Monthly Market Report

November 2012

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Log markets over the last month have generally been positive with both domestic and export segments maintaining price and volume levels similar to previous months.

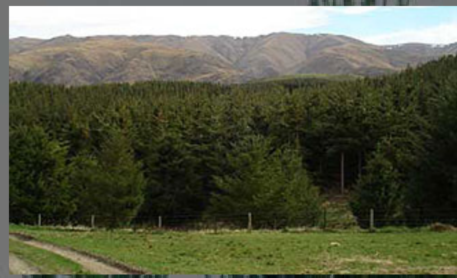
In Christchurch we are seeing some volume demand although the majority continues to be related to outdoors timber products like fencing. One mill has confirmed they have just had their biggest month ever on fencing materials. They also stated the competition and therefore margins in this segment are such any profit from these sales is negligible.

Once again we will need to see the demand in fencing lumber reach a level of consistency and volume that supply becomes tight and prices can increase to more sensible levels for the forest owner and saw miller.

Across the Log export markets, the overall demand and supply situation in most key destinations has ensured this market just chugs along. In particular, China has been consistent in softwood usage despite the earlier doom merchants suggesting we were in for a slippery slide in this key market.

As reported last month, credit lines in China continue to stifle construction growth with Government policy ensuring the housing market is not permitted to run rampant therefore driving inflation above comfort levels. All eyes are now on the new President and just how he will aim to drive the economy and growth.

Despite a range of international fiscal issues which confront Europe and shortly the US, demand for softwood log and lumber in China has been good, staying within normal seasonal fluctuation expectations. In some key ports, inventory levels have continued to slide as the US and Canada particularly, pull back from log



supply. At this stage the market is not panicking about inventories falling below 2 month's supply in some ports.

At the NZ end, prices at some ports for export logs fell slightly this month in response to a mix of shipping cost settlements and the US$/Kiwi$ exchange rate. For the most part sales price settlement in China have remained flat which is a pretty good outcome given the general negative sentiment surrounding commodities.

In the case of shipping, the market has become more sensitive to loading rates, the number of port calls and the weight to volume factor. All are driving profitability to the extent the shipping companies are becoming more demanding and more sensitive to negative factors. In the case of the exchange rate, the recent poor NZ employment statistics has ensured a slight softening which is perhaps selfishly good news for exporters.

The speak in the market is for slight improvements in prices in Q1 and 2 2013 in the expectation of continuing demand from Christchurch and China. At least all commentators are of a common positive view with little or no suggestion to the contrary.

Key sellers in China have been suggesting price improvements for December settlements although there is a level of low confidence suggesting the wish list might not be realised. For the moment nobody is talking it down and given all factors this is a pretty good outcome.

Thus it is has never been more timely to remember the only way forward for climate, country and the planet is to get out there and plant more trees ...... please.......!

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