

WOOD MARKETS MONTHLY

December 8, 2015

Don Deckard, Forest Economist
Email: donald.deckard@state.mn.us

Cover: Shandong Sun Paper to build \$1.36 billion fluff pulp mill in Arkansas

General Interest – p2

- MNDNR receives leadership award from FSC
- WIDNR shutting 2 of 3 tree nurseries amid plunging demand
- Oregon expands no-logging buffers along private streams

Economy & Housing – p3

- Oil tumbles to 7-year low
- Stellar Oct. jobs reports blows expectations away
- Housing markets continue modest improvement, single-family permits only 47% of “normal”

Finance & Management – p4

- Weyerhaeuser to buy Plum Creek \$8.44 billion
- Sappi posts fyQ4 net income US\$83 million, full year profit up 23.7%
- Verso-NewPage Q3 net loss \$111 million
- Norbord Q3 net loss \$9 million, \$69 million ytd
- USPS fy15 net loss \$5.1 billion
- Resolute trims Q3 net loss to \$6 million...
- Molpus acquires 192,000 acres in Louisiana
- Billionaire Louis Bacon plans 20mmbf sawmill for San Luis Valley Colorado

Production & Prices – p6

- Minn. state forests support \$23 million holiday wreath industry
- Oct. printing-writing paper shipments down 8%
- U.S. NBSK list prices drop \$20/tonne...
- Chinese buyers pushing hard for BEK price cuts

Bio-Markets – p7

- Wood biomass delivered prices decline, demand down 12.1% ytd
- Global lignin market expected to grow 2.5% per year through 2020
- UPM to test wood-based biodiesel in Finland urban buses

Wood Statistics Monthly – p8

- OSB NC 7/16 Sheathing up 15.8% y/y

In accordance with Title 17 U.S.C. §107, any copyrighted material herein is distributed without profit or payment for non-profit news reporting and educational purposes only. Refer to: <http://www.law.cornell.edu/uscode/17/107.shtml>



Sun Paper to build \$1.36 billion fluff pulp mill in Arkansas

November 23, 2015 (reuters.com)—China's Shandong Sun Paper Industry announced Monday that it's signed a memorandum of understanding (MOU) with the Arkansas Economic Development Commission to build a \$1.36 billion, 700,000 tonnes per year fluff pulp mill in Arkansas. Sun Paper said the fluff pulp project will build “the world's largest, most advanced, and most efficient single fluff pulp production line” in a statement, adding that commissioning of its fluff pulp production capacity would represent 12% of total world fluff production. Fluff pulp is a raw material used to manufacture diapers and sanitary products.

According to the plan, an Arkansas location will be finalized in the first half of 2016 with construction to break ground in the second half. A target ramp-up for the new mill was slated for the end of 2018. After the project is completed, its 700,000 tonnes per year of fluff pulp output is to achieve sales revenue of US\$500 million, Sun Paper said in its release.

The U.S. Food and Drug Administration has approved the company to manufacture paper at the Arkansas mill, Sun Paper said in a statement to the Shanghai Stock Exchange on Monday. The investment by the northern China-based company is the latest in a slew of deals by Chinese manufacturers looking to diversify their operations and take advantage of initiatives and rebates in western countries.

GENERAL INTEREST

MNDNR receives leadership award from FSC

December 3, 2015 (MNDNR News Release)—The Minnesota Department of Natural Resources received the Forest Stewardship Council (FSC) Leadership Award for excellence for its commitment to responsible forest management. Responsibly-managed forests store carbon, protect water quality, provide wildlife habitat and support local economies. “The DNR is honored to receive this award,” said Forrest Boe, DNR Forestry Director. “We are dedicated to growing healthy and productive forests now and into the future.” The DNR is a pioneer in forest certification, becoming the first state in the U.S. to certify state forest lands under FSC in 1997. The DNR received the FSC Leadership Award for being an early adopter and for managing the largest FSC-certified forest in the United States at nearly 5 million acres.

Wisconsin DNR shutting 2 of 3 tree nurseries amid plunging demand

November 7, 2015 (jsonline.com)—Wisconsin’s three sprawling state-run tree nurseries, which routinely sold 20 million to 30 million native species plantings every year throughout much of the 20th century, barely sell 4 million a year today, a jarring drop that has occurred just within the past few years. The state Department of Natural Resources is shutting two of its three nurseries. Asked to explain the plunging demand, DNR officials note that frequent ownership changes and subdivisions lead to forest fragmentation. Also, government subsidies for ethanol have prompted some landowners to switch to corn. “We’ve seen a lot of conversion from forest to agriculture,” said Carmen Hardin, chief of the DNR’s forestry science section. In addition, private-sector tree nurseries in Canada that grow containerized stock, have taken some of the DNR’s bare-root market share.

Generational disconnect: In terms of raw acreage, the state’s family tree farmers collectively rank as the dominant class of woodland owners, representing nearly 10 million of the state’s 17.1 million forested acres. But those individuals are getting older and have middle-aged children with their own families, often living in another state. And the new generation often has less enthusiasm for forestry. Pinchot Institute researchers say family-held woodlands are in the throes of the largest generational transfer of ownership in history, in Wisconsin and other timbered states as well. Siblings of the inheritance generation “demonstrate some high levels of internal disagreement on important aspects of managing family forests,” the survey found. Over half the Wisconsin families surveyed with multiple children had siblings who disagreed on how to manage land and how long to hold it, which often prompts parents to subdivide the land into smaller parcels for each child.

Institutional ownership: Paper mills led the state’s century-long reforestation, pioneering the Wisconsin model of stewardship out of economic necessity. But the mills have been selling off their timberland wholesale, more than a million acres sold, after decades of stable stewardship. By 2012, when Wausau Paper Corp. sold its last 80,200 acres of timber holdings, there were no longer any significant industrial forests held by any of the paper companies.

Oregon expands no-logging buffers along private streams

November 5, 2015 (timesunion.com)—Forest officials have voted to expand no-logging buffers along streams on private timberland in western Oregon to keep water cool enough for salmon. The Oregon Board of Forestry adopted the rules on Thursday, despite protests from logging interests. Riparian zone buffers will increase to 80 feet on medium-sized streams and 60 feet on small streams, with the option to not cut any trees or to do thinning on part of the buffer. Currently trees must be left uncut 20 feet from streams on private timberland — though some additional feet are required where a number of trees must be maintained. Removing too many trees leads streams to warm up, which can harm cold-water fish like salmon, steelhead and bull trout. Logging near streams also eliminates downed logs, which help create deep pools for salmon to escape predators and hide from the heat. The bigger the no-logging buffers, the more shade, but the greater the economic impact on timberland owners.

ECONOMY & HOUSING

Oil tumbles to 7-year low

December 7, 2015 (money.cnn.com)—Oil tumbled another 6% on Monday to as low as \$37.50 a barrel, its weakest level in almost seven years. A massive supply glut has wiped out two-thirds of oil's value after it peaked at nearly \$108 a barrel in June 2014. The latest oil plunge is weighing on the stock market, with shares of Big Oil companies like Exxon Mobil (XOM) retreating further. The Dow dropped 117 points, with the energy sector its biggest drag. Oil settled at \$37.65 a barrel on Monday, the lowest since February 2009. These moves come after Friday's decision by OPEC not to cut oil output following a contentious six-hour meeting. The oil cartel essentially left production near record highs despite the oversupply problem. Rather than cut supply to boost prices, OPEC has been aggressively pumping oil in an effort to steal back market share. U.S. production remains near record-highs, though it has backed off in recent months. Goldman Sachs recently predicted U.S. output will shrink by a modest 65,000 barrels per day in 2016 due to declining drilling rig counts.

Stellar October jobs report blows expectations away

November 6, 2015 (usnews.com)—The U.S. labor market added an astounding 271,000 jobs in October, according to the Bureau of Labor Statistics. That's the single best month for job growth so far this year and snapped two consecutive months of underwhelming sub-200,000 employment numbers. And revisions to August's and September's data added 12,000 previously unreported positions to this year's employment total. "Job gains occurred in professional and business services, health care, retail trade, food services and drinking places and construction," Friday's jobs report said. "Over the prior 12 months, employment growth had averaged 230,000 per month." Most analysts expected somewhere between 180,000 and 185,000 job gains last month. One of the few soft spots in Friday's report was the labor force participation rate, which remained unchanged at a multi-decade low of 62.4 percent. The rate, which measures the percentage of those employed and actively looking for work compared to the country's entire civilian non-institutional population, has been sliding for years, and October didn't show any immediate signs of a turnaround.

Housing markets continue modest improvement, single-family permits only 47% of "normal"

November 5, 2015 (nahb.org News Release)—Markets in 79 of the approximately 360 metro areas nationwide returned to or exceeded their last normal levels of economic and housing activity in the third quarter of 2015, according to the National Association of Home Builders/First American Leading Markets Index (LMI) released today. This represents a year-over-year net gain of 17 markets. The index's nationwide score edged up to .93, meaning that based on current permit, price, and employment data, the nationwide average is running at 93% of normal economic and housing activity. Meanwhile, 69% of markets have shown an improvement year-over-year. "The employment metric of the LMI is making solid gains, with the number of metros that reached or surpassed their norms rising by 32 in a year," said NAHB Chief Economist David Crowe. "Single-family permits keep inching forward, but remain at only 47 percent of normal activity, and continue to be the sluggish component of the index."

FINANCE & MANAGEMENT

Weyerhaeuser to buy Plum Creek for \$8.44 billion

November 8-9, 2015 (PRNewswire, USA Today remix)—Weyerhaeuser Company (NYSE: WY) and Plum Creek (NYSE: PCL) today announced they have entered into a definitive agreement to merge the two companies. In effect, WY is purchasing PCL for \$8.44 billion to create the world's largest timber and forest products company with more than 13 million acres of investment quality timberland in the U.S. At closing, the combined company is expected to have an equity value of \$23 billion based on current share prices. The combined EBITDA for both companies in 2014 was \$2.2 billion. The transaction is expected to close late in the first quarter or early in the second quarter of 2016. The combined company will retain the Weyerhaeuser name.

Sappi posts fyQ4 net income US\$83 million, full year profit up 23.7%

November 12, 2015 (sappi.com Media Release)—Sappi Limited today reported results for the fourth quarter and fiscal year ended September 2015 with full year earnings excluding special items up 23.7%. Full year net income was US\$167 million compared to US\$135 million in FY14. For the quarter, profit increased by 22% to US\$83 million (US\$0.16 per share) due to the higher operating profits and lower interest costs. The Specialized Cellulose business generated improved returns due to increased US Dollar spot prices for dissolving wood pulp in China; driven by improved conditions for viscose staple fiber. The weaker Rand also helped margins, lowering the cost base and improving selling prices.”

Verso-NewPage Q3 net loss \$111 million including \$66 million restructuring costs

November 16, 2015 (News Release)—Verso Corporation (OTCQB: VRSZ) today reported a net loss of \$111 million for the third quarter of 2015. During the third quarter of 2015, Verso recorded special items affecting operating income totaling \$66 million, or \$0.80 per diluted share, primarily related to restructuring costs associated with the production capacity reduction and optimization of the Androscoggin mill and the indefinite idling of the Wickliffe mill, and integrating the legacy Verso and NewPage operations.

Norbord Q3 net loss \$9 million, \$69 million loss ytd

October 30, 2015 (CNW)—Norbord Inc. (TSX: NBD) today Norbord reported a net loss of \$9 million or \$0.11 per share (basic and diluted) in the third quarter of 2015 compared to a net loss of \$29 million or \$0.34 per share (basic and diluted) in the third quarter of 2014. Year-to-date, the Company lost \$69 million or \$0.81 per share compared to a net loss of \$13 million or \$0.15 per share in 2014. After bottoming in early August, North American benchmark OSB prices increased steadily during the remainder of the quarter as US new home construction activity and OSB demand continued to improve. The North Central benchmark OSB price averaged \$204 per thousand square feet (Msf) (7/16-inch basis) for the quarter, compared to \$193 per Msf in the previous quarter and \$216 per Msf in the same quarter last year. In the South East region, where approximately 35% of Norbord's North American OSB capacity is located, benchmark prices were largely unchanged, averaging \$176 per Msf compared to \$174 per Msf in the prior quarter and \$177 per Msf in the same quarter last year. The Western Canada benchmark averaged \$158 per Msf for the quarter, compared to \$152 per Msf in the previous quarter and \$187 per Msf in the same quarter last year.

USPS reports fy15 net loss \$5.1 billion

Nov 13, 2015 (Press Release)—The U.S. Postal Service reported a net loss of \$5.1 billion for fiscal year 2015 (October 1, 2014 - September 30, 2015). The net loss is largely due to certain statutorily mandated payments over which the Postal Service has no control. Notwithstanding the loss, total revenue was \$68.9 billion for the year, an increase of approximately \$1.1 billion from 2014.

Resolute trims Q3 net loss to \$6 million, focused on Calhoun, TN pulp project

October 29, 2015 (CNW Telbec)—Resolute Forest Products Inc. (NYSE: RFP) (TSX: RFP) today reported a third quarter net loss of \$6 million, or \$0.07 per share, compared to a net loss of \$116 million, or \$1.23 per share, in the third quarter of 2014. Sales were \$905 million in the quarter, down \$191 million, or 17%, from the third quarter of 2014. The company is focused on completing the Calhoun, TN continuous pulp digester project. "The project remains on track for a late-December startup," said Richard Garneau, president and chief executive officer. Once fully operational, we expect that it will grow our market pulp capacity by 100,000 metric tons and will reduce our mill-wide costs.

Molpus acquires 192,000 acres in Louisiana

November 9, 2015 (businesswire.com)—The Molpus Woodlands Group, a timberland investment management organization headquartered in Jackson, Miss., has announced, on behalf of a client, the purchase of approximately 192,000 acres of timberland and a timber lease in southwest Louisiana. "We are pleased to expand our presence in Louisiana and we continue to seek opportunities to acquire high-quality timberlands in the U.S.," said Ken Sewell, Chief Operating Officer. The timberland, located in six counties between the cities of Lake Charles, La., to the south and Alexandria, La., to the north, is a primarily Southern Pine plantation property that has been in timber production for decades. Molpus currently has 1,875,000 acres under management in seventeen states, valued in excess of \$2 billion.

Billionaire Louis Bacon plans 20mmbf sawmill for San Luis Valley Colorado

November 11, 2015 (blogs.denverpost.com)—Hedge-fund manager and renowned conservationist Louis Bacon plans to build a large sawmill in the San Luis Valley to help process timber harvested from his Trinchera Blanca Ranch, the largest contiguous ranch in Colorado. The 172,000-acre ranch, with 167,000 acres locked in a conservation easement donated to the U.S. Fish & Wildlife Service, currently harvests about 2.5 million board feet of timber every year. Ranch managers indicate they need to harvest about 10 million board feet per year to keep the forests healthy and growing. The proposed sawmill would be set up near the town of Blanca in Costilla County and could employ 40 to 70 workers. It could process 20 million board-feet of timber a year, about half of that coming from the ranch. The timber and processed construction-ready lumber would meet the requirements of the Sustainable Forestry Initiative. The sawmill would help Bacon's team elevate its active forestry management practices, which reduces the threat of catastrophic wildfire by thinning canopies that have grown dense under years of fire-suppression efforts. Ranch managers said Costilla County has granted permits for the sawmill location and timber removal. Pending final approvals, the sawmill could open in late 2016 with plans for full operation by early 2017.

PRODUCTION & PRICES

Minn. state forests support \$23 million holiday wreath industry

December 7, 2015 (MNDNR News Release)—Minnesota state forests are one of the primary sources of balsam fir boughs and branches used to make holiday wreaths and swags, according to the Department of Natural Resources. Each year, about 734,000 pounds of balsam boughs are harvested from state forests between late September and early December. It is estimated that companies producing wreaths in Minnesota have total sales exceeding \$23 million and growing. Minnesota is one of the national leaders in the holiday wreath industry, employing thousands of seasonal employees in several Minnesota cities. “Balsam bough harvesting provides supplementary income for many families,” said Paul Dubuque, DNR timber sales program coordinator. “As a home business, families can earn thousands of dollars each season harvesting and assembling basic wreaths.”

Oct. printing-writing paper shipments down 8% y/y

November 20, 2015 (AF&PA Press Release)—The American Forest & Paper Association has released its October 2015 Printing-Writing Paper Report. According to the report, total U.S. printing-writing paper shipments decreased 8 percent in October compared to October 2014. Total printing-writing paper inventory levels decreased 3 percent from September.

- Uncoated free sheet (UFS) paper shipments decreased 4 percent compared to Oct. 2014, the fourth decrease in the past six months.
- Oct. coated free sheet (CFS) paper shipments decreased 7 percent compared to Oct. 2014.
- Uncoated mechanical (UM) paper shipments decreased 3 percent compared to Oct. 2014. Imports of UM papers were down 12 percent in September, the fifteenth consecutive monthly decline.
- Coated mechanical (CM) shipments in October decreased 21 percent relative to October 2014. Imports of CM increased in September by 27 percent compared to the same period last year.

U.S. NBSK list prices drop \$20/tonne, spot prices likely to follow

November 6, 2015 (PPI Pulp & Paper Week)—Three major producers of benchmark northern bleached softwood kraft (NBSK) market pulp informed North American customers that their list prices were declining by \$20/tonne to \$940, effective Nov. 1 industry contacts told PPI Pulp & Paper Week. Canfor Pulp, Resolute Forest Products, and West Fraser separately announced a \$940 list on NBSK to customers late this week. This week, sources said domestic NBSK and southern bleached softwood kraft (SBSK) spot prices are likely dropping again after stabilizing at a \$550-590 range depending on grade, region, and freight hauls. In addition to its NBSK announcement, contacts on Nov. 6 said Resolute also announced a \$20 decrease on its US SBSK list to \$900.

Chinese buyers pushing hard for BEK price cuts

Nov 6, 2015 (PPI Asia)—The stalemated bleached eucalyptus kraft pulp (BEK) negotiations between Brazilian suppliers and Chinese buyers last month remain in limbo. This has left Brazilian BEK deals for October deliveries unconcluded in China, for both volumes and pricing. “Chinese customers were pushing for big price drops in one shot, which could lead to an avalanche for the grade's pricing in the global market. It is not possible for us to accept that,” said a major Brazilian producer. At the moment, top Brazilian sellers, including Suzano, Fibria and Eldorado, say they will hold their BEK prices steady for November shipments. The argument was triggered when Brazilian suppliers slated price hikes of \$20/tonne in September and Chinese buyers put up strong opposition. The planned rise was not carried through in the end. Net prices for South American BEK were settled at \$630-660/tonne for September deliveries, with most Brazilian BEK deals closed at \$640-650/tonne.

BIO-MARKETS

Wood biomass delivered prices decline, demand down 12.1% ytd

December 2015 (F2M Newsletter)—Wood fuel [biomass] prices have declined over the last two quarters to an average of \$21.32 per green ton in 3Q2015. Demand for wood fuel has decreased as pulpwood purchases have increased, and as the price of natural gas has fallen. Compared to the first quarter, purchases of wood fuel dropped 11.2% in 2Q2015 and a subsequent 0.9% in the 3Q2015. Prices for substitute energy sources over the same time period experienced mixed results: natural gas fell 20.4% in 2Q2015 before slightly increasing 0.3% in the 3Q2015; industrial electricity decreased 1.7% in 2Q2015 before increasing 8.4% in 3Q2015. The combination and timing of these effects put downward pressure on wood fuel prices despite a substantial increase in electrical power rates this past quarter.

Global lignin market expected to grow 2.5% per year through 2020

November 2, 2015 (digitaljournal.com)—Zion Research has published a new report titled "Lignin Market (Lignosulfonates, Kraft Lignin and Others) for Concrete Additive, Animal Feed, Dye Stuff, and Other Applications: Global Industry Perspective, Comprehensive Analysis and Forecast 2014 - 2020" According to the report, global lignin market was valued at approximately USD 775 Million in 2014 and is expected to reach around USD 900 million in 2020, growing at a compound annual growth rate (CAGR) of slightly above 2.5% between 2015 and 2020. In terms of volume, the global lignin market stood at approximately 1,100 kilo tons in 2014.

UPM to test wood-based biodiesel in Finland urban buses

October 27, 2015 (biomassmagazine.com)—UPM is to start field tests of its novel wood-based diesel fuel in urban buses together with Helsinki Region Transport (HSL) and the VTT Technical Research Centre. The field tests are also supported by St1, Volvo and Transdev Finland. The new round of tests with UPM BioVerno fuel will start in October and run for a minimum of one year. UPM BioVerno diesel has previously been studied in several engine and vehicle tests conducted by various research centers as well as in fleet tests, all with excellent results. The studies have shown that UPM BioVerno works exactly like the best quality diesel fuels and reduces tail pipe emissions significantly compared to fossil diesel.

WOOD STATS

Category & Sub-Category	Latest Month	Month Ago	M/M Change	Year Ago	Y/Y Change
Value of Shipments (US\$ Millions NSA)					
Mfg - Lumber & Wood Products	Oct(p) \$8,680	\$8,455	2.7%	\$8,793	-1.3%
Mfg - Pulp, Paper, & Paperboard Mills	Oct(p) \$7,306	\$7,185	1.7%	\$7,107	2.8%
Mfg - All NAICS	Oct(p) \$486,595	\$497,893	-2.3%	\$517,305	-5.9%
Exports F.A.S. Basis (US\$ Millions NSA)					
Logs, Chips, & Misc	Oct \$192.7	\$171.1	12.6%	\$237.8	-19.0%
Lumber & Wood Products	Oct \$643.5	\$653.2	-1.5%	\$702.8	-8.4%
Paper Products	Oct \$2,096.0	\$2,027.7	3.4%	\$2,205.6	-5.0%
Capacity Utilization (% SA)					
Mfg - Wood Products	Sep(p) 79.3%	79.0%	0.4%	77.8%	1.9%
Mfg - Paper Products	Sep(p) 67.2%	68.5%	-1.9%	66.5%	1.1%
Mfg - All NAICS	Sep(p) 79.1%	79.2%	-0.1%	74.8%	5.7%
Housing Market (000s Units NSA)					
Private Housing Starts	Oct(p) 90.2	110.0	-18.0%	92.0	-2.0%
Private Building Permits	Oct(p) 97.1	97.2	-0.1%	98.4	-1.3%
New Residential Sales	Oct(p) 41.0	34.0	20.6%	38.0	7.9%
New Home Inventory for Sale	Oct(p) 231.0	228.0	1.3%	213.0	8.5%
Payroll Employment (000s NSA)					
Total Nonfarm Payroll	Oct(p) 144,128	143,784	0.2%	141,478	1.9%
Manufacturing	Oct(p) 12,332	12,347	-0.1%	12,290	0.3%
State & Local Govt.	Oct(p) 19,723	19,613	0.6%	19,656	0.3%
Market Pulp SPOT Prices (US\$/ton)					
BEK (Eucalyptus) (delivered US East)	Nov(p) \$619	\$619	0.0%	\$572	8.2%
NBHK (delivered US East)	Nov(p) \$526	\$531	-0.9%	\$544	-3.3%
NBSK (delivered US East)	Nov(p) \$513	\$517	-0.8%	\$621	-17.4%
Lumber Prices (US\$/Mbf)					
RL Eastern SPF Composite	Nov-6 \$345	\$323	6.8%	\$416	-17.1%
KD West-SPF 2x4, #2&Btr. del Chicago	Nov-6 \$346	\$318	8.8%	\$417	-17.0%
Northern Red Oak Grn 4/4 #2A& (fob)	Nov-6 \$500	\$500	0.0%	\$770	-35.1%
Pallet Lbr Mixed Grn 4/4 RW (fob)	Nov-6 \$285	\$285	0.0%	\$295	-3.4%
Structural Panel Prices (US\$/Msf)					
RL Structural Panel Composite	Nov-6 \$369	\$351	5.1%	\$410	-10.0%
OSB NC 7/16 Sheathing (fob)	Nov-6 \$257	\$225	14.2%	\$222	15.8%
OSB SE 7/16 Sheathing (fob)	Nov-6 \$235	\$196	19.9%	\$189	24.3%

(p) = preliminary