

Tropical Timber Market Report

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Top Story

Efforts to increase use of lesser-known species for marine works

Efforts to increase the use of lesser-known species in marine construction are being supported by the private sector and NGOs.

Importers suggest specifying timber in terms of 'fit-for-purpose' with mixed species allowed would lead to development of a more diverse timber trade, support improving the timber value chain and, in turn, support sustainable forest management.

See page 19

Central and West Africa

Improved road link between Chad and Cameroon

Plans have been finalised for a bridge over the Logone River between Cameroon and Chad. The bridge will be built between the town of Yagoua in the northeast of Cameroon and Bongor in western Chad. The project will cost around US\$130 mil. and will be supported by the African Development Bank.

This road link will improve trade between landlocked Chad and open the way to ports in Cameroon.

Kribi development raises concerns for Congo basin

In March this year the largest vessel to ever call at a Kribi Port in Cameroon a deep water port considered the largest port infrastructure along the West African coast.

In addition to the port facilities at Kribi there are plans to create a large city in the vicinity but environmentalists have raised concerns that this will open the Congo Basin forests to heavy exploitation.

Log stocks cleared from Sierra Leone

A spike in China's imports of logs from Sierra Leone is the result of the lifting of the export ban so that stocks accumulated before the export ban could be shipped.

Local media sources said companies in Sierra Leone shipped some 13,000 containers of logs in the 'window' provided by the government. Data from China Customs show that in the first half of this year some 52,000 cu.m of logs arrived from Sierra Leone.

Log export prices

| West African logs Asian market | FOB Euro per cu.m | | |
|--|-------------------|-----|------|
| | LM | B | BC/C |
| Acajou/ Khaya/N'Gollon | 265 | 265 | 170 |
| Ayous/Obeche/Wawa | 2780 | 280 | 245 |
| Azobe & Ekki | 275 | 275 | - |
| Belli | 400 | 400 | - |
| Bibolo/Dibétou | 210 | 210 | - |
| Bilinga | 265 | 265 | - |
| Iroko | 370 | 350 | 270 |
| Okoume (60% CI, 40% CE, 20% CS) (China only) | 245 | 240 | 190 |
| Moabi | 355 | 345 | 265 |
| Movingui | 240 | 240 | - |
| Niove | 180 | 180 | - |
| Okan | 245 | 245 | - |
| Padouk | 350 | 300 | 245 |
| Sapele | 310 | 300 | 245 |
| Sipo/Utile | 335 | 315 | 245 |
| Tali | 415 | 415 | - |

Sawnwood export prices

| West African sawnwood | FOB Euro per cu.m |
|--------------------------|-------------------|
| Ayous FAS GMS | 420 |
| Bilinga FAS GMS | 530 |
| Okoumé FAS GMS | 460 |
| Merchantable | 310 |
| Std/Btr GMS | 360 |
| Sipo FAS GMS | 520 |
| FAS fixed sizes | 560 |
| FAS scantlings | 550 |
| Padouk FAS GMS | 920 |
| FAS scantlings | 1050 |
| Strips | 640 |
| Sapele FAS Spanish sizes | 510 |
| FAS scantlings | 510 |
| Iroko FAS GMS | 640 |
| Scantlings | 720 |
| Strips | 420 |
| Khaya FAS GMS | 500 |
| FAS fixed | 500 |
| Moabi FAS GMS | 630 |
| Scantlings | 630 |
| Movingui FAS GMS | 455 |

Ghana

'Youth in Afforestation Programme' launched

While visiting Kumasi Ghana's President, Nana Addo Akufo-Addo, launched the 'Youth in Afforestation Programme' (YAP) through which some 20,000 youths (about half of those which applied to participate) will be engaged under the programme.

This programme is part of the government's commitment to restore the depleted forest cover and fulfil a campaign promise to restore Ghana's forests. The Youth Programme will initially run for 2 years as a phase 1.

However, the President was confident the programme would be a success and would therefore be extended. In commenting on the initiative the outgoing Minister for Lands and Natural Resources, Mr. John Peter Amewu, who was deeply involved in developing the programme said this will offer youth an opportunity to contribute to national well-being. Mr. Amewu said the Ministry would soon introduce a policy to encourage farmers to plant trees.

The CEO of the Forestry Commission (FC), Mr. Kwasi Owusu Afriyie, said the young people involved in the programme received training from FC staff on nursery and planting procedures. He mentioned that a robust monitoring system will be in place to monitor progress.

Mr. Kwaku Asomah-Cheremeh has been appointed as the new Minister of Lands and Natural Resources.

Rail network rehabilitation will improve trade

Ghana has plans to fully rehabilitate the national rail network according to Mr. Joe Ghartey, Minister for Railways Development.

This, said the Minister, would provide companies with an opportunity to raise competitiveness and would help expand internal distribution.

Nigeria urged to join Continental Free Trade Area

Ghana's President has urged Nigeria to join the regional free trade initiative to further expand intra-Africa trade. While visiting Nigeria, President Akufo-Addo said the sheer size of Nigeria's economy and its huge purchasing power could be a driver of regional market expansion.

Nigeria has a population of around 180 million, about half of the total population of ECOWAS countries and is the largest market in Africa. Nigeria is an importer of Ghana's wood products.

In March this year The Brookings Institution a nonprofit public policy organization based in Washington produced a paper entitled "Strengthening regional value chains: What's the role of the African Continental Free Trade Agreement?".

This says "Current interlinkages between African economies are insufficient to accelerate economic growth among regional economic communities including the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and Southern African Development Community (SADC). Extra-regional trade has historically outpaced intra-regional trade, often by 90 percent. Similarly, Africa lags behind much of the world in intra-regional integration."

See:

<https://www.brookings.edu/blog/africa-in-focus/2018/03/21/strengthening-regional-value-chains-whats-the-role-of-the-african-continental-free-trade-agreement/>

Boule Export prices

| | Euro per m ³ |
|----------------------|-------------------------|
| Black Ofram | 330 |
| Black Ofram Kiln dry | 400 |
| Niangon | 580 |
| Niangon Kiln dry | 598 |

Export Rotary Veneer Prices

| Rotary Veneer, FOB | Euro per m ³ | |
|--------------------|-------------------------|-------------|
| | CORE (1-1.9mm) | FACE (>2mm) |
| Ceiba | 322 | 415 |
| Chenchen | 365 | 505 |
| Ogea | 473 | 590 |
| Essa | 546 | 649 |
| Ofram | 350 | 406 |

NB: Thickness

Export Sliced Veneer

| Sliced face veneer | FOB Euro per m ³ |
|--------------------|-----------------------------|
| Arormosia | - |
| Asanfina | 1,077 |
| Avodire | 1,177 |
| Chenchen | 966 |
| Mahogany | 852 |
| Makore | 1,223 |
| Odum | 1,743 |

Export Plywood Prices

| Plywood, FOB BB/CC | Euro per m ³ | | |
|-----------------------|-------------------------|-------|----------|
| | Ceiba | Ofram | Asanfina |
| 4mm | 378 | 640 | 641 |
| 6mm | 396 | 535 | 626 |
| 9mm | 367 | 446 | 560 |
| 12mm | 470 | 463 | 480 |
| 15mm | 450 | 398 | 430 |
| 18mm | 405 | 417 | 383 |

Grade AB/BB would attract a premium of 10%, B/BB 5%, C/CC 5% and CC/CC 10%.

Export Sawnwood Prices

| Ghana Sawnwood, FOB | Euro per m ³ | |
|-----------------------------------|-------------------------|------------|
| | Air-dried | Kiln-dried |
| FAS 25-100mm x 150mm up x 2.4m up | 860 | 925 |
| Afrormosia | 490 | 564 |
| Asanfina | 240 | 320 |
| Dahoma | 442 | 608 |
| Edinam (mixed redwood) | 520 | 590 |
| Emeri | 490 | 564 |
| African mahogany (Ivorenensis) | 843 | 968 |
| Makore | 775 | 925 |
| Niangon | 530 | 657 |
| Odum | 918 | 930 |
| Sapele | 700 | 757 |
| Wawa 1C & Select | 360 | 432 |

Malaysia

Reforestation grant

The domestic media (Star Newspaper) reports the Water, Land and Natural Resources, Dr. Xavier Jayakumar the newly appointed Minister in the federal government, as saying a massive reforestation programme is to be undertaken. The minister reported that a grant from Norwegian government has been offered to a local NGO to undertake some reforestation.

Dr. Xavier said that currently, 52% of Malaysia was under forest cover but if Sarawak and Sabah were excluded from the calculation the forest cover for Peninsular Malaysia alone would not extend to even 50%. In particular the three Peninsular Malaysia states – Kedah, Pahang and Kelantan have an urgent need for reforestation.

Sabah task force for a more sustainable domestic manufacturing base

Deputy Sabah Chief Minister, Wilfred Madius Tangau, called for the downstream and upstream timber industries to work together to release the potential for production of high value products as this would create jobs and boost State revenues.

The Sabah State government has established a task force to prepare a strategy for a more sustainable domestic manufacturing base. The task force would look at the temporary log ban to offer suggestions on restructuring the timber sector to better utilise State resources.

New feature for Malaysian Furniture and Furnishings Fair 2018

The Malaysian Furniture and Furnishings Fair (MF3) which was held in early August is now premier home expo attracting over 120 exhibiting companies displaying more than 300 well-known brands.

MF3 was organised by the Kuala Lumpur and Selangor Furniture Association (KSFA). This year a feature was the Wood and Lifestyle Fair – arranged jointly by KFA and Malaysian Timber Industry Board (MTIB).

MF3 offered the opportunity for the Tanggam Design Centre (TDC), an initiative under MTIB for young designers, who won ‘The Best Designers’ award at the 2017 Salone Satellite Show in Milan.

Mangroves forests declining

The Forest Research Institute of Malaysia recently updated date on mangroves in Malaysia.

Sabah has some 61% of the total area of mangroves in Malaysia which extend over around 630,000 ha. Sarawak has 22% of the total area with the balance being in Peninsular Malaysia.

Since 1990 a total of around 20,000 ha. or about 3% of the mangrove forest was lost especially in the areas outside the permanent forest reserves or within state-land. The main reason for the loss in mangrove cover was conversion to other land uses. Other contributing factors such as coastal erosion and pollution also affected the mangroves.

Sarawak first half log exports

| | 2017 (cu m) | 2018 (cu m) |
|-------|-------------|-------------|
| Jan | 250,965 | 119,288 |
| Feb | 159,313 | 81,285 |
| Mar | 163,142 | 157,880 |
| Apr | 168,316 | 197,548 |
| May | 229,161 | 153,744 |
| Jun | 149,891 | 160,757 |
| Total | 1,120,789 | 870,502 |

Data source: Department of Statistics, Sarawak

July plywood prices

Plywood traders based in Sarawak reported the following export prices:

| | |
|-------------------------------|--------------------|
| FB (11.5 mm) | US\$ 760 – 770 FOB |
| CP (3'x 6') | US\$ 560 C&F |
| UCP (3'x 6') | US\$ 660 C&F |
| Middle East (thick panel) | US\$ 465 FOB |
| South Korea (9 mm and up) | US\$ 515 C&F |
| Taiwan P.o.C (9 mm and up) | US\$ 500 FOB |
| Hong Kong | US\$ 500 FOB |

Indonesia

Exporters urged to repatriate all export earnings

Rosan Roeslani, chairman of KADIN the Indonesian Chamber of Commerce and Industry, said that Chamber members understand the benefits to the country of repatriating all of their export earnings rather than holding some off-shore.

Rosan estimated that at the moment up to 20% of earnings are commonly held off-shore but he said it is best for the economy if all is exchanged into local currency. The debate on remittances was held between KADIN, entrepreneurs from various fields, various ministries, the Financial Services Authority and Bank Indonesia.

Rosan said KADIN would work towards ensuring a greater portion of export earnings are returned to Indonesia.

Import restrictions will be a positive for wood sector

The government plan to restrict imports of some items could bring advantages to local manufacturers of paper, plastic, wood products, palm oil and certain petrochemicals says a local analyst.

Muhammad Nafan Aji Gusta Utama, from the securities firm Binaartha Sekuritas, said the government plans to target around 500 commodities which, in the face of a weaker rupiah and global trade volatility, is an appropriate move.

In related news, the Ministry of Finance is preparing, in cooperation with the Taxation Directorate General, the Customs and Excise Directorate General and the Fiscal Policy Agency, a draft regulation to curb imports in response to rise in the country's current account deficit.

State owned forestry enterprise sees profits rise

Perhutani, a state-owned enterprise in Indonesia which has the duty and authority to carry out planning, management, exploitation and protection of forests in its working area, recorded a positive financial performance in the first half of 2018.

The state-owned forestry company had a revenue of Rp1.8 trillion, a 26% increase from the same period last year out of which profit amounted to Rp469 billion, up 63% from 2017.

A spokesperson for Perhutani said the company is sure it can achieve revenues of around Rp3.8 trillion in 2018.

See: <https://industri.kontan.co.id/news/perhutani-mengejar-pendapatan-rp-38-triliun-tahun-ini>

Major effort to help SMEs

The government continues with its efforts to boost wood product exports. One thrust of this is the support to SMEs in securing timber legality certification through the SVLK. Specifically, the government has simplified SVLK certification and allows extension of the validity period. It also subsidises certification fees.

Coordinating Minister for Economic Affairs, Darmin Nasution, said the ultimate aim is to make SVLK certification free for SMEs.

The Ministry of Environment and Forestry has indicated that it will support SVLK certification for 346 industrial small and medium industries (SMEs) and certification for over 3,500 community forest units.

See:

<https://www.republika.co.id/berita/ekonomi/korporasi/18/08/24/pdyptv383-pemerintah-akan-bebaskan-biaya-sertifikat-legalitas-kayu>

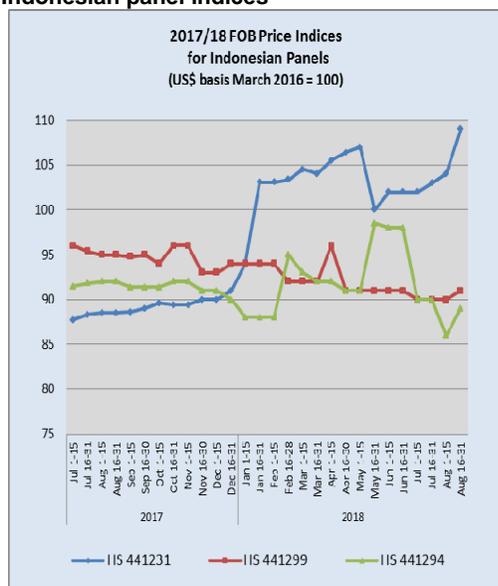
In related news, the Ministry of Environment and Forestry is encouraging SMEs to export directly rather than use the services of brokers as in this way profits will improve.

According to Ruffie, Director of Forest Products Processing and Marketing in the ministry, SMEs need to be encouraged to raise competitiveness in the international market so they are better able to survive market volatility.

US\$8 billion wood product exports in first 8 months

Ruffie has announced that in the first eight months of this year Indonesia's wood product exports totaled US\$8.06 billion. In light of this performance he expressed optimism that the export target of US\$12 billion is achievable. The good performance was due, said Ruffie, to competitive pricing, good designs and products that are verified legal.

Indonesian panel indices



Myanmar

DFID set to realign its programme in Myanmar

Analysts in Myanmar report that the UK Department for International Development (DFID) has signalled its intention to suspend support for activities related to preparations for the VPA with the EU. DFID has said it intends to reshape its programme in Myanmar to focus on inclusion, social cohesion and equality.

This announcement came just as there was to be a transition from the Interim Task Force (ITF) to a Multi Stakeholders Group (MSG) which would lead to the negotiation phase of VPA Process in Myanmar.

Analysts write that this decision is a heavy blow to industry as it struggles to establish its national timber legality verification framework.

For more see:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723121/Burma-July-2018.pdf

News round-up

- Parliament has approved the new Forest Law which will be on the statute books once signed by the President. The existing law dates back to 1902 and was revised 1992.
- The Myanmar Timber Enterprise plans to establish a Timber Industry Complex on land previously used as log depot for export logs. Forestry Minister, Ohn Win, recently inspected the site and indicated the ministry will carefully study the proposal.
- The Forest Department has issued the terms and conditions that investors in plantations must follow. A 30 year lease, extendable for 20 years, will be offered. The terms require that at least 50 trees per acre should be planted and that poles, posts and sawnwood from the plantation can be exported. There will be a 10% tax for payment for ecosystem services imposed.
- Over the past four months, 2,149 people were arrested for illegal activities in the natural forest. To combat the illegal logging informers are rewarded for information leading to arrests of suspects.
- According to the Ministry of Commerce, Myanmar's overseas trade for the current financial year was over US\$10 billion with a trade deficit of US\$1.1 billion. In the first quarter fiscal 2018, (April to June 2018) trade in forest products is totaled US\$47 million.
- Analysts write that timber exporters face two main challenges, first, the available volumes of teak and the log quality are declining but still prices for logs continue to rise and second, the

pressure from the EU Competent Authorities for legality verification is getting tougher and tougher. According to some exporters they have been informed by German Importers that if the documents are not in order it is possible that shipments will be returned.

August tender prices

| Grade | H.tons | Average US\$/H.ton |
|-------|---------|--------------------|
| SG-1 | - | - |
| SG-2 | - | - |
| SG-4 | 47.68 | 3,964 |
| SG-5 | 57.34 | 2,971 |
| SG-6 | 150.48 | 2,593 |
| SG-7 | 1258.33 | 1,709 |

India

Woodbased panel price index declines in June

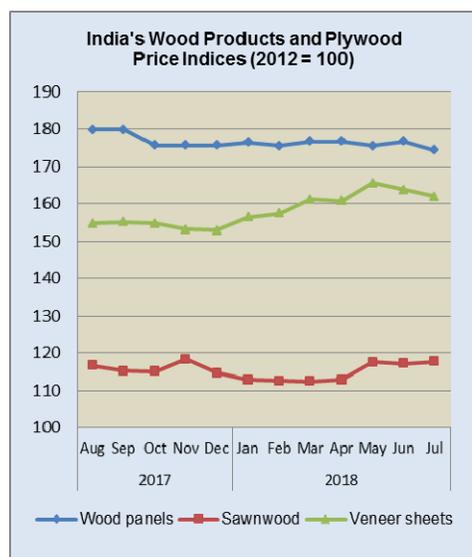
India's official wholesale price index for all commodities (Base: 2011-12=100) for July 2018 released by the Office of the Economic Adviser to the government rose to 119.7 in July from 119.2 in June.

The annual rate of inflation, based on monthly WPI in July 2018 was 5.09% compared to 5.77% for the previous month.

The index for 'Manufacture of Wood and of Products of Wood and Cork group rose almost 1% in July due to mainly to higher price of paperproducts.

The press release from the Ministry of Commerce and Industry can be found at:

<http://eaindustry.nic.in/cmonthly.pdf>



Data source: Ministry of Commerce and Industry, India

Industrial output at 5-month high in June

Industrial production was at a five-month high in June according to a press release from the Ministry of Statistics and Programme Implementation. All three major sectors, manufacturing, mining and electricity expanded output. The cumulative growth in these three sectors during the April-June 2018 period over the corresponding period of 2017 has been 5.4%, 5.2% and 4.9% respectively.

Analysts suggest the GDP growth is expected to have topped 7.5% in the first quarter of the current financial year. Commenting on the performance of the sectoral growth trends, Chandrajit Banerjee, Director General, Confederation of Indian Industry, said this reflects steady progress in economic growth and is encouraging as there has been a perceptible increase in the share of sectors recording higher growth.

http://www.mospi.gov.in/sites/default/files/press_release/iip_PR_10aug18_0.pdf

<https://www.cii.in/NewsRoom.aspx?enc=SO0wa+TYDvk3FXKFO1bn1Q==>

New report 'India's Real Estate Milestones - A 20-year Narrative'

The Confederation of Indian Industry (CII) in association with JLL, one of India's top real estate firms, have launched a report 'India's Real Estate Milestones A 20-year Narrative'.

The press release launching the report says the main features and agents of change in the real estate sector over past two decades are discussed. Further, the report highlights the trends and opportunities as the sector enters a new phase of growth.

The press release also says the first half of 2018 saw corporate leasing activity rise by a 54% in compared to the same time last year. This trend, driven by large technology companies co-working offices, financial services and global in-house data centres is a reflection of the current thriving business environment in India.

<http://www.jll.co.in/india/en-gb/news/292/indian-real-estate-makes-an-emphatic-come-back-in-2018-cii-jll-india-report>

Better coordination between agencies needed to tackle illegal agarwood trade

In late July the Thane Division of the Maharashtra Forest Department seized 75kg of agar wood as attempts were made to smuggle the wood. Over the past seven months 10 people have been arrested for attempting to illegally export agar wood to the Middle East.

The Deputy Conservator of Forests in Thane, Jitendra Ramgaokar, said there needs to be better coordination between agencies to tackle the illegal trade. "The only way out is creating awareness, capacity building and inter-departmental coordination among state governments, forest officials, Directorate of Revenue Intelligence, Customs and Central Reserve Police Force," he said.

Plantation teak

Demand for imported plantation teak logs has risen on the back of firmer domestic demand.

However, over the past months the US dollar has strengthened against the rupee which has pushed up landed costs. To maintain a viable business prices in the local market have risen 8-10 %. Importers are still struggling to maintain trade without the full backing of the banks which are still not offering full credit facilities.

Plantation teak prices

| | US\$ per cu.m C&F |
|--------------------------|-------------------|
| Angola logs | 389-574 |
| Belize logs | 350-400 |
| Benin logs | 290-714 |
| Benin sawn | 530-872 |
| Brazil logs | 344-540 |
| Brazil squares | 333-556 |
| Cameroon logs | 405-616 |
| Colombia logs | 478-743 |
| Congo D. R. logs | 450-761 |
| Costa Rica logs | 357-780 |
| Côte d'Ivoire logs | 289-756 |
| Ecuador squares | 333-454 |
| El-Salvador logs | 320-732 |
| Ghana logs | 294-452 |
| Guatemala logs | 324-646 |
| Guyana logs | 300-450 |
| Kenya logs | 515-876 |
| Laos logs | 300-605 |
| Liberia logs | 265-460 |
| Malaysian logs | 225-516 |
| Mexican logs | 295-808 |
| Nicaragua logs | 402-505 |
| Nigeria squares | 434-517 |
| Panama logs | 335-475 |
| PNG logs | 443-575 |
| Sudan logs | 358-556 |
| Tanzania teak, sawn | 307-613 |
| Thailand logs | 511-700 |
| Togo logs | 334-590 |
| Trinidad and Tobago logs | 603-753 |
| Uganda logs | 411-623 |
| Uganda Teak sawn | 680-900 |

Price range depends mainly on length and girth

Locally sawn hardwood prices

With the domestic housing market showing firm growth the demand for wood products has improved. Because of the weak rupee import costs have risen such that traders have had to raise prices and the market has accepted the price increases.

| Sawnwood Ex-mill | Rs per cu.ft. |
|------------------|---------------|
| Merbau | 3500-3800 |
| Balau | 2200-2300 |
| Resak | 1500-1700 |
| Kapur | 1900-2100 |
| Kempas | 1350-1500 |
| Red Meranti | 1200-1300 |
| Radiata pine AD | 700-800 |
| Whitewood | 700-800 |

Price range depends mainly on length and cross-section of sawn pieces

Myanmar teak

Improved activity in the construction and house building sector has begun to drive up demand for Myanmar teak and the price increases introduced at the beginning of August are holding.

However, analysts write that as stocks of Myanmar teak purchased before the log export ban in Myanmar further rise in prices are likely.

Myanmar teak prices

| Sawnwood (Ex-yard) | Rs. per cu.ft |
|---------------------------|---------------|
| Myanmar Teak (AD) | |
| Export Grade F.E.Q. | 7000-10000 |
| Teak A grade | 7500-8500 |
| Teak B grade | 5500-6500 |
| Plantation Teak FAS grade | 4500-5000 |

Price range depends mainly on lengths and cross-section

Locally sawn hardwood prices

The price increases for imported KD sawnwood introduced in early August are holding.

| Sawnwood, (Ex-warehouse) (KD) | Rs per cu.ft. |
|-------------------------------|---------------|
| Beech | 1500-1650 |
| Sycamore | 1650-1800 |
| Red Oak | 1700-1850 |
| White Oak | 2350-2500 |
| American Walnut | 4500-5000 |
| Hemlock STD grade | 1350-1450 |
| Western Red Cedar | 2000-2200 |
| Douglas Fir | 1650-1800 |

Price range depends mainly on lengths and cross-section

Plywood up-date

The domestic market has absorbed the plywood price increases announced at the beginning of August but the 8-10% rise leaves manufacturers with only a small margin. Against the backdrop of rising demand manufacturers are waiting for the opportunity to introduce a further increase of by 4-5%.

However, falling prices for MDF and particleboard due to low cost imports and increased local production may limit the chances of an early rise in plywood prices.

Domestic ex-warehouse prices for locally manufactured WBP plywood

| Plywood Ex-warehouse | Rs. per sq.ft |
|----------------------|---------------|
| 4mm | 60.00 |
| 6mm | 80.00 |
| 9mm | 100.00 |
| 12mm | 125.00 |
| 15mm | 166.00 |
| 18mm | 174.00 |

Domestic ex-warehouse prices for locally manufactured MR plywood

| | Rs. per sq.ft | |
|------------------|---------------|----------|
| | Rubberwood | Hardwood |
| 4mm | 30.00 | 44.00 |
| 6mm | 45.00 | 57.00 |
| 9mm | 57.00 | 70.00 |
| 12mm | 70.00 | 82.00 |
| 15mm | 83.00 | 100.00 |
| 19mm | 96.00 | 114.00 |
| 5mm Flexible ply | 60.00 | |

Brazil

Good forest management assures natural forest conservation

Representatives from the National Forum of Forestry Activities (FNBF) and the Center for Timber Producers and Exporters of Mato Grosso State (CIPEM) discussed various aspects of logging in Brazil during the 106th National Meeting of the Thematic Council on Environment and Sustainability (COEMA) of the National Confederation of Industry (CNI), held in Acre in early August.

CIPEM emphasised that through good forest management of natural forests conservation can be assured. The forestry sector in Brazil supports around 7 million direct and indirect jobs and annually contributes about 1% of Brazil's with revenues of more than US\$60 billion.

Management of the natural forest produces about 26 million cubic metres of logs annually representing about 10% of global production from natural forests which puts Brazil second in world ranking after the United States.

Given the huge area of Brazil's tropical forests with management potential output could be much higher according to CIPEM. The Brazilian Ministry of the Environment has said almost 70% of the natural vegetation cover in the Amazon, which covers about 3 million square kilometers, has productive capacity.

As pointed out by CIPEM, natural forest owners wishing to harvest have to adhere to government regulations and follow approved management plans but many complain about low financial returns so tend to consider alternative land uses which offer greater returns.

Suspected fraudulent forest inventories uncovered

An investigation conducted by the Tropical Forestry Laboratory of the Luiz de Queiroz College of Agriculture, University of São Paulo, suggests possible fraud by some companies logging in the Amazon. Even as deforestation rates slow researchers warn of the methods used to disguise the origin of logs.

According to the University, the volumes of high-value timber species in logging areas are being overstated in order to 'legalise' illegally harvested logs from outside the licensed areas. Researchers suggest that systems need to be put in place to improve transparency and to monitor harvesting plans and yield estimates.

See: <http://advances.sciencemag.org/content/4/8/eaat1192>

Export update

In July 2018, the value of Brazilian exports of wood-based products (except pulp and paper) declined almost 7% compared to July 2017, from US\$229.6 million to US\$214.0 million.

The value of pine sawnwood exports increased about 8% year on year in July while the volume of exports dropped 13% over the same period (from 187,200 cu.m to 163,400 cu.m).

Tropical sawnwood exports also fell from 32,500 cu.m in July 2017 to 30,800 cu.m in July 2018. Export values also declined from US\$14.5 million to US\$13.7 million over the same period.

Brazil's pine plywood exports slowed in July from a year earlier dropping almost 3% from US\$49.0 million to US\$47.8 million. There was a corresponding decline in the volume of pine plywood exports from 172,600 cu.m to 136,200 cu.m, an over 20% drop.

A decline was also recorded in July exports of tropical plywood. Export volume fell 17% year on year from 14,000 cu.m (US\$5.4 million) in July 2017 to 11,600 cu.m (US\$5.1 million) in July 2018.

On a positive note the value of wooden furniture exports rose sharply in July increasing from US\$40.8 million in July 2017 to US\$55.4 million in July 2018.

Forestry sector investors discuss 20x20 Initiative

Representatives of Brazilian and international investment funds and entrepreneurs from the Brazilian forestry and agroforestry sector recently met in São Paulo. The meeting discussed the World Resources Institute 20x20 Initiative which aims to connect forestry projects in the country with investors so as to achieve land restoration, create a low carbon economy and generate employment.

See: <http://www.wri.org/our-work/project/initiative-20x20>

The São Paulo meeting was a first step in attracting investment to Brazil. Six investment funds were briefed on Brazilian private sector projects that, together, would enable the restoration and reforestation of 17,000 hectares in six different States.

The projects presented were subject to a preliminary analysis by the WRI Brazil team through the VERENA project "Economic Valuation of Reforestation with Native Species" which seeks to demonstrate the economic viability of reforestation with native species.

Growth in container traffic out of Santa Catarina

Between January and June 2018 exports of the forest products from Brazil grew 34% compared to the same period of the previous year, totaling US\$5.5 billion.

According to the Brazilian Tree Industry (IBÁ), which represents the production chain based on planted forests, greater demand, especially from China, was decisive in achieving growth which was also helped by improvements in international prices driven by the appreciation of the US dollar.

A company based in the State of Santa Catarina in the south of Brazil has seen a 42% growth in container traffic in the first half of 2018 with all major destinations, North America, Europe and Asia recording increased traffic.

Domestic Log Prices

| Brazilian logs, mill yard, domestic | US\$ per m ³ |
|-------------------------------------|-------------------------|
| Ipê | 198↓ |
| Jatoba | 110↓ |
| Massaranduba | 106↓ |
| Muiracatiara | 107↓ |
| Angelim Vermelho | 104↓ |
| Mixed redwood and white woods | 87↓ |

Source: STCP Data Bank

Domestic Sawnwood Prices

| Brazil sawnwood, domestic (Green ex-mill) | US\$ per m ³ |
|---|-------------------------|
| Ipê | 811↓ |
| Jatoba | 404↓ |
| Massaranduba | 385↓ |
| Muiracatiara | 382↓ |
| Angelim Vermelho | 353↓ |
| Mixed red and white | 230↓ |
| Eucalyptus (AD) | 186↓ |
| Pine (AD) | 140↓ |
| Pine (KD) | 161↓ |

Source: STCP Data Bank

Domestic Plywood Prices (excl. taxes)

| Parica | US\$ per m ³ |
|----------|-------------------------|
| 4mm WBP | 509↓ |
| 10mm WBP | 410↓ |
| 15mm WBP | 345↓ |
| 4mm MR | 399↓ |
| 10mm MR | 289↓ |
| 15mm MR | 266↓ |

Prices do not include taxes. Source: STCP Data Bank

Prices For Other Panel Products

| Domestic ex-mill Prices | US\$ per m ³ |
|-------------------------|-------------------------|
| 15mm MDP/Particleboard | 221↓ |
| 15mm MDF | 248↓ |

Source: STCP Data Bank

Export Sawnwood Prices

| Sawnwood, Belem/Paranagua Ports, FOB | US\$ per m ³ |
|--------------------------------------|-------------------------|
| Ipe | 1457 |
| Jatoba | 921 |
| Massaranduba | 841 |
| Muiracatiara | 826 |
| Pine (KD) | 199 |

FOB Belém/PA; Paranaguá/PR; Navegantes/SC and Itajaí/SC Ports. High quality wood (no cracks / without knots) / Measuring 2,50 m in length; 15 cm wide; and 30 mm thick.

Source: STCP Data Bank

Export Plywood Prices

| Pine Plywood EU market, FOB | US\$ per m ³ |
|-----------------------------|-------------------------|
| 9mm C/CC (WBP) | 335 |
| 12mm C/CC (WBP) | 319 |
| 15mm C/CC (WBP) | 298 |
| 18mm C/CC (WBP) | 297 |

Source: STCP Data Bank

Export Prices For Added Value Products

| FOB Belem/Paranagua Ports | US\$ per m ³ |
|---------------------------|-------------------------|
| Decking Boards Ipê | 2,688 |
| Jatoba | 1,450 |

Source: STCP Data Bank

Peru

Exports to China dipped in May

According to the latest data provided by the Association of Exporters (ADEX), as of May 2018, exports of Peruvian wood products were valued at US\$50.8 million FOB, an increase year on year of 6.2%.

China continues to be the main export market for the wood products sector, but in May the value of exports dropped 14% year on year but still accounted for just over 40% of all wood product exports.

Mexico was the second largest market accounting for almost 12% of exports and the United States was the third placed market. Exports to the US increased 11% year on year in May 2018.

Sawnwood exports in the period January to May 2018 were worth US\$10 million FOB, up 23% from a year earlier. The main market sawnwood was the Dominican Republic (a 33% share) followed by China (a 23% share). In this same period, Mexico ranked third with an 18% share of exports.

Inventory of forest plantations in Cajamarca and Cusco

An inventory of forest plantations on private farms and in peasant communities found that the most abundant species are eucalyptus (*Eucalyptus globulus*) and pine (*Pinus patula*).

Cajamarca was the first region where general information was collected. In this region six species of pine, *Eucalyptus globulus* and *Cupressus macrocarpa* were recorded. The most abundant species was *Pinus patula*. The inventory in Cajamarca found little evidence of sound forest management.

A similar survey in Cusco found that *Eucalyptus globulus*, *Escallonia resinosa*, *Pinus radiata* and *Alnus acuminata* were the most abundant species. The volume of *Eucalyptus globulus* was estimated at 452,345 cu.m.

Export Sawnwood Prices

| | US\$ per m ³ |
|--|-------------------------|
| Peru Sawnwood, FOB Callao Port | |
| Mahogany S&B KD 16%, 1-2" random lengths (US market) | 1570-1655 |
| Spanish Cedar KD select North American market | 958-977 |
| Mexican market | 946-965 |
| Pumaquiro 25-50mm AD Mexican market | 556-599 |

| Peru Sawnwood, FOB Callao Port (cont.) | US\$ per m ³ |
|--|-------------------------|
| Virola 1-2" thick, length 6'-12' KD | |
| Grade 1, Mexican market | 523-599 |
| Grade 2, Mexican market | 489-502 |
| Cumaru 4" thick, 6'-11' length KD | |
| Central American market | 894-942 |
| Asian market | 995-1022 |
| Ishpingo (oak) 2" thick, 6'-8' length | |
| Spanish market | 509-549 |
| Dominican Republic | 662-679 |
| Marupa 1", 6-11 length KD | |
| Asian market | 526-595 |

Domestic Sawnwood Prices

| | US\$ per m ³ |
|-------------------------|-------------------------|
| Peru sawnwood, domestic | |
| Mahogany | - |
| Virola | 244-262 |
| Spanish Cedar | 332-374 |
| Marupa (simarouba) | 205-217 |

Export Veneer Prices

| Veneer FOB Callao port | US\$ per m ³ |
|------------------------|-------------------------|
| Lupuna 3/Btr 2.5mm | 221-249 |
| Lupuna 2/Btr 4.2mm | 234-266 |
| Lupuna 3/Btr 1.5mm | 219-228 |

Export Plywood Prices

| Peru plywood, FOB Callao (Mexican Market) | US\$ per m ³ |
|---|-------------------------|
| Copaiba, 2 faces sanded, B/C, 8mm | 342-371 |
| Virola, 2 faces sanded, B/C, 5.2mm | 466-489 |
| Cedar fissilis, 2 faces sanded.5.5mm | 759-770 |
| Lupuna, treated, 2 faces sanded, 5.2mm | 389-412 |
| Lupuna plywood | |
| B/C 15mm | 449-495 |
| B/C 9mm | 379-399 |
| B/C 12mm | 350-360 |
| C/C 4mm | 389-425 |
| Lupuna plywood B/C 4mm Central Am. | 466-487 |

Domestic Plywood Prices (excl. taxes)

| Iquitos mills | US\$ per m ³ |
|------------------|-------------------------|
| 122 x 244 x 4mm | 508 |
| 122 x 244 x 6mm | 513 |
| 122 x 244 x 8mm | 522 |
| 122 x 244 x 12mm | 523 |
| Pucallpa mills | |
| 122 x 244 x 4mm | 503 |
| 122 x 244 x 6mm | 511 |
| 122 x 244 x 8mm | 513 |

Domestic Prices for Other Panel Products

| Peru, Domestic Particleboard | US\$ per m ³ |
|------------------------------|-------------------------|
| 1.83m x 2.44m x 4mm | 282 |
| 1.83m x 2.44m x 6mm | 230 |
| 1.83m x 2.44m x 12mm | 204 |

Export Prices for Added Value Products

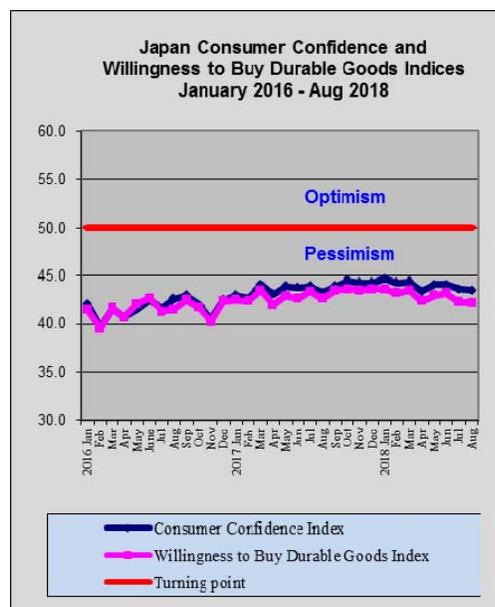
| Peru, FOB strips for parquet | US\$ per m ³ |
|--|-------------------------|
| Cabreuva/estoraque KD12% S4S, Asian market | 1304-1391 |
| Cumaru KD, S4S | |
| Swedish market | 979-1098 |
| Asian market | 1085-1115 |
| Cumaru decking, AD, S4S E4S, US market | 1188-1222 |
| Pumaquiro KD Gr. 1, C&B, Mexican market | 479-554 |
| Quinilla KD, S4S 2x10x62cm, Asian market | 493-519 |
| 2x13x75cm, Asian market | 732-815 |

Extreme heat drives down consumer confidence

The latest Cabinet Office consumer confidence survey showed that sentiment weakened again in August, marking the lowest level over the past 12 months. The overall confidence index dropped to exactly the same low as 12 months earlier.

The index for income growth also declined as did the index for employment prospects which is unusual at a time when unemployment is at a very low level. Of concern to retailers and sellers of furniture and household goods was the decline in the index which measures the willingness of consumers to buy durable goods.

On reviewing the latest data, the Cabinet Office downgraded its assessment of prospects for consumer spending for the first time in four months. Analysts explain that behind the weakness was rising food prices due to the extremely hot weather which has affected farm output and to consumer concerns over the high energy bills they are facing due to the heatwave which has now extended over more than two months.



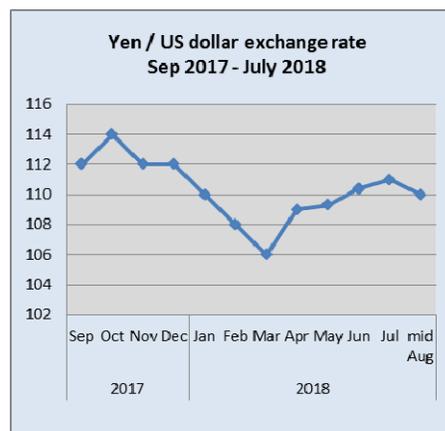
Data source: Cabinet Office, Japan

Risk to export growth holds down yen exchange rate

What a difference a year makes. Last year was one of the worst for the US dollar exchange rate with the dollar falling around 10% against most major currencies. Against this background analysts forecast the weakness would continue into 2018.

But from the beginning of 2018 the dollar reversed direction and is currently at its highest in a year. Analysts point to the benefits from the tax cuts, increased government spending and improved private sector sentiment as support the firmer dollar.

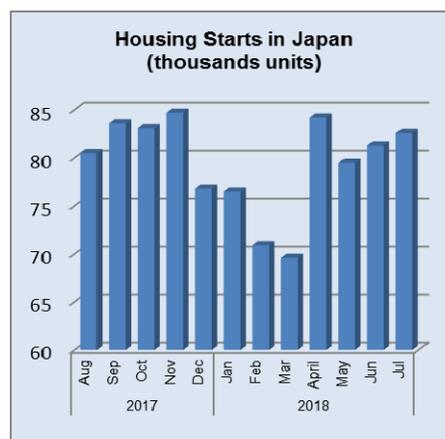
The US dollar was trading at 111.3 to the yen at the end of August having risen slightly because Japan downgraded its assessment of export prospects as concerns grow that a trade war between the US and China will disrupt global trade.



July rise in housing starts disguises overall trend

July marked the third straight increase in housing starts but this disguises the fact that, year on year, July starts were down almost 1%. The decline in year on year July starts was slower than forecast, analysts had expected a 4% drop.

In addition to the housing starts numbers the Ministry of Land, Infrastructure, Transport and Tourism also provides data in its survey on orders received by construction companies. The 50 biggest contractors reported a 9% decline in orders during July.



Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

Much of the discussion recently on the housing market has focused on zero-energy apartments as housing developers begin to introduce advanced building concepts, common in detached homes, into this new area.

The concept of a zero-energy home is one where the home is energy neutral through the use of solar panels and other renewable sources.

The government is promoting this concept and aims to have 50% of new homes to be zero-energy by 2020.

According to recent research, households accounted for 16% of Japan's carbon emissions in fiscal 2016 so cutting back on emissions from homes could play a big part in Japan's target under the 2015 Paris Agreement on climate change.

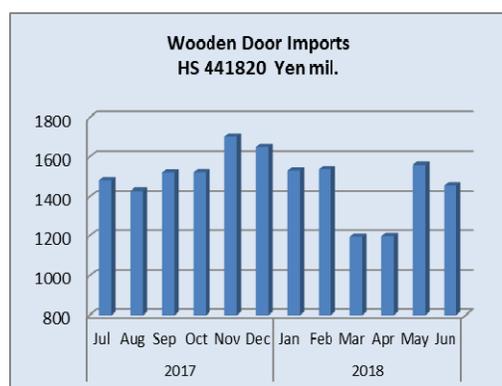
Import round up

Doors

June door imports

The value of Japan's first half 2018 imports of wooden doors HS441820 was unchanged compared to the same period in 2017 despite the March and April 2018 dip in imports, a characteristic trend at the end of each financial year in Japan.

After the peak in May imports, the value of wooden door imports was down 7% in June with some 63% being supplied from China and another 20% being shipped from suppliers in the Philippines.



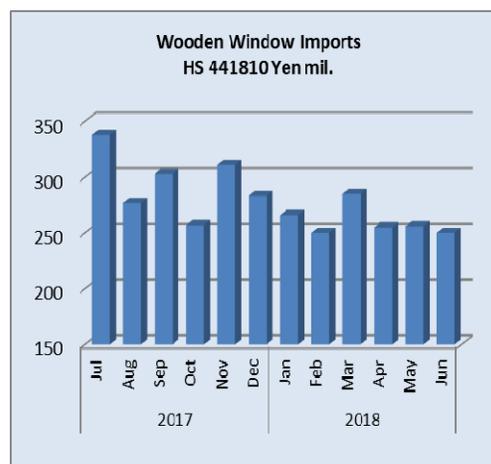
Data source: Ministry of Finance, Japan

Window imports

June window imports

The value of Japan's imports of wooden windows (HS441810) has remained fairly constant in the first six months of 2018. The only month where there was a change was in March when a slight rise was recorded. However, compared to the value of imports in the first half of 2017 there was an 8% decline seen in the first half of 2018.

The value of Japan's June wooden window imports were unchanged year on year as well as compared to levels in May. Wooden windows coming into Japan originate in China (38%), the Philippines (31%) and the US (19%).



Data source: Ministry of Finance, Japan

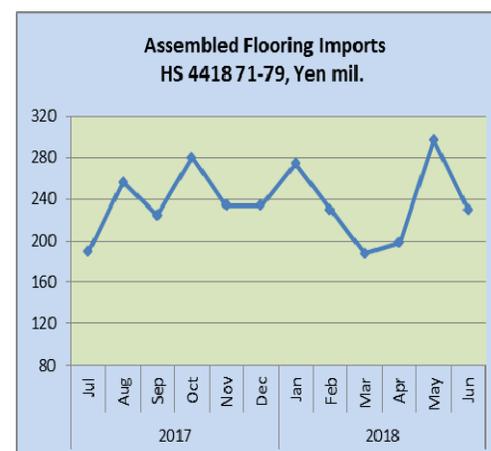
Assembled flooring

June imports

Japan's imports of wooden flooring continue to be dominated by HS441875 followed by HS441879. Together these two categories of assembled flooring accounted for around 90% of the value of all assembled wooden flooring imports.

Despite the rollercoaster trend in the value of imports, the value of first half 2018 imports was almost unchanged from the same period in 2017. However, the value of June 2018 imports was down 17% year on year and compared to a month earlier June imports dropped 23%.

June shipments of HS441875 were dominated by China (50%) and Indonesia (21%) with most of the balance made up of shipments from Thailand and Malaysia.



Data source: Ministry of Finance, Japan

Plywood

June plywood imports

There was a sharp decline in Japan's imports of Malaysian plywood in June 2018. The average volume of imports from Malaysia between January and May 2018 was around 90,000 cu.m but June imports dipped to just over 77,000.

Production in Malaysia has been falling as the State government is strictly enforcing felling limits. June 2018 marked the first month in recent years when the volume of plywood imports from Indonesia exceeded those from Malaysia.

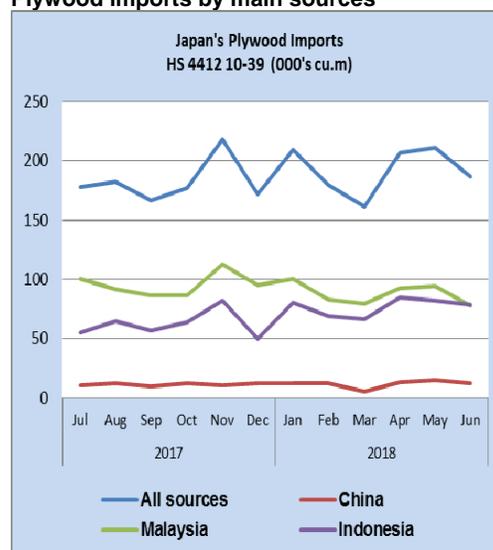
Year on year the volume of June 2018 imports of plywood (HS 441210-39) were up 14% but month on month, largely due to lower shipments from Malaysia, imports fell 12%.

Main sources of Japan's plywood imports (000's cu.m)

| | | China | Malaysia | Indonesia |
|------|-----|-------|----------|-----------|
| 2016 | Jan | 16 | 101 | 75 |
| | Feb | 10 | 81.5 | 70.8 |
| | Mar | 8 | 84 | 64 |
| | Apr | 12 | 85 | 72 |
| | May | 12 | 95 | 62 |
| | Jun | 11.6 | 95.6 | 66 |
| | Jul | 10.7 | 92.8 | 71.3 |
| | Aug | 11.9 | 82.3 | 52.8 |
| | Sep | 10.3 | 79.9 | 79.3 |
| | Oct | 12.9 | 98.3 | 72 |
| | Nov | 14.9 | 80 | 71 |
| | Dec | 13.7 | 85 | 65 |
| 2017 | Jan | 16 | 130 | 80 |
| | Feb | 7.5 | 93.3 | 59 |
| | Mar | 11.5 | 99 | 76.5 |
| | Apr | 11.2 | 92.6 | 58 |
| | May | 12.9 | 99.2 | 73.8 |
| | Jun | 11 | 74.8 | 65.0 |
| | Jul | 10.6 | 100.0 | 54.8 |
| | Aug | 12.3 | 91.8 | 64.5 |
| | Sep | 9.9 | 86.7 | 56.6 |
| | Oct | 12.2 | 86.4 | 63.7 |
| | Nov | 10.7 | 112.4 | 82.0 |
| | Dec | 12.0 | 95.2 | 50.0 |
| 2018 | Jan | 12 | 100.5 | 80.0 |
| | Feb | 12.5 | 83.0 | 69.0 |
| | Mar | 4.9 | 79.4 | 66.5 |
| | Apr | 13.4 | 92.4 | 84.4 |
| | May | 15.2 | 94.0 | 82.0 |
| | Jun | 12.4 | 77.5 | 79 |

Data source: Ministry of Finance, Japan

Plywood imports by main sources



Data source: Ministry of Finance, Japan

Trade news from the Japan Lumber Reports (JLR)

The Japan Lumber Reports (JLR), a subscription trade journal published every two weeks in English, is generously allowing the ITTO Tropical Timber Market Report to reproduce news on the Japanese market precisely as it appears in the JLR.

For the JLR report please see:

<http://www.n-mokuzai.com/modules/general/index.php?id=7>

Climbing demand of wood pellets

Demand of wood pellet is sharply increasing. Import of wood pellet is about six times of 2013 and domestic demand is 9% more than 2013. Reason is starts-up of large biomass power generation facilities, which use wood pellet solely to combines with other fuel like coal.

Import of wood pellet in 2017 is about 510,000 ton, 46% more than 2016 while domestic production was about 120,000 ton, 0.5% more.

In 2013, total supply of wood pellet was about 190,000 ton in which share of import was 43% then since 2015 supply by import surpassed domestic supply then in 2017, share of import rose to about 80%.

Meantime, the domestic supply will increase considerably as the largest manufacturer, Meiken Lamwood (Okayama prefecture) plans to produce about 30,000 ton a year and Toono Kousan (Fukushima prefecture) is testing a new plant, which will produce about 30,000 ton a year. Then Sumitomo Forestry plans to build a new wood pellet plant jointly with electric power company.

Increase of import of wood pellet will skyrocket after 2020 since demand of biomass fuel will expand sharply. There are many projects of biomass power generation plant on the coast lined-up. There are two plants with power output of 75,000 kw in Fukuoka prefecture. Both will start up in 2021.

One in Ibaraki prefecture with output of 51,500 kw and another in Chiba with output of 75,000 kw are planned, which will start operating in 2021 and 2022. They are all counting imported wood pellet as fuel. Also large electric power companies are counting to use wood pellet in large volume after 2022.

With expansion of imported wood pellet, trading firms are actively engaged in securing overseas sources. Sumitomo Forestry, which handled about a half of all the imported wood pellet in 2017, will increase the volume to 350,000 ton in 2018 after test run of tie-up power generation plant starts this year.

Itochu Corporation will handle about 200,000 ton with sales contract with a large power generation company. Trading companies are busy looking for overseas source of wood pellet and try to make long term supply contract with the suppliers.

In related news, the domestic Asahi newspaper of 31 August has a story on illegal logging of cedar in Japan. Prices for cedar logs have risen sharply over the past year on the back of demand in export markets such as China, the Philippines and South Korea. Prices have also been given a boost from demand in the domestic consumption in bio-fuel sector. According to the Asahi newspaper there are growing reports of theft of trees in Kyushu and in Okinawa.

Plywood

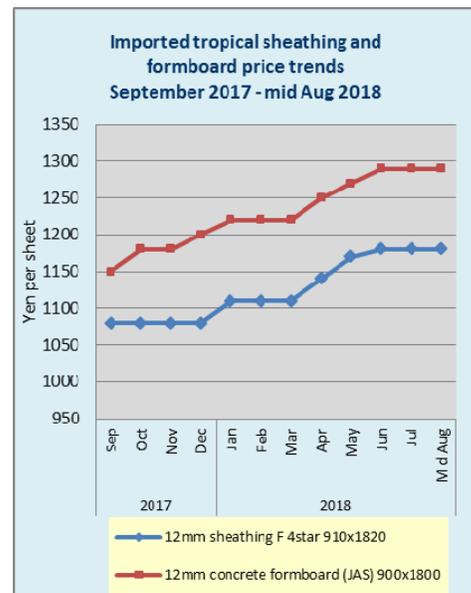
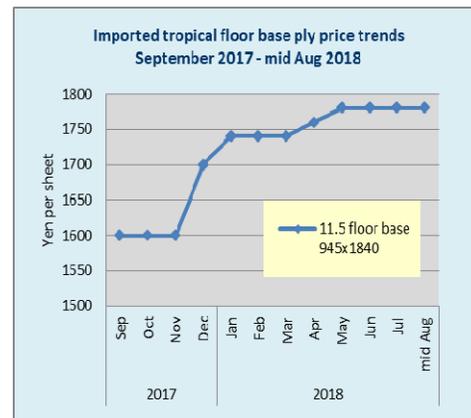
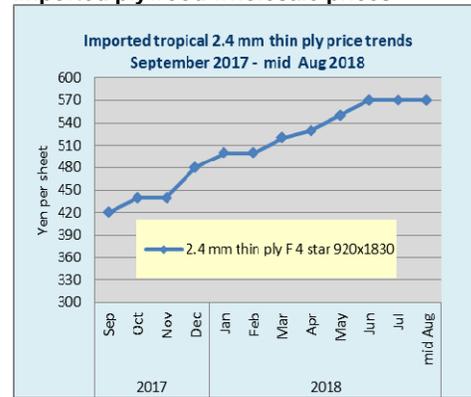
The softwood plywood market is weakening but there is no price collapse. In distribution channels, there are some low price offers with various rumors so the market is confusing. June softwood plywood production in June was 271,900 cbms, 2.4% more than June last year and 8.0% more than May.

This is the highest monthly production. The shipment in June was 249,700 cbms, 5.1% less and 3.8% more. The inventory is 163,400 cbms, which is far less than one month consumption.

The manufacturers think this is no excessive level inventory and if the consumption picks up, it would drop in no time. Imported plywood market does not show any improvement. Some indicate recovery of movement but once tight supplied coated concrete forming panel is readily available now and over supply is now feared so the price increase is not progressing.

Malaysian and Indonesian suppliers are preparing higher prices before rainy season with limited offers for Japan. The importers feel future purchase is difficult with remaining order balances so they buy minimum necessary volume only.

Imported plywood wholesale prices



Domestic softwood plywood market

Market of softwood plywood is weak. There are some low price offers in the market but they do not help move more volume. Actually there are various prices in the market and it is hard to pin point median prices. In confusing market, wholesalers are taking cautious approach and wait-and-see attitude is prevailing.

Softwood plywood manufacturers are holding the prices without any price reduction. Softwood plywood inventories at the end of June were 163,400 cbms, 22,300 cbms more than end of May. The inventories have been increasing for five straight months but based on monthly shipment volume, they are only 0.6 month so they are not excessive inventories.

Orders for precutting plants are improving some from June but there are differences among companies and areas so upward momentum is not there yet. Also there is prospect that demand for restoration of floor damaged areas in the Western Japan should show up but so far there is none yet.

After all, there is very little factor to push the market up but as long as the manufacturers maintain the prices, it is hard for wholesalers to continue price reduction. Therefore, the key is if the manufacturers can hang on present sales prices.

South Sea (tropical) logs

South Sea log import for the first half of this year was over 80,000 cbms, 30% higher than 2017. Log FOB prices temporarily softened in last fall and procured logs at this time arrived all at once early this year. Logs from Sabah were 30% more and logs from PNG doubled.

With log export ban by Sabah, future log arrivals would drop sharply. There is no logs in distribution channels in Japan so market prices are unchanged.

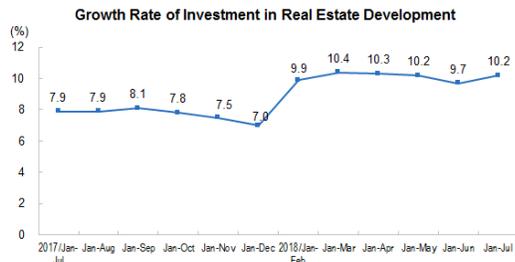
China

Rise in home sales

In the first seven months of this year investment in real estate in China expanded at a fast pace. According the latest press release from the National Bureau of Statistics (NBS) investment increased 10.2% year on year in the first seven months, compared to the 9.7% expansion in the January to June period

Investment in residential real estate increased 14.2% in the first seven months, compared to 13.6 percent in the first half of the year.

National real estate sales in the first seven months of 2018



Source: National Bureau of Statistics, China

In the same press release the NBS says the area of land purchased by real estate developers, was up by 11.3% year-on-year.

Growth in land sales to real estate developers



Source: National Bureau of Statistics, China

See:

http://www.stats.gov.cn/english/PressRelease/201808/t20180820_1617997.html

In response to what was deemed an overheated market the government and city authorities have acted to cool market growth. Administrators in major cities across China have introduced a raft of regulations, in some case over 200 up to July, an all-time record according to Centaline Property Agency one of the largest property agencies in Hong Kong.

In an effort to hold down house prices there are now limits on the number of properties which can be owned, the minimum down-payment has been raised and there are limits on how quickly a recently purchased property can be put back on the market.

Working against efforts to cool house buying as an investment has been the recent sharp decline in interest rates making loans that much cheaper.

Southwest China to see investment in timber ports and processing zone

A cooperation and investment agreement was recently signed between China Forestry Group Corporation and the administration in Ba'nán district of Chongqing municipality. An investment of RMB23 billion will be used to build timber trade ports, a timber processing zone and a wood products demonstration and trading centre in Western China.

Currently in China the timber ports and industrial zones are mainly distributed in coastal areas and along the border areas and there is a gap in the southwestern regions of China.

The new infrastructure will result in large volumes of imported timber entering the southwestern regions and this will cut transportation costs for enterprises in the region and will also expand employment opportunities.

It is forecast that demand for timber would expand to 100 million cubic metres in the southwestern region including Yunnan, Sichuan, Guizhou, Guangxi provinces, Xizang Autonomous Region and Chongqing municipality.

Chongqing municipality is the distribution centre in southwestern China and the technology for timber processing mills is well established and production costs are very competitive, say analysts.

<http://www.cfgc.cn/g2757/s6318/t11281.aspx>

Surge in landed cost of North America logs

Traders in China are complaining that the landed cost of imported North American logs has jumped by around 30% as a result of the depreciation of RMB and the trade friction between China and the United States.

Although shippers in the US have been lowering log prices to maintain market share in China the higher costs continue to be a major challenge to Chinese importers. The reason behind this is that, even with price reductions, landed costs are still higher than previously which means competitiveness in the domestic market is weakened and traders are losing out to alternative timbers.

At present, the price for grade A processing general materials (2-4m) North America hemlock and fir in the Guangdong market is between RMB1680-1760 per cubic metre. The price for grade A processing general material (2-4m) southern pine is between RMB1580-1660 yuan per cubic metre.

Decline in plywood imports

In the first half of 2018 China's imports of plywood fell 9% to 79,400 cubic metres. Of the total, imports from Malaysia were the highest at - 22%, from Indonesia and Russia imports fell 11% and 10% respectively.

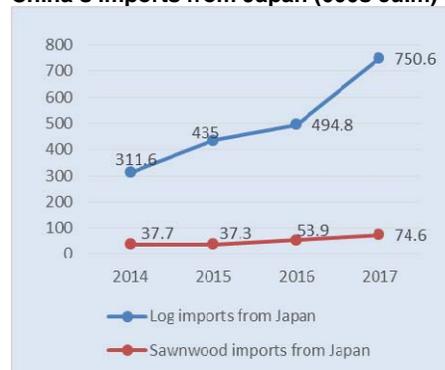
The proportion of China's plywood imports from Russia was the highest in the first half of 2018 at 27% (21,100 cubic metres) followed by Malaysia to 25% (19,850 cubic metres) and Indonesia to 19% (15,000 cubic metres).

Surge in timber imports from Japan

According to the data from China Customs, China's log imports from Japan have increased from 311,600 cubic metres in 2014 to 750,600 cubic metres in 2017. 2017 log imports from Japan were worth US\$102.44 million and the average price for logs from Japan rose 8% to US\$136 per cubic metre.

In 2017 China's sawnwood imports from Japan were 74,600 cubic metres valued at US\$18.44 million, up 39% in volume and 32% in value. The average price for sawnwood from Japan fell 5% to US\$247 per cubic metre.

China's imports from Japan (000s cu.m)



Data source: China Customs

Wooden pallets demand for huge timber

Pallets are the essential in logistic operations and it has been estimated that at the end of 2017 the stock of pallets in China exceeded 1.263 billion pieces of which wooden pallet accounted for 73% with plastic pallets taking up most of the balance.

Wooden pallets are said to have a cost advantage. In China the price for a wooden pallet is around RMB150 but for plastic pallet the price is over RMB250. The demand for wood for pallet manufacture is huge and manufacturers warn that pallet prices will rise as the landed cost of timber imports rise.

Logistics enterprises plan to address this by switching to pallets from alternative materials.

Analysis shows that the annual cost of plastics pallets is lower than wooden pallets because of improved service life. Moreover, plastic pallets can be cleaned and used for transport of fresh food, medicines and other perishable goods.

Guangzhou Yuzhu International Timber Market Wholesale Prices

| | Logs | yuan/cu.m |
|-----------------------|---------------|-----------|
| Merbau | dia. 100 cm+ | 4-6000 |
| Bangkirai | dia. 100 cm+ | 3200-4600 |
| Kapur | dia. 80 cm+ | 2700-3000 |
| Ulin | All grades | 6500 |
| Lauan | dia. 60 cm+ | - |
| Kempas | dia. 60 cm+ | 2000-3000 |
| Teak | dia. 30-60 cm | 8500-8600 |
| Greenheart | dia. 40 cm+ | 2300-2400 |
| Purpleheart | dia. 60 cm+ | 3000-4500 |
| Pau rosa | dia. 60 cm+ | 2800-3000 |
| Ipe | dia. 40 cm+ | 3200-3400 |
| yuan per tonne | | |
| Cocobolo | All grades | 40-70000 |

Sawnwood

| | Sawnwood | yuan/cu.m |
|----------|----------|-------------|
| Makore | Grade A | 9800-11800 |
| Zebrano | Grade A | 9500-12500 |
| Walnut | Grade A | 9500-15000 |
| Sapelli | Grade A | 5000-7500 |
| Okoume | Grade A | 3700-4700 |
| Padauk | Grade A | 15000-18000 |
| Mahogany | Grade A | 6500-7500 |

| Sawnwood | | yuan/tonne |
|----------|---------------|-------------|
| Ulin | all grades | 9000-10000 |
| Merbau | special grade | 7500-9500 |
| Lauan | special grade | 4300-4700 |
| Kapur | special grade | 5000-6000 |
| Teak | special grade | 14000-22000 |

Zhangjiagang Timber Market Wholesale Prices

| Logs, All grades | Yuan/tonne |
|------------------|------------|
| Sapelli | 3000-4000 |
| Kevazingo | 8000-32000 |
| Padouk de afric | 2400-3100 |
| okoume | 1400-1800 |
| Okan | 2400-2800 |
| Dibetou | 2200-2500 |
| Afrormosia | 5500-6500 |
| Wenge | 4700-5500 |
| Zingana | 3400-4800 |
| Acajou de afica | 3000-3500 |
| Ovengkol | 3100-3600 |
| Paorosa | 5900-6600 |
| Merbau | 3500-5800 |
| Lauan | 1800-2020 |
| Kapur | 2020-2500 |
| Keruing | 1700-2200 |
| Geronggang | 1600 |
| kauri | 1700-1850 |
| Amoora | 1900-2080 |
| Calophyllum | 2150-2350 |
| Red ganarium | 1300-1400 |

| Sawnwood | | yuan/cu.m |
|--------------|------------|-------------|
| Cherry | FAS 2 inch | 9000-10000 |
| Black walnut | FAS | 15000-18000 |
| Maple | FAS | 8200-10000 |
| White oak | FAS | 7500-13000 |
| Red oak | FAS | 6500-8300 |
| Finnish pine | Grade A | 2600-2900 |
| Maple | Grade A | 9000-9500 |
| Beech | No knot | 9000-9500 |
| Ash | No knot | 5600-6300 |
| Basswood | No knot | 2800-3300 |
| Oak | No knot | 5300-5700 |
| Scots pine | No knot | 2100 |

Europe

Realising tropical timber's marine use potential

Tropical hardwood's long-held status as the prime material for European fresh and seawater marine applications has been increasingly challenged by alternatives; steel, concrete, recycled plastics, wood-plastic composites, temperate timber species and increasingly, for sea defences, rock armour.

Some feel that sustainability concerns - the perceived linkage of marine-use tropical species with deforestation - and also the EU Timber Regulation have also increased trade, end-user and specifier risk aversion and helped drive further use of substitutes.

Despite this, according to comments from the EU trade, tropical timber is still holding its own in the market. It remains a material of choice for sea defences where aesthetics and use of the coast as a public amenity is a priority.

Many specifiers still acknowledge its unique technical performance benefits and its environmental profile is also being improved, albeit slowly, by growing understanding and market recognition of its carbon and life cycle credentials.

However, it is also accepted that the trade cannot be complacent. This is a product area that is already highly lucrative and potentially set to grow more significant if, as some predict, climate change affects water levels and creates more extreme weather patterns, but the consensus is that it is also likely to become ever more demanding in terms of specification requirements and increasingly competitive.

Industry is responding to market developments

There are signs that the industry is responding to market developments and challenges. In particular in the Netherlands, arguably Europe's leading exponent of the use of wood in marine and broader civil engineering

applications, an action plan has been launched to drive timber uptake.

There has also been growing activity to raise awareness in the marine market of the potential of lesser-used or lesser-known tropical timber species (LKTS). The aim is to both relieve pressure on the most popular species, notably ekki/azobe and greenheart, and also to increase the palette of materials available to specifiers and potentially increase timber's range of marine applications.

At the same time, say researchers, this area urgently requires significantly increased funding from the timber sector, both importers and suppliers, to generate the performance data needed if these lesser known varieties are to make progress and help combat the advance of rival materials in the timescale required.

Trade feedback is that the European marine products market this year has actually been steady to slowly growing, reflecting wider economic growth and increased government spending on infrastructure projects generally.

It's reported too that there has been a trend towards the private sector becoming the key marine timber buyer, although one Dutch importer/distributor said this 'goes in phases'. "Currently a lot of public sector work is also tendered as a project, and as such marine timber is bought by the contractor," they said.

A UK buyer also said some of the country's public agencies have migrated away from tropical timber generally. "For instance, the Canal and Waterways Trust now specifies only oak for lock gates," they said.

They also commented that the UK Environment Agency (EA), which has a large measure of control in public marine project materials specification, has a hierarchy of timber use, favouring recycled timber over virgin. "The EA applies this policy to its own purchases and encourages partner projects to do the same," they said.

They added that the EA also insists its personnel make an "exhaustive business case" for using tropical timber. However another importer maintained that the agency still regards it as one of the foremost materials for marine application, pointing to its guidelines for use of lesser known species to highlight the overall pragmatism of its approach.

"Ultimately," it states, "the decision about [timber] use will depend on a mixture of technical, environmental and commercial considerations."

The preference for European public projects, said suppliers, is overwhelmingly for third party certified timber, which in the marine market means FSC-certified due to the lack of appropriate PEFC varieties. But this is also currently tempered with practicality.

Other forms of proof of sustainability and legality are accepted where certified is not available in the quantity or time required. And interestingly, one importer/producer noted a change in this area since the introduction of the EUTR.

"We've actually seen a marginal decrease in certification requirements, with more contractors and local authorities accepting solely EUTR compliant, legally verified timber," they said.

At the same time, another importer said FSC-certification could still act as a 'passport' into the European market, as demonstrated by increased interest in Guyanese greenheart since the Iwokrama Forest was certified last year.

"[Guyana supply] has not been entirely smooth, but there has been interest in its certified offering, especially in the UK public sector where lack of certification had impacted demand," said a Dutch importer.

The EUTR has made marine-use tropical timber a more difficult sell

On other effects of the EUTR, one importer said it had made marine-use tropical timber a more difficult sell by 'generally raising concern about its legality'. Others did not wholly agree, but several commented that it had narrowed the supply base.

"No single country has dropped out of the market due to EUTR, but individual suppliers in several countries have been unable or unwilling to meet European importers' due diligence requirements," one company said.

Whether related to the EUTR or not is unclear, but another importer also said there had been a decline in the number mills in Europe cutting tropical marine hardwoods. "You can now count them on one hand," they said.

As for prices, the trend is reported to be strongly upwards. This, said importers, is in line with wood prices generally and largely the result of increasing global demand. Also implicated, however, are increased freight rates, logistical difficulties, including wood backlogs at the Cameroon port of Douala, and, said one company, "the burden of paperwork required [of suppliers] under both the EUTR and third party certification".

It's against this background that a group of leading hardwood companies in the Netherlands, all members of the VVNH timber trade association and in association with timber market development and research organisation Centrum Hout, decided last year to launch their promotion and educational campaign – their core aim, to increase uptake of tropical timber in marine/hydraulic and wider civil engineering applications.

The inspiration for 'Wood in GWW' (Grond Weg in Waterbouw) initiative was partly the result of earlier environmental impact and LCA evaluation of tropical species.

The research was led by VVNH and backed by the European Sustainable Tropical Timber Coalition, which is dedicated to increasing sustainably sourced material's market share. LCA work was done by Ernst & Young Climate Change and Sustainability Services and independently verified by Stichting Houtresearch.

The project compared sustainability ratings of waterway pile planking in azobe, okan and angelim. It also measured their environmental impacts relative to planking in steel and plastic. The results came out strongly in favour of wood and the report recommended 'more extensive third-party verified LCA to endorse timber pile planking's environmental benefits'. Hence the 12 Dutch businesses decided to take this work forward and develop a wider promotional and marketing initiative.

Among Wood in GWW activities to date have been presentations to leading civil engineering and contractor businesses. These are reported to have generated positive responses and increased consultation with the timber trade on materials specification for projects such as plank piling and bridge construction.

"The campaign has also increased interest in use of wood for civil works at the Dutch Ministry of Infrastructure & Water Management," said Centrum Hout's Eric de Munck. "One of its responsibilities is implementation of a circular economic model in the Netherlands, with a very ambitious agenda to develop the bio-economy and cut emissions.

This now includes several projects to see how wood (and other bio-based products) can help reduce CO2 emissions in government infrastructure projects and to find ways to give them privileged status in open public procurement and tenders."

As part of this, he added, the ministry has commissioned further LCA studies for a range of infrastructural projects, including in tropical timber.

Wood in the GWW has its own website (www.houtindegww.nl) and has published a range of literature. It has developed a carbon calculator too, predominantly for tropical species, which has now been launched in English, German and French versions (www.opslagCO2inhout.nl/en).

Having assessed the campaign's impact to date, its members have now decided to take it forward for another two years, "Wood in the GWW 2.0". Plans include increased targeting of local and central government specifiers, 'development of circular [economy] business models' and further LCAs on timber pile planking.

The latter are particularly focused on helping combat the growing threat from the subsidised recycled plastic manufacturing sector.

"Sheet piling is an easy, low-knowledge product which can absorb large volumes of waste, and plastic producers

are targeting 7% increase in market share in coming years," said Mr de Munck.

In summary, he concluded, Wood in the GWW supporters had decided that "it is necessary to increase communication of the climate, environmental and technical benefits of wood, especially sustainably sourced tropical hardwood, as the competition increases".

Efforts to increase use of lesser-known species

Meanwhile efforts to increase uptake of lesser-known species have come not just from the industry, but also from NGOs and the FSC, notably FSC Denmark and Netherlands.

One importer acknowledged that ekki and greenheart's all round durability and technical characteristics, notably their resistance to abrasion and marine borers and promise of service life up to 60 years in salt and fresh water, made them difficult to beat. However, said an importer, often these species are specified through tradition or for convenience in associated works alongside ekki and greenheart projects where their properties are not needed.

"Specifying timber more in 'fit-for-purpose' terms, with mixed species allowed, would lead to development of a more diverse timber trade, in turn supporting sustainable forestry, improving prices and fully utilising sawmills' capacity in producer countries," said a company spokesperson.

Among species importers said they were highlighting for marine construction included basralocus, opepe, okan, eveuss and massaranduba.

Since launching its STTC-backed lesser-known timber species website in 2016, FSC Denmark also reports increased visitor traffic. Prominent on the site are case studies of marine applications of such varieties as bilinga, massaranduba and basralocus.

See www.lesserknowntimberspecies

In the UK there is also a 25-year public/private partnership project, the Pevensy Bay Sea Defence scheme, to evaluate a range of tropical species, including purpleheart and eveuss, alongside plastic composite.

Specialist in the field, Dr John Williams, principal consultant (materials and structures) at international environmental consultancy RSK, believes there is considerably more scope for developing the range of tropical hardwoods used in marine applications to the benefit of the timber industry and the forest.

"As the STTC concluded in its report on Suriname and the potential of its lesser used species, if we can use more of this material, responsibly sourced, it adds to the value of the forest and will provide an incentive for sustainable management," he said.

What is needed to achieve this, however, is more testing and performance data, especially strength testing of timber for sea defences. Dr Williams has worked with Portsmouth University on accelerated trials for marine timber abrasion and shipworm resistance. He is also involved in research in developing alternative proofs, to the European standard D class system for timber structural strength, with a paper set for industry consultation once complete.

Research requires funding, however, and Dr Williams suggested that more should come from the timber industry. He also maintained that now is the time to act, particularly, due to growing concerns about marine plastic pollution, with one competitor potentially disadvantaged.

“The industry has to provide the data to make it straightforward for specifiers, such as local government, to choose timber for this work. If it isn’t and given the level of competition in the market, there may come a point where they lose patience with wood and, for instance, order Norwegian granite for rock armour instead,” he said. “Timber has a huge opportunity here, but it needs a joined up, collective effort to be realised.”

North America

Tropical plywood suppliers gain market share

Hardwood plywood imports were slightly down in June from the previous month, but overall the monthly import volume is not much lower than in previous years, before the US anti-dumping and countervailing duties were put in place for plywood from China.

Higher imports from all tropical suppliers made up in part for lower imports from China. Year-to-date plywood imports from Indonesia were up 84% compared to June 2017.

First half 201/2018 percent change in plywood import volumes

| | % Change |
|-----------|----------|
| China | -82% |
| Russia | 7% |
| Indonesia | 84% |
| Malaysia | 25% |
| Cambodia | 142% |
| Vietnam | 395% |
| Ecuador | 22% |
| Other | 4% |

Data source: US Census Bureau, Foreign Trade Statistics

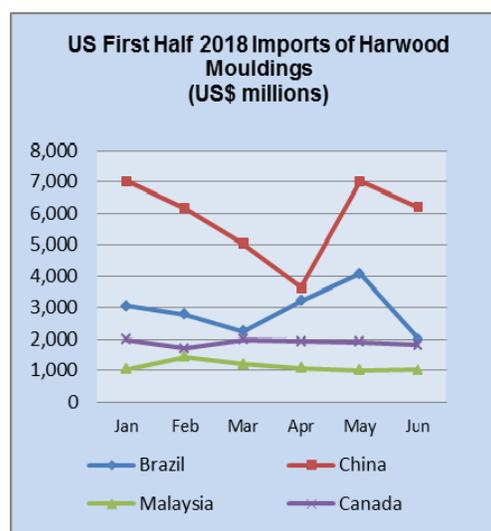
The value of plywood imports was almost unchanged from May because of higher prices of plywood from China (excluding duties), Indonesia and Malaysia.

Higher moulding and flooring imports

Hardwood flooring imports were worth over US\$6 million in June, up 40% year-to-date compared to June 2017. China remains the largest source of imports, but imports from Malaysia and Brazil doubled year-to-date.

Imports for assembled flooring panels (laminated, engineered) declined in June. While China and Canada dominate U.S. imports, Thailand and Vietnam have become significant new sources of assembled flooring. In the first half of 2018 Thailand and Vietnam each accounted for 4% of total U.S. imports of assembled flooring.

Hardwood moulding imports were down in June from the previous month, with the exception of imports from Malaysia. Imports from Malaysia grew 24% year-to-date compared to June 2017.



Data source: US Census Bureau, Foreign Trade Statistics

Higher US furniture imports from China

Wooden furniture imports grew 2% in June to US\$1.71 billion. Imports in the first half of 2018 were 6% higher than during the same time period in 2017.

The month-over-month growth was entirely in furniture imports from China, while imports from most other countries fell. The increase in furniture imports from China could be in response to potential tariffs. While tariffs specifically on furniture had not been announced at that time, by end of July the Trump Administration confirmed it would raise tariffs from 10% to 25% on US\$200 billion worth of products from China.

Imports of upholstered, kitchen and office furniture grew in June, while wooden seating and bedroom furniture declined.

US wood product manufacturing slows

Retail sales at furniture and home furnishing stores grew 5% year-to-date in July, compared to July 2017 (U.S. Census Bureau, Advance Monthly Retail Trade Survey).

Retail sales did not change much in July from sales in June and May.

The Kitchen Cabinet Manufacturers Association reported a 1% growth in year-to-date cabinet sales in June compared to last year.

The wood products and furniture industries reported growth in July, but at a lower rate than most other manufacturing industries, according to the Institute for Supply Management’s Manufacturing (ISM) Business Survey. One of the survey’s respondents in the wood products sector commented that the trade war and lower demand from export markets like China has affected business.

GDP growth estimated at 4.1% in Q2

GDP growth increased to 4.1% in the second quarter based on the advance estimate by the Bureau of Economic Analysis. In the first quarter of 2018 GDP grew 2.2%. Increased personal spending, exports and government spending contributed to GDP growth in the second quarter.

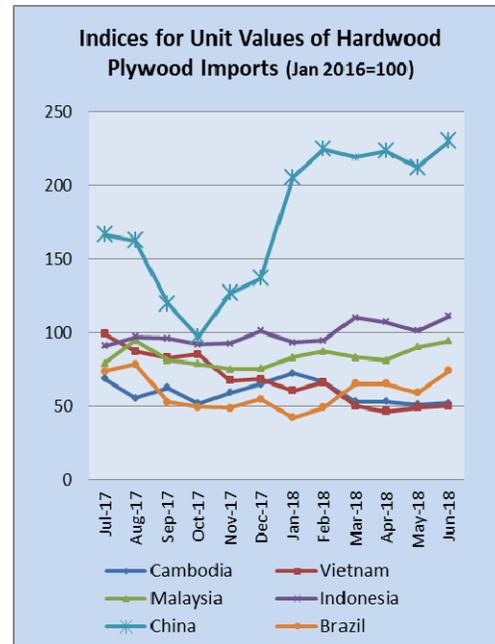
The unemployment rate edged down to 3.9% in July, according to the U.S. Bureau of Labor Statistics.

Modest growth in home construction

Low unemployment and a strong economy support demand for housing, but housing starts grew only 0.9% in July at a seasonally adjusted annual rate, according to the U.S. Department of Housing and Urban Development and the Commerce Department. Building permits were slightly up from June.

The high cost of building materials and labour contribute to the slow growth in the housing market, along with worsening affordability. Housing affordability in the second quarter of 2018 was the lowest in ten years, according to the National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index, due to rising construction costs and interest rates.

First half 2018 hardwood plywood price indices



Data source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

Note: Indices are derived from customs value and exclude shipping, insurance and duties

Disclaimer: Though efforts have been made to ensure prices are accurate, these are published as a guide only. ITTO does not take responsibility for the accuracy of this information.

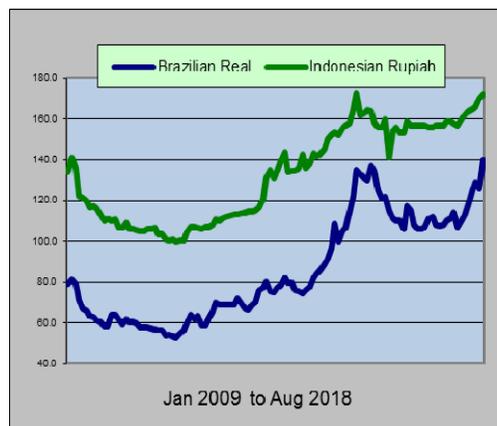
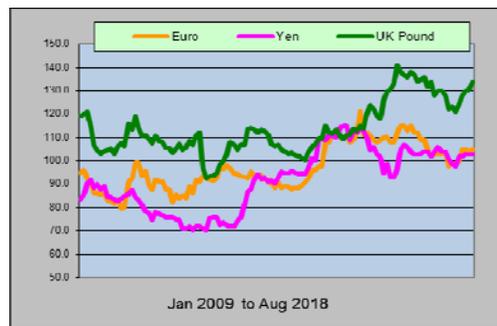
The views and opinions expressed herein are those of the correspondents and do not necessarily reflect those of ITTO.

Dollar Exchange Rates

As of 25 August 2018

| | | |
|---------------|-----------|---------|
| Brazil | Real | 4.1048 |
| CFA countries | CFA Franc | 566.07 |
| China | Yuan | 6.81 |
| EU | Euro | 0.8605 |
| India | Rupee | 69.78 |
| Indonesia | Rupiah | 14582 |
| Japan | Yen | 111.23 |
| Malaysia | Ringgit | 4.09 |
| Peru | New Sol | 3.27 |
| UK | Pound | 0.,7786 |
| South Korea | Won | 1114.54 |

Exchange rate indices (US\$, Dec 2003=100)

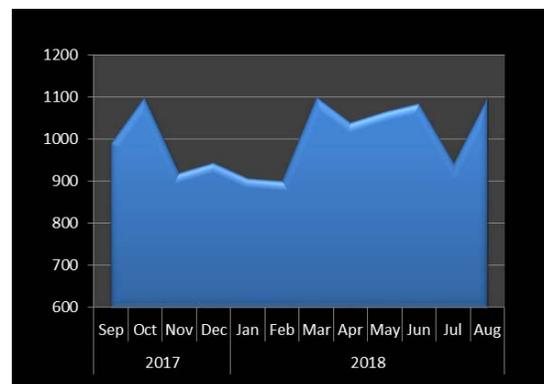


Abbreviations and Equivalences

| | |
|------------|---|
| Arrows | Price has moved up or down |
| BB/CC etc | quality of face and back veneer |
| BF, MBF | Board foot, 1000 board foot |
| Boule | bundled boards from a single log |
| TEU | 20 foot container equivalent |
| CIF | Cost insurance and freight |
| C&F CNF | Cost and freight |
| cu.m cbm | cubic metre |
| FAS | First and second grade of sawnwood |
| FOB | Free-on board |
| Genban | Sawnwood for structural use in house building |
| GMS | General Market Specification |
| GSP | Guiding Selling Price |
| Hoppus ton | 1.8 cubic metre |
| KD, AD | Kiln dried, air dried |
| Koku | 0.28 cubic metre or 120 BF |
| LM | Loyale Merchant, a grade of log parcel |
| MR., WBP | Moisture resistant, Weather and boil proof |
| MT | Metric tonne |
| OSB | Oriented Strand Board |
| PHND | Pin hole no defect |
| QS | Qualite Superieure |
| SQ,SSQ | Sawmill Quality, Select Sawmill Quality |

Ocean Freight Index

Baltic Supramax Index
September 2017 – August 2018

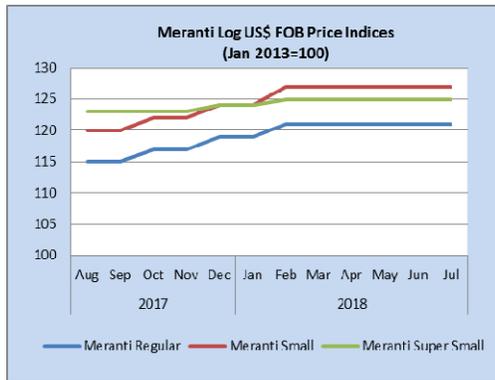


Data source: Open Financial Data Project

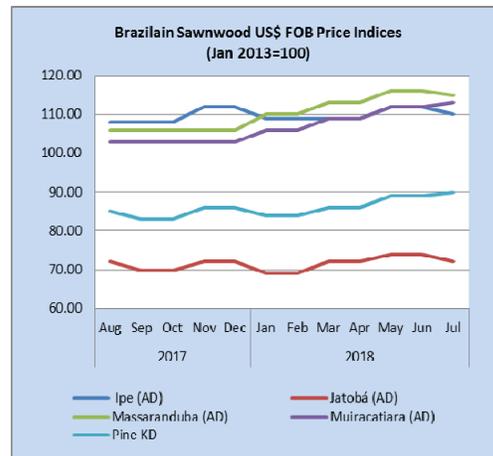
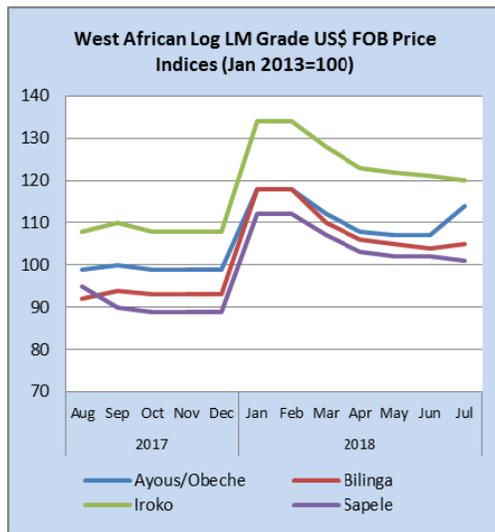
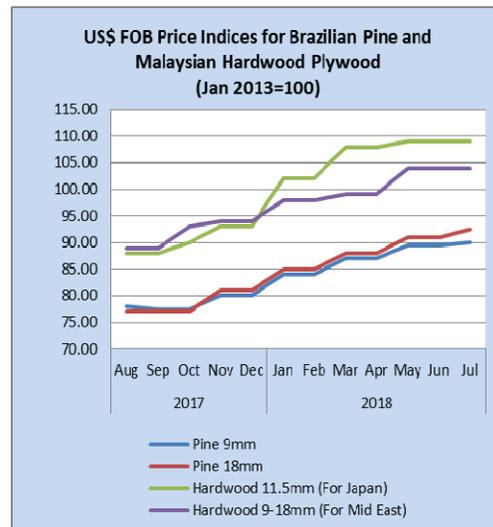
The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes.

Price indices for selected products

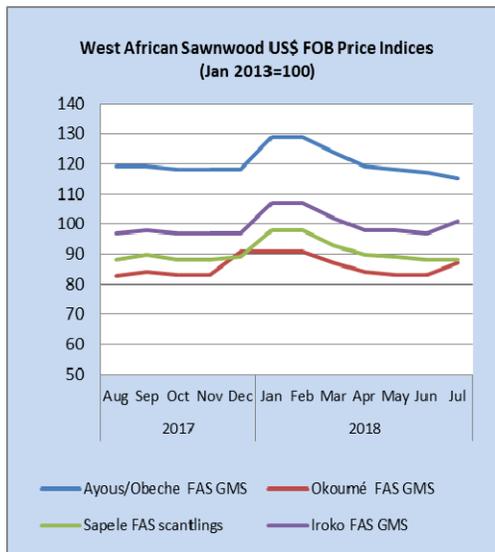
The following indices are based on US dollar FOB prices



Note: Sarawak logs for the Japanese market



Note: Jatobá is mainly for the Chinese market.



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