor shortages and high fuel costs cut into profits as prices stayed relatively flat in Q3. South Atlantic region prices remained flat for hardwood and softwood roundwood but were still up moderately year-over-year. Many mills have struggled to accumulate enough wood for winter, so weather will be the deciding factor for continuing operability.
- Difficult operating conditions and an insufficient labor force from COVID kept North American lumber output down in the first half of 2022 as compared to the same period in 2021 – despite soaring lumber prices. Canada recorded production drops in nearly every producing region with output lower by 9.4%. US regions also recorded declines, but the US South recorded a small increase of +2.1% (225 million bf) – despite 1-2 billion bf (1.5 – 3.0 million m<sup>3</sup>) of new capacity installations over the same time period.
- Pacific Northwest Douglas-fir log prices declined slightly in August while whitewood prices fell more sharply in response to softening lumber prices. With the fire season over and housing starts showing weakness, some further declines in log prices is expected. However, Douglas-fir supply continues to be tight.
- US lumber production – Western lumber production through July was off 4.9% from 2021 levels. On a percentage basis, declines were sharpest in the California Coast (-15.3%) and Inland North-West (-7.2%) regions. Production in the Coast region was down 2.8% from 2021 levels. Southern yellow pine production YTD, at 10.8 bbf through June, was up 2% from 2021 figures. US softwood log exports YTD were down 2% and softwood lumber exports YTD were up 6.5% as of June compared to YTD 2021.
- Lumber prices (per the Random Lengths Structural Lumber Composite) at the beginning of October were at USD 491 per thousand board feet, off 63% from the most recent high, in early March of USD 1 334. Prices rose to USD 660 in mid-July but continued to slide lower in August. Expectations are that the worst of the lumber market volatility, caused by COVID related supply chain disruptions, is behind us. Any increase in demand from hurricane Ian is not expected to materialize for several months or longer, as immediate needs take precedence over rebuilding.
- Following 20 months of elevated prices, US hardwood lumber prices started falling precipitously from their peak in August. Supply abruptly increased as shipping bottlenecks cleared, new construction homes that were sold were not started or finished, and imports rose dramatically. By September, nearly all of the prices gains since 2020 had evaporated with little left to cover increased trucking, fuel and labor costs. In the first half of 2022, US hardwood lumber exports reached a three-year high of 1 880 000 m<sup>3</sup> lumber utilization by June 2022 with steady demand from Asia, Europe, Canada and Mexico. However, demand began to cool in the second half of 2022.
- 2022 has been relatively slow for US Timberland transactions. There are USD 2.0 billion in lands projected to change ownership in 22 identified major transactions, as compared to USD 2.5 billion last year. The most noteworthy 4-package sale pending was Manulife Investment Management’s high grade pine plantation known as Dionysus in Texas, Alabama and Georgia. The 129 000 acre total was projected to bring in USD 400 million, with values of USD 3 000 to USD 4 000 per acre for this remarkable high planted area and high site index property. Three southern pine offerings were back after delays, namely the Molpus Tristar package in Idaho, Texas and Louisiana totaling 46 500 acres, the RMS Coosa Bluffs property in Alabama and Arkansas totaling 11 600 acres and the Manulife Investment Management Tigercat property in Louisiana and Alabama totalling 17 200 acres. In the Pacific northwest, Rayonier was offering 11 000 acres of softwood tree farm known as the Olive property.
- Canada’s lumber exports were lower by 9.1% through July 2022 vs July 2021, with exports to the US off by 7.5% and offshore exports were lower by 20.6%. Strong US prices were one of the main reasons for lower offshore shipments.
- SPF lumber prices in mid-October for the benchmark W-SPF 2x4 #2&Btr (FOB BC mill) were much lower at USD 430 per thousand board feet (USD 278/m<sup>3</sup>) and trending lower, way off the early March peak of USD 1 400 per thousand board feet ( USD 900/m<sup>3</sup>). Prices are expected to stay in the USD 450-550 range for much of Q4

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2022 despite low inventories held by retailers and wholesalers. Any imbalance could result in some price spikes later in Q4 or in Q1 2023 as buyers position themselves for the annual “spring buy”.

- The BC government’s temporary – but ongoing – deferral to avoid the harvesting of old growth timber has created some log shortages for sawmills in various regions, especially shortages of western red cedar.
- Ongoing logistics problems in obtaining rail cars and trucks in BC since the start of the year continue to create 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.
- The high BC government stumpage rates that came into effect on July 1, 2022 have created a breakeven price for BC SPF lumber, after including 8.6% US import duties, of between USD 550/Mbf and over 600/Mbf, depending on the region. With falling US lumber prices, some sawmill curtailments have been announced and more are expected.
- The Bank of Canada raised its prime lending rate by 1.0% to 2.5% in mid-July and to 3.25% in early September to combat soaring inflation. Like the US, this has caused mortgage rates to soar, with negative implications to the housing and repair/renovation markets.

## South America

### Brazil

#### Brazilian Forest Industry – Context and Trends

Our forecast of a more challenging market in 2H-2022 for pine and eucalyptus solid-wood products is materializing. Plywood exports tumbled over Q3, and lumber and molding exports slowed. The primary industrial players already view the next six months as significantly challenging, with markets returning to the pre-pandemic levels (2019).

The context and scenario for the short term are also challenging for the composite panel and green pig-iron industries. The former sees its stocks above the normal, even being domestic market driven, and the latter faces significant export price drops.

As expected, the pulp and paper industries, especially packaging, have shown to be resilient to the challenging macroeconomic context. Domestic and foreign sales remain strong, and expectations are optimistic, even with a likely slight drop in demand and prices. The industrial expansion projects proceed according to plan, with Suzano, CMPC, Arauco, Bracell, and Klabin leading the initiatives.

For the pulp industry, the main mid-term challenge is not the market but ensuring a sustainable wood supply.

As for wood prices, we should see a tug-of-war between the solid products industry and its suppliers in the coming months. However, in the case of the pulp industry, wood suppliers must maintain their greater price bargaining power.

#### Eucalypts Exports and Wood Prices

*Eucalyptus* export performance was positive in the Q3 2022 compared to the same period of 2021, except for wood logs.

- Pulp: +39% in quantity and 19% in USD
- Chips: +30% in quantity and 40% in USD
- Wood Logs: -28% and -30% in USD
- Charcoal via Green pig-iron: +30% in quantity and 40% in USD

Eucalyptus wood prices varied  $\pm 5\%$  in the Q3 against the Q2 2022. Pulplog wood in the pulp clusters trended upwards because of the industrial production increase and downward in the pig-iron clusters because of the charcoal price drop - a seasonal event (higher production due to less rain). Sawlog prices have practically not changed in relation to Q2.



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In the short term, prices of wood for pulp and packaging production will continue to be pressured by the upward risk of wood deficit and a resilient end-product market. On the other hand, prices of sawlog and wood for charcoal trend downward because their related industries face a downside risk at their end markets. However, flat prices would not be a surprise due to the tight wood balance in the primary clusters (São Paulo and Minas Gerais).

### Pine Exports and Wood Prices

As for Pine exports, except for moldings and pulp, the Q3 2022 performance against the same quarter of the previous year was significantly lower due to the challenging global economic context and product stock surplus resulting from the ongoing sea transport normalization.

- Lumber: -4% in quantity and USD
- Molding: +7% in quantity and 29% USD
- Plywood: -35% in quantity and -58% in USD
- Pulp: +15% in quantity and +26% in USD
- Wood logs: -99% in quantity and USD

According to the United States Department of Agriculture (USDA), the destination of 57% of Brazilian pine exports throughout 2022, plywood imports fell by 43% in the Jun-Aug period compared to the same period in 2021. However, lumber and moldings increased by 15% and 19%, respectively.

Pinewood prices still do not reflect the challenging end market context and trends. Pulplog wood prices increased by 7.5% against the previous quarter, and sawlog from 1.8% to 7.6% depending on the assortment.

The recent solid-wood industrial downturn will probably pressure prices down over the following months. On the other hand, pulplog wood prices will likely continue to be pressured upward because of the positive prospects for the pulp and packaging industries and the tight wood markets in the mid-term.

### Uruguay

- UPM's second pulp mill project in the central region of Uruguay is proceeding according to plan, and official sources confirmed that the new pulp mill will start operations in April 2023.
- On October 6, 2022, UPM inaugurated the new port terminal. The new terminal is located in the port of Montevideo. The production from the UPM plant located in Paso de los Toros will arrive at the port by railway. For the moment, it has not been reported if the railway will be ready or if trucks will be used in the first months of operation of the pulp mill. The new UPM terminal will have a capacity to move two million tonnes of pulp per year. The unloading time of a complete train will be three hours and the loading time of a ship with 50 000 tonnes will be only two days. The operation of the terminal will generate 150 direct jobs and an additional 150 jobs for loading and unloading ships.
- Both UPM1 and the Montes del Plata (MdP) pulp mills are operating at full capacity during 2022. As of Q3 2022, MdP consumed 3.98 million m<sup>3</sup> and UPM 3.7 million m<sup>3</sup> of logs. Average mill gate prices are similar to those registered during 2021, even though prices for third party suppliers decreased around 5% between 2021 and 2022.
- As of Q3 2022, 18 eucalyptus woodchip vessels were already 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, but two vessels to China and one to Sweden were already exported this year. One of these vessels exported to China was loaded with *E. dunnii* woodchips, the first ship of woodchips of this species exported from Uruguay.
- During 2022, and because of the impact of the Russia/Ukraine war, UPM has already exported two vessels with Eucalyptus pulplogs to Finland. Each vessel loaded with approximately 32 000 m<sup>3</sup>.

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- Pine logs exports continued at good pace during Q3 2022, with a total exported volume of 1.35 million JAS m<sup>3</sup>, representing 37 vessels, (39% to China and 61% to India). Average FOB price for Q3 2022 is around USD 84/JAS m<sup>3</sup>.
- Uruguay's eucalypt sawlog exports started at good pace during 2022 but have stopped since August. Exporters are optimistic that exports will start again during November.
- Only one plywood company in Uruguay is still operational. As of Q3 2022, exported volume already reached 170 000 m<sup>3</sup>, with average prices around USD 460/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).

### Argentina

- Pine log exports continued during Q3 2022, with a total exported volume 0.230 million JAS m<sup>3</sup>, representing ten vessels. Since 2019, Argentina exported around 250 000 tonnes/year of pine logs to SEA.
- Argentina is exporting Eucalyptus logs to Uruguay (UPM) by truck. As of Q3 2022, total logs exports to Uruguay reached close to 65 000 tonnes.
- HS Timber Group, together with its Belgian joint-venture partner Forestscape, is already building a new sawmill in Gobernador Virasoro, in the Argentinian province Corrientes. The investment will amount to approximately USD 110 million and the sawmill is expected to create 280 direct jobs. The total employment impact, including the upstream and downstream sectors, is estimated at over 700. The plant is designed to process small diameter pine logs (*Pinus taeda* and *Pinus elliottii*), which will be sourced exclusively in the region from sustainably managed areas.

### Africa

- The recently completed ZAR 1.7 billion upgrade to the Sappi Saiccor Mill in KwaZulu-Natal, South Africa was officially opened by President Cyril Ramaphosa on 13 September. The expansion and upgrade project increases mill capacity by 110 000 tonnes of dissolving pulp per year to 890 000 tonnes per year.
- Zimbabwean forestry companies have lost an estimated 20 000 ha of plantations over recent years due to land occupation by migrants who moved from drought stricken areas to the higher rainfall Eastern Highland region.
- The first World Teak Conference to be hosted in Africa took place in September in Ghana. Attended by 300 representatives from 31 countries, the conference highlighted the important role of teak production for African timber growers. Teak is Ghana's most exported timber species by volume and value.
- Gabon has received USD 17 million in carbon funding from the UN-hosted Central Africa Forest Initiative as a results-based payment for reduced emissions from deforestation and forest degradation. The country also plans to release 90 million credits onto the voluntary carbon market in October. This will be one of the largest ever carbon credit releases and will test the carbon market's appetite for African forest based carbon credits. Jeff Bezos added to the country's environmental services income by pledging USD 35 million for nature conservation as part of the Bezos Earth Fund's USD 110 million donation to the Congo Basin.
- Plans for the construction of the highest hybrid timber/concrete building in the world, as part of the Fumba Town development in Zanzibar, Tanzania, were unveiled. This 28 storey, 96 m tall, apartment building, named Burj Zanzibar, will be constructed by the German-led engineering firm CPS.
- South Africa's total manufacturing output increased by 3.7% year-on-year in July after three consecutive months of year-on-year decline. High levels of electricity load shedding (e.g. 25 days of consecutive load shedding in September) will however impact on economic performance in Q3. The South African Reserve Bank at its September Monetary Policy Committee meeting revised economic growth downwards for Q3 (from 0.7%

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in July to 0.4%) and Q4 (from 0.4% in July to 0.3%). It is expected that South Africa's GDP growth will drop to 1.5% in 2023 from 1.8% in 2022.

- Total woodchip exports through the ports of Richards Bay and Durban in South Africa, between January and August 2022, was 1.46 million Mt. This is an increase of 231 000 Mt over the same time period in 2021. China and Japan remained the main woodchip export destinations but exports decreased by 131 000 Mt to China and increased by 316 000 Mt to Japan between 2021 and 2022. Pulp exports reduced slightly from 581 000 ADt in 2021 to 562 000 ADt in 2022 for the January to August time period.



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