

# WOOD MARKETS MONTHLY

January 29, 2016

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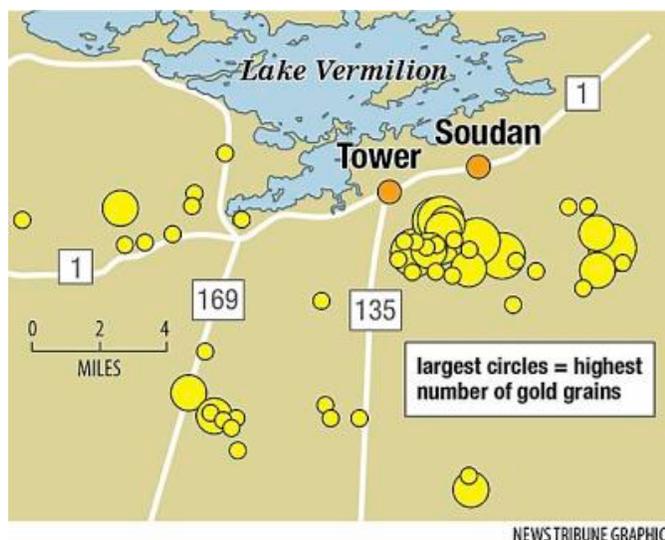
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## Gold rush on the Iron Range?

January 11, 2016 (twincities.com)—Forest management may take the back seat as MNDNR reported Friday finding more gold on the surface of forested land southeast of Soudan. The latest findings bolster the DNR Minerals Division's last report in July that surprisingly high numbers of gold grains were being found. Gold on the surface often is an indicator of gold underground, geologists note.

"This new data set strongly points towards the presence of gold within the focus area's underlying bedrock," the DNR said in reporting the most recent findings. Unprecedented test drilling in recent decades to search for copper, nickel and other minerals has revealed enough gold across the region that proposed copper mines are counting gold they expect to recover as part of their business plan.

Minnesota-based Vermilion Gold appears to be the only company actively searching specifically for gold in the state. The company currently is drilling test holes to pinpoint gold deposits just outside Virginia. Gold was trading at about \$1,100 per ounce Monday

## GENERAL INTEREST

### **America's first modern tall timber building rises in Minneapolis**

January 19, 2016 (minnpost.com)—On Monday, crews began laying the wooden panels on the cage of posts and beams at the Minneapolis site of what will eventually be the seven-story **office building known as T3** (Timber, Technology and Transit). When it's finished sometime in this fall, the building will be the first modern tall wood building in the United States. T3 will be the first mass timber construction building in the U.S., but such structures have been built in Canada and Europe for several years. A taller wooden building is being designed for the Pearl District of Portland, Oregon.

### **MNDNR becomes member of FSC**

January 11, 2016 (MNDNR News Release)—The Minnesota Department of Natural Resources is the first state government agency in the nation to become a member of the Forest Stewardship Council (FSC), which sets standards for responsible forest management. “The DNR is a member of FSC because we are concerned with the environmental, economic and social impacts associated with managing forests,” said Tim Beyer, DNR forest certification consultant. “This gives the DNR the opportunity to participate and provide input to policy, standards and governance of the organization.” Minnesota became the first state in the U.S. to certify state forests lands in 1997 and manages the largest FSC-certified forest in the United States at nearly 5 million acres.

### **Norway spruce being tested for construction applications in U.S.**

December 21, 2015 (pressherald.com)—A team at the University of Maine's Advanced Structures and Composite Center is testing Norway Spruce grown in the U.S. to determine if the species is strong enough to be used in construction applications. The tests mark the first time in about 80 years that a new species has been tested from logs grown in the U.S. The Norway spruce being tested at UMaine come from some of the estimated 3 billion trees of various species planted around the country during the Great Depression by the Civilian Conservation Corps, an effort of President Franklin D. Roosevelt's to put people back to work. The CCC workers planted the trees to reclaim abandoned farmland, and used primarily Norway spruce in the Northeast and Great Lakes region, according to Easterling. While builders in Europe have used Norway spruce for ages, it is off-limits to the U.S. construction industry because the proper strength tests were never conducted on the trees grown in this country.

### **U.S. wildfires set troubling new record last year**

January 22, 2016 (fridayoffcuts.com)—Wildfires across the United States blackened more than 10 million acres of land in 2015, a new record set amid an intense drought across the West, the US Department of Agriculture reported. Those blazes destroyed more than 4,500 buildings, and 13 firefighters died battling them, Agriculture Secretary Tom Vilsack said. Government agencies burned more than US\$2.6 billion on firefighting costs, which consumed more than half of the US Forest Service's budget and forced the agency to shift money away from conservation and restoration projects aimed at preventing future fires, he said.

## ECONOMY & HOUSING

### Q4 real GDP grew 0.7%, 2015 full year at 2.4%

January 29, 2016 (bea.gov)—Real gross domestic product, the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production and adjusted for price changes, increased at an annual rate of 0.7 percent in the fourth quarter of 2015, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.0 percent. Real GDP increased 2.4 percent in 2015, the same rate as in 2014.

### Existing-home sales surge in December, full year sales up 7.7% y/y

January 22, 2016 (realtor.org)—Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, ascended 14.7 percent to a seasonally adjusted annual rate of 5.46 million in December from 4.76 million in November. After last month's turnaround (the largest monthly increase ever recorded), sales are now 7.7 percent above a year ago. Lawrence Yun, NAR chief economist, says December's robust bounce back caps off the best year of existing sales (5.26 million) since 2006 (6.48 million). "While the carryover of November's delayed transactions into December contributed greatly to the sharp increase, the overall pace taken together indicates sales these last two months maintained the healthy level of activity seen in most of 2015," he said. "Additionally, the prospect of higher mortgage rates in coming months and warm November and December weather allowed more homes to close before the end of the year."

### Housing starts up 10.8% y/y

January 20, 2016 (Census/HUD News Release)—Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,149,000. This is 2.5 percent below the revised November estimate of 1,179,000, but is 6.4 percent above the December 2014 rate of 1,080,000. Single-family housing starts in December were at a rate of 768,000; this is 3.3 percent below the revised November figure of 794,000. The December rate for units in buildings with five units or more was 365,000. An estimated 1,111,200 housing units were started in 2015. This is 10.8 percent above the 2014 figure of 1,003,300.

## FINANCE & MANAGEMENT

### Verso files bankruptcy

January 26, 2016 (wsj.com)—Paper manufacturer Verso Corp. filed for chapter 11 bankruptcy protection Tuesday. Verso President and Chief Executive David J. Paterson said in a news release the company has worked “to develop a restructuring plan to eliminate \$2.4 billion of our outstanding debt” and exit bankruptcy “in a short time frame.” Verso said it expects to reach an agreement with “certain creditors” and obtain a bankruptcy-financing package of up to \$600 million to support continued day-to-day operations. Verso expects the reorganization process to have virtually no impact on its daily business. Verso will promptly seek immediate relief from the Bankruptcy Court through the filing of customary first day motions that will allow the company to transition its business into Chapter 11, including, among other things, granting the authority to pay pre-petition wages, salaries and benefits and to honor customer programs. Once the reorganization terms are finalized, Verso said, debtholders will swap their claims for equity in a reorganized company.

### Verso sells Androscoggin Power for \$62 million

January 7, 2016 (PRNewswire)---Verso Corporation (OTCQB: VRSZ) announced today that it has sold one of its subsidiaries, Verso Androscoggin Power LLC (VAP), to Eagle Creek Renewable Energy, LLC, for a purchase price of approximately \$62 million in cash. VAP owns four hydroelectric generation facilities associated with Verso's Androscoggin pulp and paper mill located in Jay, Maine. The parties contemporaneously entered into a purchase agreement and consummated the transaction. The sale of VAP is part of Verso's efforts to raise funds to address its previously disclosed cash flow and liquidity concerns. Verso continues to evaluate other potential asset sales in connection with its exploration of various debt restructuring alternatives.

### Potlatch posts earnings decline on lower lumber prices

January 26, 2016 (GLOBE NEWSWIRE)—Potlatch Corporation (Nasdaq:PCH) today reported net income of \$3.5 million, or \$0.09 per diluted share, on revenues of \$138.0 million for the quarter ended December 31, 2015. Net income was \$20.1 million, or \$0.49 per diluted share, on revenues of \$146.2 million in the fourth quarter of 2014. Net income for the full year of 2015 was \$31.7 million, or \$0.77 per diluted share, on revenues of \$575.3 million. This compares to net income of \$89.9 million, or \$2.20 per diluted share, on revenues of \$607.0 million in 2014. "The strong U.S. dollar was at the top of a list of factors that drove lumber prices lower, which contributed to 2015 being a very challenging year," said Mike Covey. "We maintained our focus on things in our control.

### Norbord Q4 earnings \$16 million, full year loss \$14 million

January 28, 2016 (NBD News Release)—Norbord Inc. (TSX: NBD) today reported adjusted earnings of \$16 million or \$0.19 per share (basic and diluted) in the fourth quarter of 2015 versus an adjusted loss of \$4 million or \$0.05 per share in the third quarter of 2015 and an adjusted loss of \$16 million or \$0.18 per share in the fourth quarter of 2014. Despite a much stronger fourth quarter result, for the full year 2015 the Company recorded an adjusted loss of \$14 million or \$0.17 per share compared to an adjusted loss of \$17 million or \$0.20 per share in 2014 due to a number of one-time merger-related expenses. In the fourth quarter of 2015, North Central benchmark OSB prices averaged \$242 per thousand square feet (Msf) (7/16-inch basis), up \$38

from the prior quarter and \$26 from the fourth quarter of 2014. In the South East region, where approximately 35% of Norbord’s North American OSB capacity is located, prices averaged \$221 per Msf in the quarter, up \$45 from the prior quarter and \$11 from the fourth quarter of 2014. In the Western Canada region, where approximately 30% of Norbord’s North American capacity is located, prices averaged \$204 per Msf in the quarter, compared to \$158 in the previous quarter and \$172 in the same quarter last year.

**Timber REITS tumble to negative 9.3% return for 2015**

January 4, 2016 (forisk.com)—The timber REIT sector tumbled in 2015. The Forisk Timber REIT (FTR) Index fell -9.3% for the year, while the S&P 500 essentially flatlined at -0.7% over the same period. Of the five public timber REIT equities – CatchMark Timber (CTT); Plum Creek (PCL); Potlatch (PCH); Rayonier (RYN); and Weyerhaeuser (WY) – only Plum Creek generated positive returns for 2015. This marks the third consecutive year of timber REIT sector underperformance relative to the S&P 500. In 2014, the FTR Index returned 5.7%. In 2013, timber REITs appreciated 6.3% as a sector relative to 29.6% for the S&P 500. However, four years ago, in 2012, the FTR Index returned 34.1% relative to 13.4% for the S&P 500.

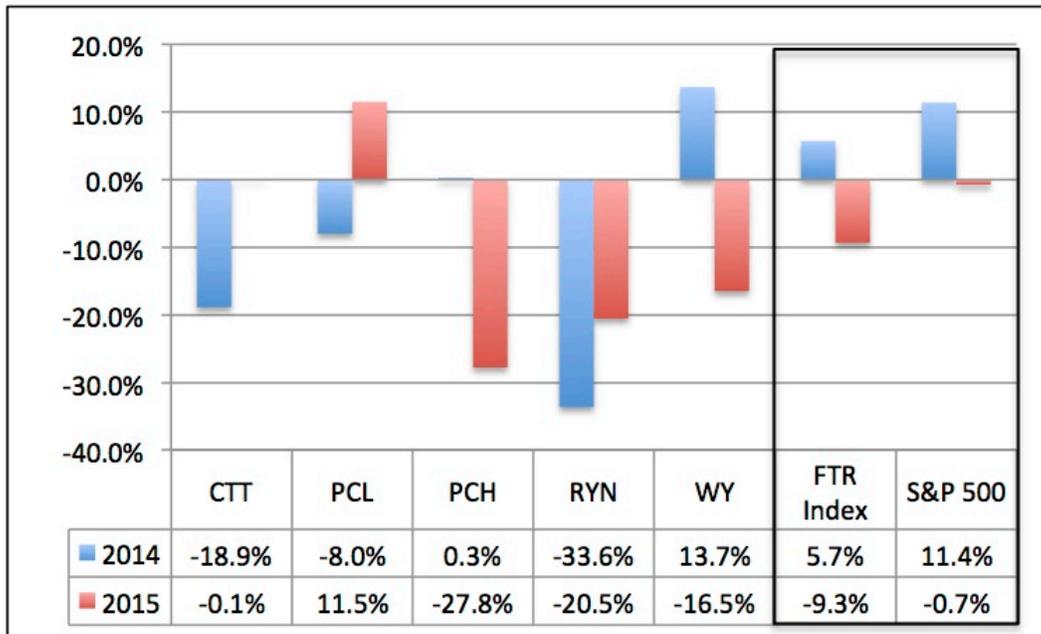


Figure: Timber REIT financial returns, 2015 and 2014.

**Swiss Krono Group announces \$230 million HDF expansion in South Carolina**

December 22, 2015 (SC Commerce News Release)—Swiss Krono Group, one of the world’s leading producers of engineered wood products, and its American subsidiary, KronotexUSA Holdings, Inc., today announced the expansion of its existing operations in Barnwell County, South Carolina. The company is investing \$230 million to build a high-density fiberboard (HDF) mill and expand its laminate flooring production, creating 105 new jobs over the next few years. This expansion will allow KronotexUSA to produce 300,000 cubic-meters of HDF per year, which the company will use for laminate flooring manufacturing operations and sell to furniture, cabinet, fixture, door and other wood-based manufacturers.

## PRODUCTION & PRICES

### U.S regional delivered pulpwood costs benchmarked

November 20, 2015 (wisconsinforestry.org)—A report comparing regional delivered pulpwood prices was recently published as part of the [2013 Wisconsin Forest Practices Study](#). Aspen pulpwood delivered costs were lower in the Lake States (LS) than the Northeast (NE) with margins about equal. Mixed hardwood pulpwood delivered costs were much higher in the LS and NE compared to the South (S) and Pacific Northwest (PNW). The LS region had the highest delivered price for conifer pulpwood followed by PNW.

#### Wood Cost Components as a Percent of Total Delivered Cost, 13Q3-15Q2

U.S. Region	Delivered \$/green ton	Other	Harvesting	Freight	Margin	Stumpage
<b>Aspen Pulpwood</b>						
Lake States	\$47.74	4%	34%	27%	6%	30%
Northeast	\$53.08	1%	38%	27%	5%	28%
<b>Mixed Hardwood Pulpwood</b>						
Lake States	\$51.62	12%	32%	25%	4%	28%
Northeast	\$51.87	3%	40%	28%	4%	24%
South	\$40.95	7%	30%	24%	11%	27%
Pacific Northwest	\$40.17	25%	47%	22%	4%	2%
<b>Conifer Pulpwood</b>						
Lake States	\$49.67	10%	34%	25%	5%	26%
Northeast	\$43.75	2%	48%	31%	5%	15%
South	\$33.63	2%	35%	24%	5%	33%
Pacific Northwest	\$46.48	22%	38%	21%	5%	15%

### Northern Minnesota loggers: “current weather is killing us”

December 28, 2015 (virginiamn.com)—An unusually warm winter is cutting down on the logging industry’s prospects entering 2016. Loggers typically need a series of days at 10-below zero to establish the frozen ground in the swamps and woods. Without that, the soft timber tracks have prevented companies from reaching winter stock, and he said anyone in the woods now is getting a head start on cutting summer wood. The good news of the warmer weather is that if and when temperatures hit the sweet spot, mills will be in need of inventory right away.

### U.S. NBSK pulp spot price slides \$5/tonne, NBHK down \$10/tonne

January 19, 2016 (RISI)—In US spot markets, northern bleached softwood kraft (NBSK) started the year with a \$5/tonne decline. Benchmark NBSK spot prices were at \$540-570/tonne net delivered to the US East and Midwest through Jan. 15. With preliminary US NBSK effective list prices holding flat at \$940/tonne, average spot market discounts off the list were about 41%. US BHK (NBHK and SBHK) spot prices declined \$10/tonne to \$540-580/tonne net delivered. Average US spot prices were 36% below January’s preliminary effective list price for BHK, which held flat at \$880/tonne.

### **U.S. 2015 kraft paper shipments increase 1.3% y/y**

January 15, 2016 (AF&PA News Release)—The American Forest & Paper Association released its December 2015 Kraft Paper Report on Jan. 15. Total Kraft paper shipments were 129.9 thousand short tons, 7.7 percent lower compared to December 2014. Bleached Kraft paper shipments increased from 6.8 thousand short tons in November to 7.5, while unbleached Kraft paper decreased from 123.6 to 122.4 thousand short tons. Overall, shipments in 2015 were 1.3 percent higher compared to 2014.

### **Eldorado moves ahead with 2 million tonne per year BEK expansion**

January 5, 2016 (PPI Latin America)—Brazilian Eldorado in December celebrated its third year of operations in Brazil, confirming that the company's 1.7 million tpy bleached eucalyptus kraft (BEK) mill in Três Lagos city, Mato Grosso do Sul state, is set for the brownfield project which aims to more than double the company's capacity. The new BEK line will add capacity of 2-2.3 million tpy. At the moment, about 600 people are working at the expansion and equipment suppliers are being contacted, a company spokesperson said, adding that the idea is to close agreement on the main machinery packages by August.

### **Chinese log and lumber imports down 25%**

January 22, 2016 (fridayoffcuts.com)—The reduction in house construction in China has resulted in a substantial decline in the importation of forest products during 2015, reports the Wood Resource Quarterly. The total value of imported softwood logs and lumber has fallen 25% and import prices have declined almost 30% over the past 12 months. China imported softwood logs and lumber valued at 498 million dollars during the month of November in 2015. This was 26% lower than the same month in 2014 and the third lowest monthly level in three years. As recently as April 2014, the import value was at an all-time high of almost 900 million dollars, reports the Wood Resource Quarterly (WRQ).

### **2015 NA panel production up 1.2% y/y, consumption up 2.9% y/y**

January 19, 2016 (rpi.com)—North American structural panel production and apparent consumption fell 4.9% and 4.5% in the fourth quarter vs. the third quarter of 2015, respectively, according to APA -- The Engineered Wood Association. Compared to the fourth quarter of 2014, structural panel production was up 1.0%, while apparent consumption rose 1.6%. For the year 2015 in total, structural panel production increased 1.2% and apparent consumption rose 2.9%.

### **Ontario sawmills ramping up**

January 7, 2016 (chroniclejournal.com)—Sawmills in Ear Falls and Kenora are ramping up production. Unifor national representative Stephen Boon said Wednesday that they are happy to see EACOM's Ear Falls sawmill start full production earlier this week with an addition of a second shift (on) Monday. The Ear Falls mill now employs 110 Unifor members with another 150 members working across the company's woodlands operations. "The good news for the region's forest sector continues as Kenora Forest Products is also making final preparations for a long-awaited sawmill start-up by early February," Boon said. "The Kenora operation has gone through a major expansion and upgrade over the last six months and a trial lumber production run will take place in mid-January to start testing and fine-tuning equipment for its first production shift." Kenora Forest Products will employ about 110 Unifor members.

## BIO-MARKETS

### Covanta to shut two biomass power plants in Maine

January 11, 2016 (biomassmagazine.com)—Covanta Energy Corp. has announced that it will soon close two of its seven U.S. wood-fired biomass power plants. The plants are located in West Enfield and Jonesboro, Maine, towns that are roughly 110 miles apart. James Regan confirmed with *Biomass Magazine* that Covanta plans to take the facilities offline at the end of March. “Unfortunately, energy prices are not sufficient to cover the costs of operation and fuel supply,” he said. Both of the 24.5-MW plants began operations in 1987, and were acquired by Covanta in 2008. Each plant roughly processes 550 dry tons of biomass waste materials each day, and the resulting power has been sold to ISO-New England, a regional transmission organization. Covanta’s five remaining U.S. wood-fired power plants are all in California, a state where the biomass power industry continues to dwindle in the midst of expiring energy contracts and low energy prices.

### 22 of California’s 50 biomass power plants are idle

January 5, 2016 (kvpr.org)—Millions of dead trees in California create a huge risk of wildfire. It’s led Governor Jerry Brown to declare a state of emergency that will require utilities, power plants and state agencies to work together. Fuel normally comes from forest thinning projects, orchard prunings, or urban yard and construction debris. But now California has millions of trees that have died from drought, disease and wildfire. Despite the supply, 22 of California’s 50 biomass power plants are either idle or not-operating. Another nine could shut down between now and the end of next year. Utilities that have to buy renewable energy say the problem boils down to cost. Prices for solar and wind power have dropped dramatically in the last five years. Biomass plants can’t compete even though they can provide power at all hours of the day. It leaves utilities with little incentive to renew biomass contracts.

### FAO global pellet statistics 2014

December 30, 2015 (biomassmagazine.com)—The Food and Agricultural Organization of the United Nations recently published updated data on the global wood products industry that shows wood pellet production set a new record in 2014. According to the report, wood pellet production grew by approximately 17 percent in 2014, reaching 26 million metric tons, up from 23 million metric tons in 2013. The growth was driven primarily by increasing consumption in Europe. The U.S. was the top pellet producing nation in 2014, with 6.9 million metric tons. Germany, Canada, Sweden and Latvia rounded out the top five pellet production countries, with respective production levels of 2.1 million metric tons, 1.9 million metric tons, 1.6 million metric tons and 1.3 million metric tons. According to the report, the U.S. Canada and Latvia are also the largest pellet exporters, joined by the Russian Federation and Portugal. Together, these five countries exported 9 million metric tons, or 58 percent of global exports, in 2014. The top pellet consumers in 2014 were the U.K., U.S., Denmark, Italy and Sweden. Total consumption in these countries amounted to 14 million metric tons, or 55 percent of total global consumption. A full copy of the report, titled “2014 Global Forest Products Facts and Figures,” can be downloaded from the [FAO website](#).