

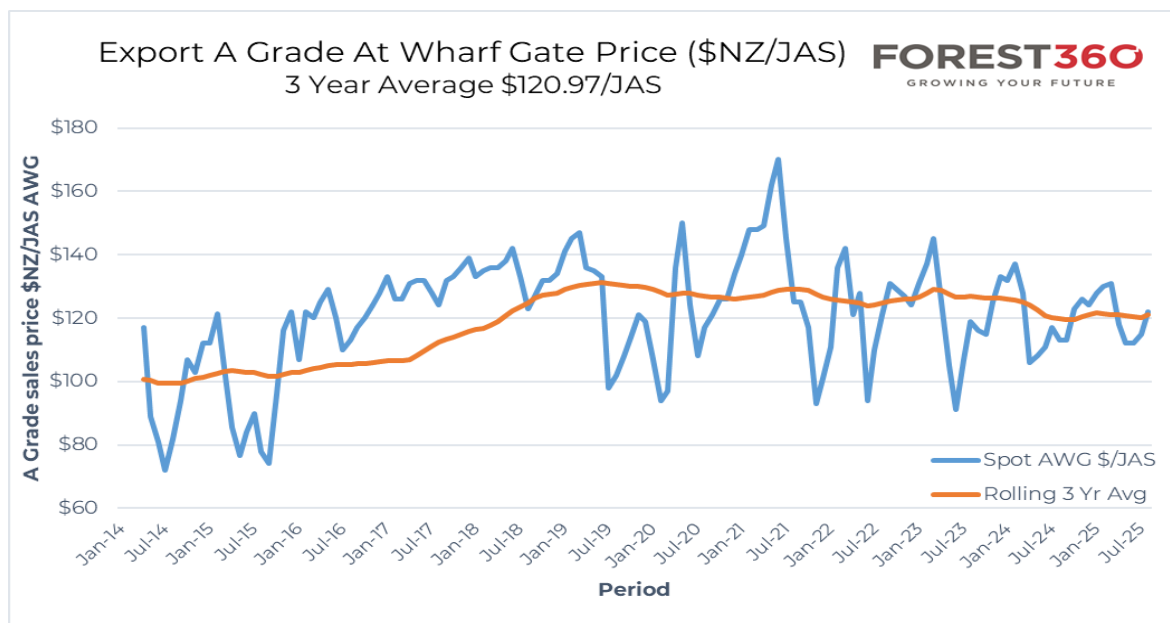
August 2025 Market Update

It's that time of year when the lambs start appearing, the days start stretching out and you get a sense of hope that summers around the corner and things will begin to dry out. Depending on which part of the country you're in you'll have a different view of how kind winter has been, but the general consensus is wet, really wet, and, if you're in Nelson, windy as well.

We have been reasonably fortunate over the winter in terms of log prices with spot numbers above historical levels for this time of year. Export prices are still well under where we'd like them to be, but they haven't been as bad as previous years. This is primarily due to lower NZ supply volumes into China and more stability in shipping and foreign exchange rates. August at wharf gate (AWG) prices have been released at around the \$122/JAS level (A grade 3.9m) for Southern North Island ports which is the highest August spot price since 2018.

Log uplift from Chinese ports has increased from 50,000m³ per day in early July to a shade under 60,000m³ per day currently. Inventory levels dropped around 190,000m³ in July and total softwood inventory now sits below the magic 3 million m³ mark and is expected to continue to recede as the Chinese construction seasons kicks off and NZ supply remains static. The widely reported windthrow in the Nelson Tasman region is very unlikely to result in any notable export supply increase as both infrastructure and port berthage provide a Hulk Hogan level of chokehold on throughput.

General expectation is that in-market sales prices will continue to rise against lower inventory levels and traders will look to lock down vessels to take advantage of the historical price increase in Q4. The effect of the log futures market is yet to be fully understood as it is only in its infancy. Approximately 115,000m³ was delivered against futures contracts in July, which was the first month of delivery, and buyer participation in this sale method is expected to increase over time.



The domestic market isn't looking so rosy with poor demand and increasing inventories of framing timber around the country. NZ building consents dropped by 6.4% month-on-month in June indicating a significant shift in sentiment which will have a flow-on to actual construction numbers later in 2025. All eyes will be on the OCR announcement on the 20th with commentators expecting a reduction of around 25 basis points and many expecting it to finally land at 2.5%. While a further cut is likely to inject some confidence into the sector, it may be a reasonable timeframe before it converts into hammers and toolbelts. The resulting softness has seen two sawmills in the SNI reduce log prices for both framing and pruned grades, which is the first price drop in a number of years.

Energy has reared its head again recently with Ballance Agri the latest company to feel the effects of gas shortages, threatening to shut its Kapuni plant due to rising gas prices. Previously contracted prices of sub \$10/gigajoule are now in the realm of \$50/gigajoule as large users such as Ballance compete with gentailers for a dwindling resource. The likelihood of securing longer term future gas supply are very unlikely, especially with the Greens and their economic masterminds stating again in parliament that they would reinstate the ban on oil and gas exploration if they were to regain the reins. Not a great way to attract foreign exploration investment.

To put some perspective around the gas issue, NZ uses around 150 petajoules (PJ) of gas each year (150 million gigajoules). Of this, around 35% is used for industrial process heat in plants such as Ballance, 29% in electricity generation, 26% in factories as feedstock and 10% by households, schools, hospitals etc. It is estimated that NZ has around 948PJ left in existing gas reserves which, at the current run rate, is around 6 years supply.

One would think 'what to do'? Replace it with coal? Nooo, those aforementioned economic masterminds wouldn't like that. What about Imported Liquified Natural Gas? Nope - that's just retarded as we're just transferring the perceived environmental issues offshore and, we would need 8% of the world tanker fleet to keep up. Solar? It doesn't work at night. Wind? Only if it's windy. Hydro? Only if it rains. What about wood? Great idea.

NZ currently harvests around 30 million tonnes per year. Of this, around 25% is in the lower grade export logs (KI and KIS grades), pulp and waste wood. The calorific value of radiata is around 9 gigajoules per tonne in wet form (straight off the stump) which gives 67.5PJ of potentially available nationwide supply. Using those numbers, cigarette packet calculations would suggest we could replace around 50% of NZ's current gas demand with a domestic wood-based solution at less than \$20/gigajoule.

Obviously is not just as simple as shoveling woodchips into an existing gas boiler and there will need to be significant capital investment to make it work, but it is a solution that we have growing all around us, from one end of the country to the other. It doesn't require wind or sun to operate, nothing has to be imported, and we're not beholden or exposed to foreign countries and policy (it's not like the world is becoming more stable).

There's also the added benefit that we are utilizing more of our fibre on-shore and we can give our export customers a better grade of log that is more suited to their requirements.

So, now that we've solved that problem, let's look forward to spring with upward pressure on export prices and lashings of mint sauce on our lamb racks.