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Q3 Market Update, Marcus Musson, COO
Opinion Piece

With the depths of winter upon us, we are starting to see softening oil prices and reduced export related costs giving a flicker of light at the end of the tunnel. Let's hope that light is not a train.

Traditionally, the third quarter of the year sees the bottom of the log market and the emergence of some green shoots in terms of demand and price. This year appears to be a trend follower, albeit we haven't seen the severe price reductions in late Q2 that we have in previous years.

Interestingly, the bottom of the cycle has been less severe year-on-year for the past 4 years, with the bottom of the 2026 cycle only 5% below the 12-month average. This is compared to 8% in 2025, 10% in 2024 and 25% in 2023. We need to view these numbers with caution however as 2026 is only just past halfway and there's plenty of potential speedbumps ahead which, as we know from recent events, can come out of nowhere.

If we look back at the export log price history over the past 7 years it is obvious that export pricing has become increasingly more stable over time, with the previous 9 months being the most stable in memory. This doesn't mean that stability has led to increased forest owner returns, it just means that returns are more predictable, not more palatable.

June saw a reduction in spot prices of around $8/JAS (based on SNI prices), which was a result of the Trump effect. Increased war-related freight costs and foreign exchange stung the cost side. while poorer buyer sentiment saw CFR sales prices take a dip. July At Wharf gate (AWG) prices have bounced back somewhat from the June reduction into the early $120's/JAS (A grade shorts) as all of the aforementioned factors have reversed. It is expected that August will be higher again and more reminiscent of the previous 9 months.

Freight is expected to reduce later in the month from the mid $US40s to somewhere in the high $US30s, foreign exchange has taken a bath to a 7-month low in the mid $US0.56 range and the CFR price is expected to gain a couple of $US. The $US:NZ will likely be affected by the Reserve Bank's posturing in July as they contemplate a rate hike, although the expectation of this is lower now due the economic damage from the Iran debacle.

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Much of our ability to lever prices higher will be a direct result of total New Zealand supply. Large-scale wind events in the upper South Island and lower North Island continue to put significant volumes of log into the market. Also, although the lower North Island salvage is now mostly complete, the Nelson/Tasman cleanup still has a way to go. This volume is not price sensitive so will continue to hit the wharves regardless of the market.

What this does mean in the medium to longer term is that we now have significant holes in the longer-term supply equation. This has played out in the CNI following Cyclone Gabrielle, with a significant reduction in harvest levels around Taupo as those forests now recover from a massive windthrow salvage programme. The ability for this harvest capacity to move elsewhere is limited as there simply aren't the large-scale opportunities anywhere else in the country (with the exception of Gisborne but that's another story).

The likely scenario is that New Zealand supply will decrease incrementally over the next few years as these large tracts of forest recover from the wind-related decimation of their age classes. Wind damage is now becoming an expected rather than a random event and many forest managers now have sold battle plans for when, not if, this happens in their estates.

Current China inventory sits around the 2.5 million mark, which is down very slightly on June, and daily consumption is in the early to mid-50,000 m^3 range, which is expected for this time of year as the market starts to pull out of the rainy season. Daily consumption is expected to increase toward the back end of August as the China construction season ramps up pushing consumption through 60,000 m^3/day. This is likely the point that we will see the squeeze on supply and better opportunities for price increases, provided Trump doesn't have another military brainwave.

India continues to tick over with around 12 vessels planned for July from NZ, Australia, Uruguay and the USA. Monsoon rains have slowed construction and also affected the movement of freight which will likely have a flow-on effect to log demand. The Indian Purchasing Managers Index (PMI) has dropped to 54.2 for June, down from 55 in May and the second weakest since mid-2022. While still in positive territory (above 50) it does reflect the reduced demand from European markets. There appears to be plenty of excitement from Indian buyers around the pending FTA, however it is very unlikely that NZ will see the full value of the tariff reduction. It will, however, create additional demand which

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will pull supply away from China likely creating more total demand pressure for NZ radiata.

Domestic mills in the SNI have been hand-to-mouth with log supply as weather and poor production start to bite. Sawmills in the South Island have seen increased demand for lumber as the effect of the Eves Valley mill closure in Nelson becomes evident. Latest data from Stats NZ shows a 19% increase of issued residential building consents to the end of May 2026 compared to the previous 12-month period. This is the end of three successive years of decline, but is however still 25% below the 2021–2022 period. Commercial consents still show declines with a 19% reduction over the same period, but farm buildings bucked the commercial trend with an increase of 34%, which is not surprising considering the current sheep, beef and dairy prices.

The planting season is off to a slow start with drier conditions around the country. Total planting numbers will be significantly down on previous years as the land use restrictions implemented by the Coalition Government put the brakes on greenfield planting of anything that's not class 7 land. This poorly thought-out piece of legislation has Federated Farmers running around gleefully high fiving each other following an intensive and successful lobby of Minister McClay. What the Feds haven't promoted, however, is the tens of billions of dollars they have wiped off their constituents' farm values in a brilliant own goal. Champions.

Nothing to see here with carbon. The latest auction failed for the sixth time in a row, which is not surprising considering the floor limit of $71/NZU. Current spot trading is up slightly at a shade under $55/NZU and all eyes will be on what election posturing is made around the New Zealand Emissions Trading Scheme (ETS). The NZU price is very sensitive to sentiment and successive governments have shown that policy direction can have a significant effect on price.

So, headed into the third quarter there is a slight bounce in the step with the glass half full. Although the glass is half full of warm Rheineck, it's half full and not half empty, nevertheless. It's likely that the New Zealand supply will continue to peel away and demand from China will solidify, giving us the better hand in the game of log market poker. Let's just hope that neither side gets the Trump card.

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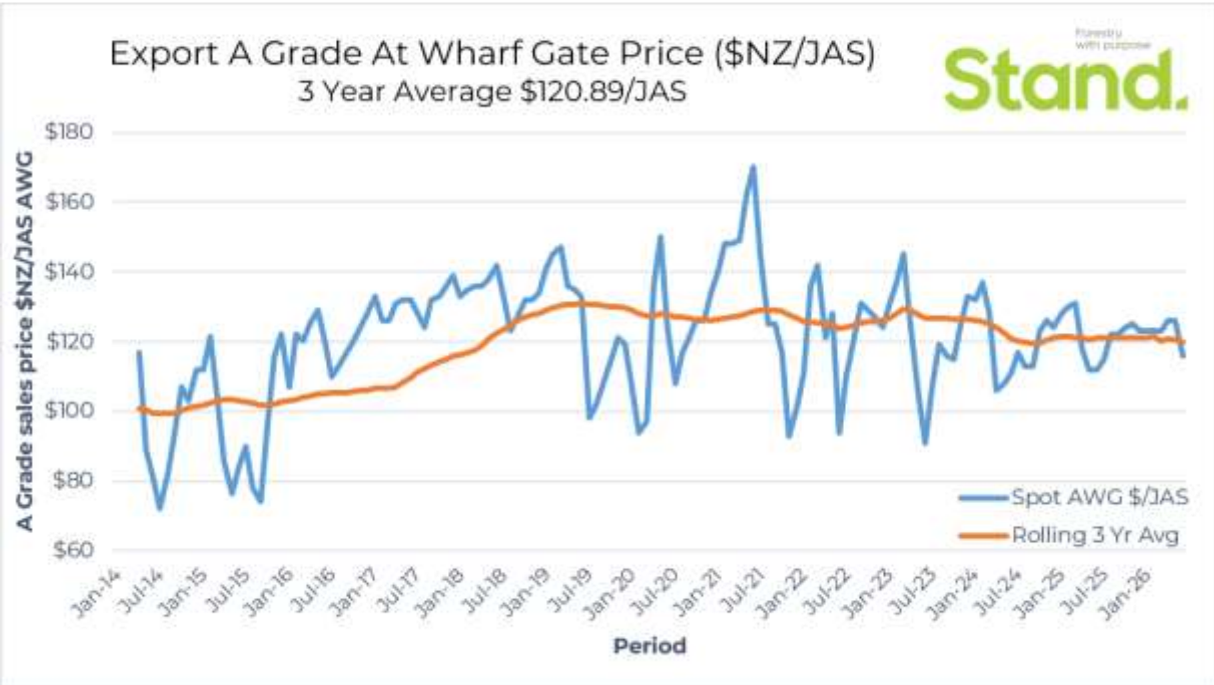
Average Export Log Prices (A Grade 3.9m) Wellington Port		
Year	12 Month	36 Month
2016	$ 119.58	$ 104.90
2017	$ 131.00	$ 110.51
2018	$ 133.42	$ 122.50
2019	$ 124.92	$ 130.25
2020	$ 120.00	$ 127.31
2021	$ 135.25	$ 127.89
2022	$ 122.83	$ 125.21
2023	$ 120.72	$ 127.18
2024	$ 119.83	$ 122.07
2025	$ 121.83	$ 120.81
2026*	$ 122.33	$ 120.89
*Rolling Average to date		



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