



Mapping The Course 2019

STRESSORS AND OPPORTUNITIES

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**The temptation to form
premature theories upon
insufficient data is the bane of
our profession.**

Arthur Conan Doyle

OUTLINE

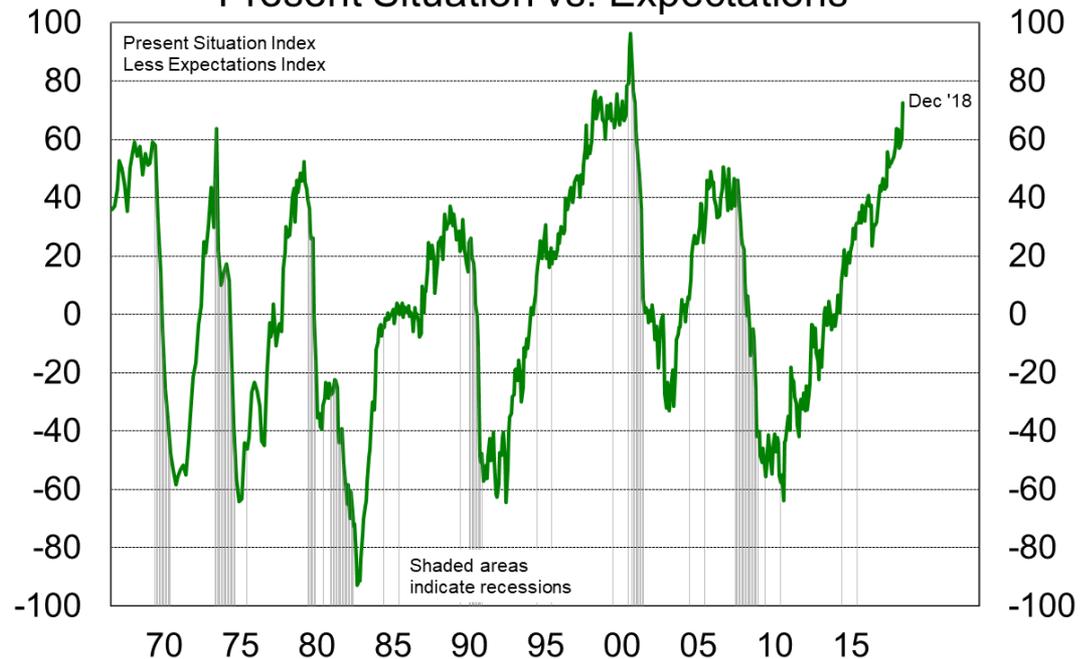
- Economic/Political Ups and Downs
- Trade/Currency Risks and Opportunities
- Run down of Solid Wood Markets
- Pulp and Paper Snapshot
- Conclusions

ECONOMICS AND POLITICS

Consumers Still Positive

Although the overall consumer confidence index has slipped, the “implied optimism” is still intact.

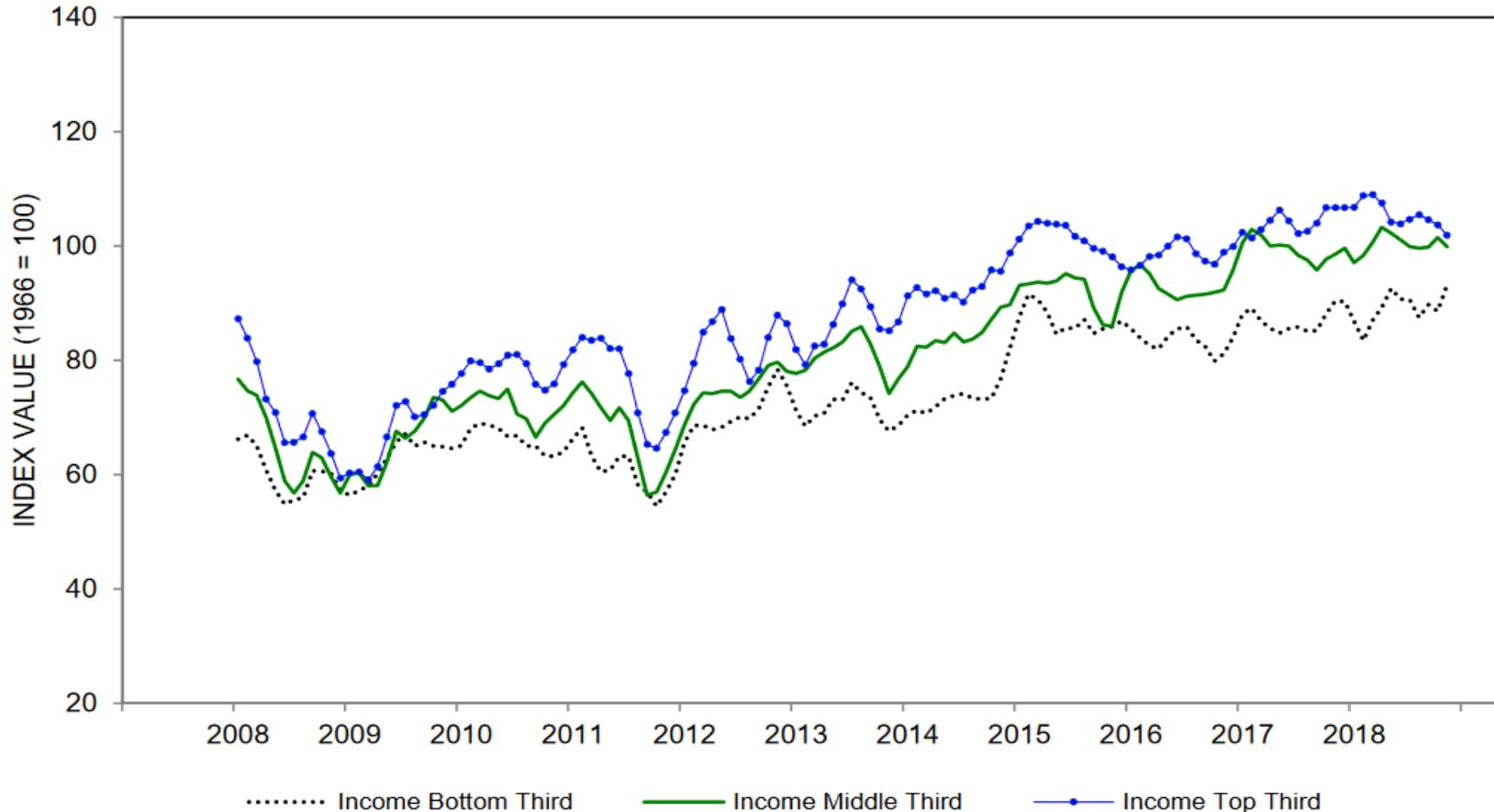
U.S. Consumer Confidence Index Present Situation vs. Expectations



Data Sources: The Conference Board; ERA

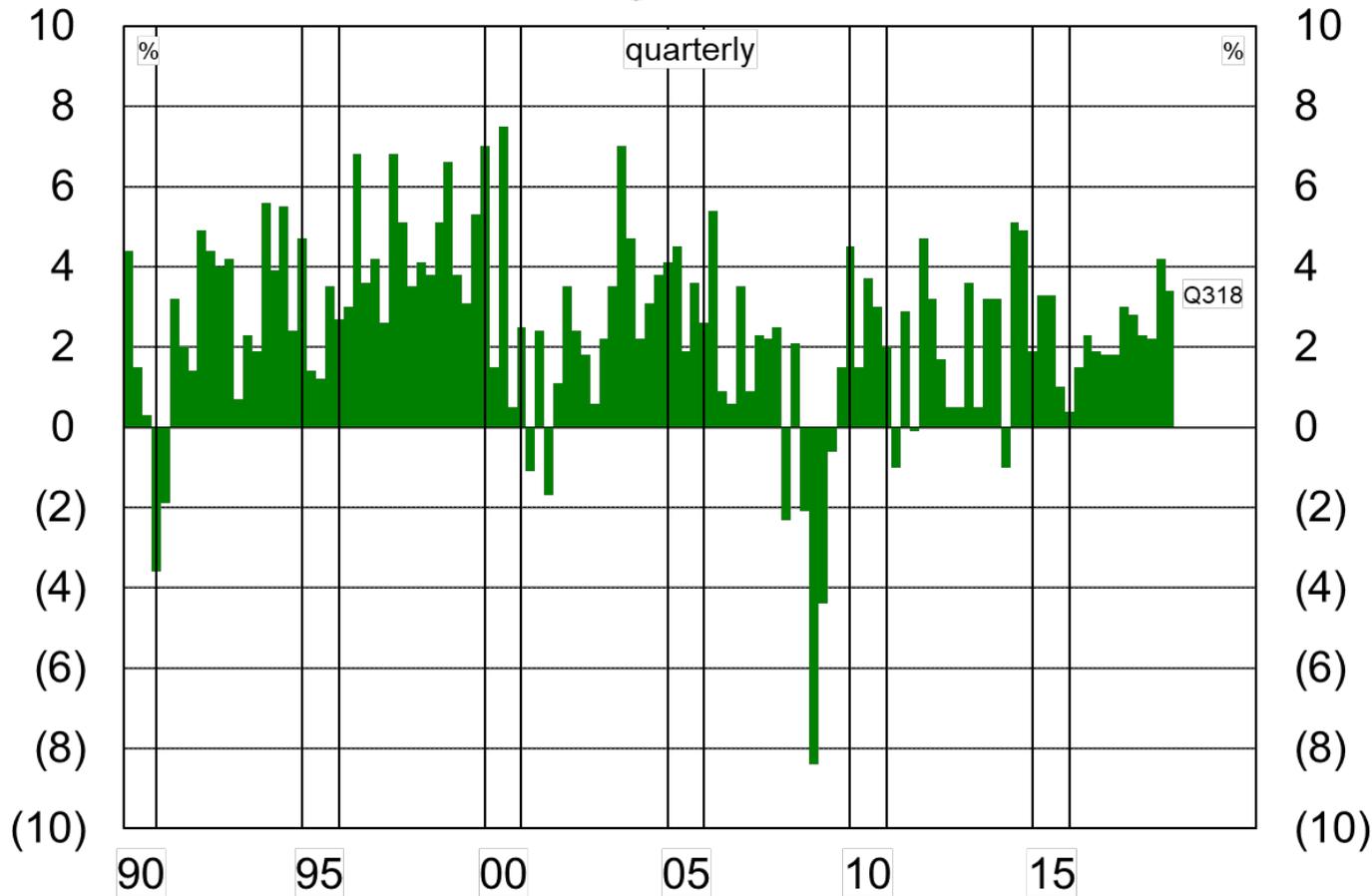
U of M Survey Shows Pessimism Confined To Top

CHART 1: THE INDEX OF CONSUMER SENTIMENT



GDP Still Strong (with caveats)

U.S. GDP, % Change from Previous Period

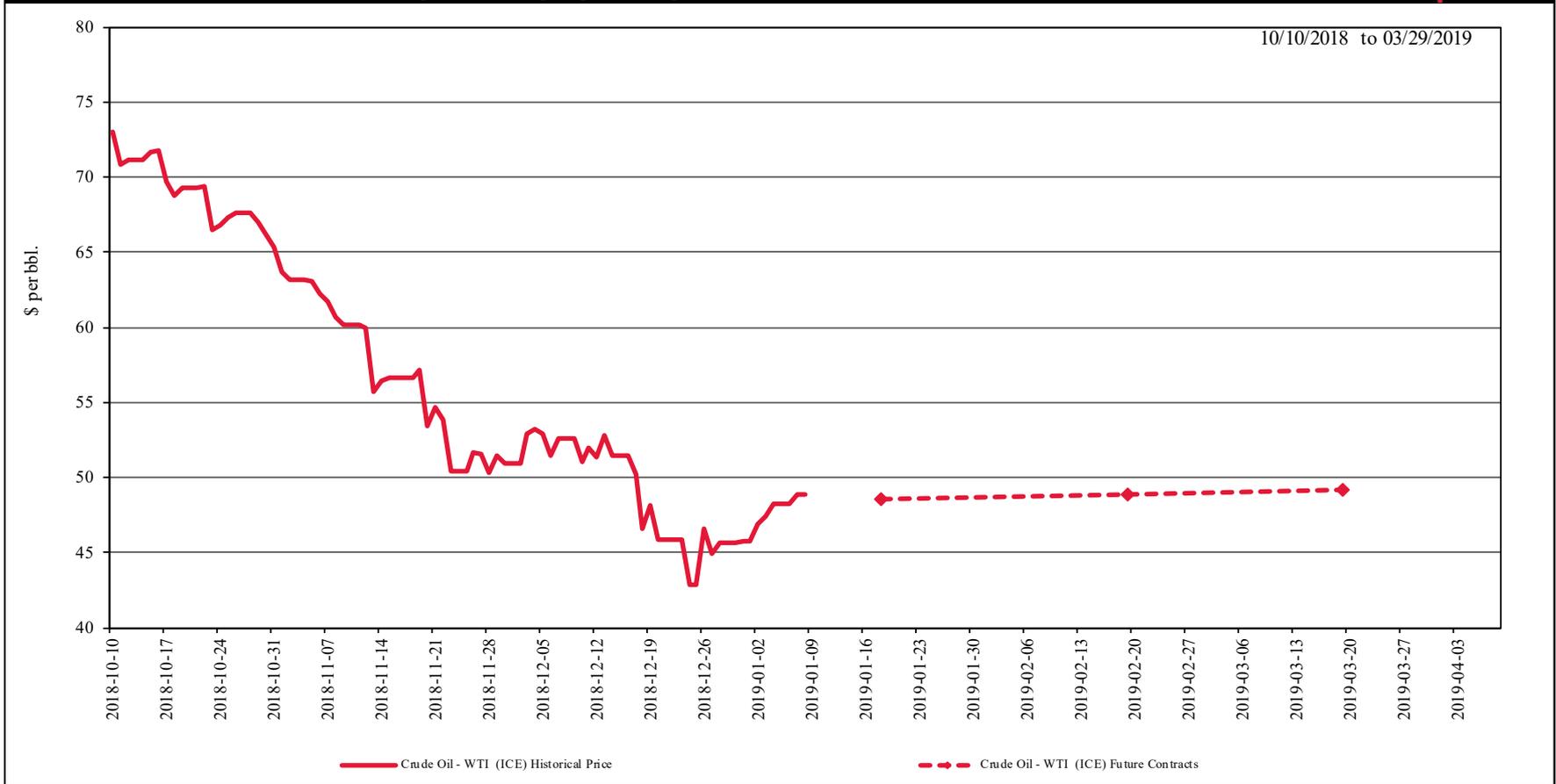


Data Source: U.S. Bureau of Economic Analysis

Energy Prices Low (for now)

Crude Oil - WTI (^ICL) (ICE)

S&P
Capital IQ



Source: S&P Capital IQ

Transportation Comments From 2018 Conference Calls

Resolute

“Negatively impacted our first quarter earnings by more than \$15 million.”

Domtar

“I do think transport's going to remain high. There's no reason to believe it won't.”

Weyerhaeuser

“Canadian rail transportation remained a challenge throughout the quarter.”

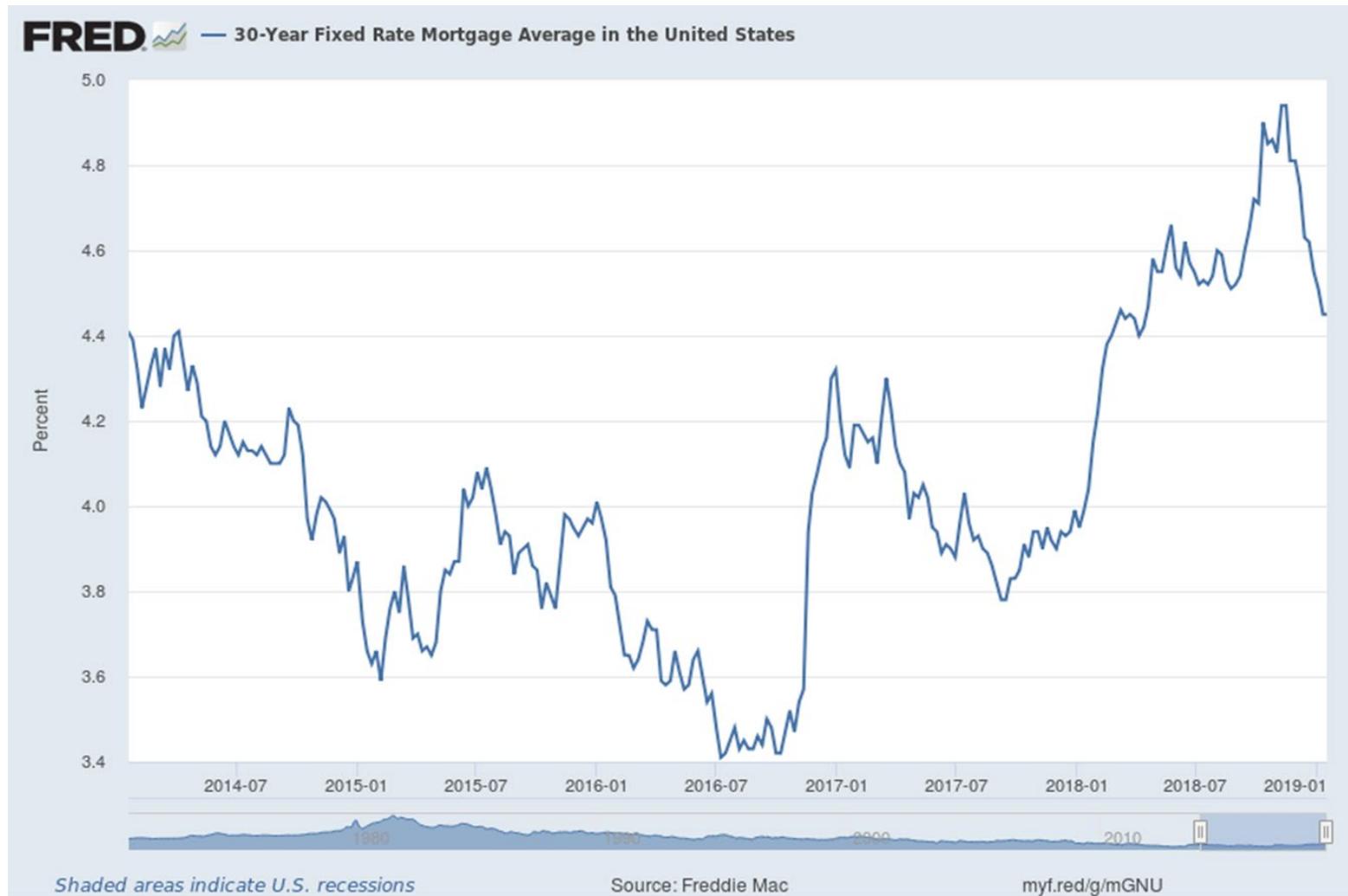
Canfor

“Pulp shipments were [negatively] impacted by transportation challenges in the quarter.”

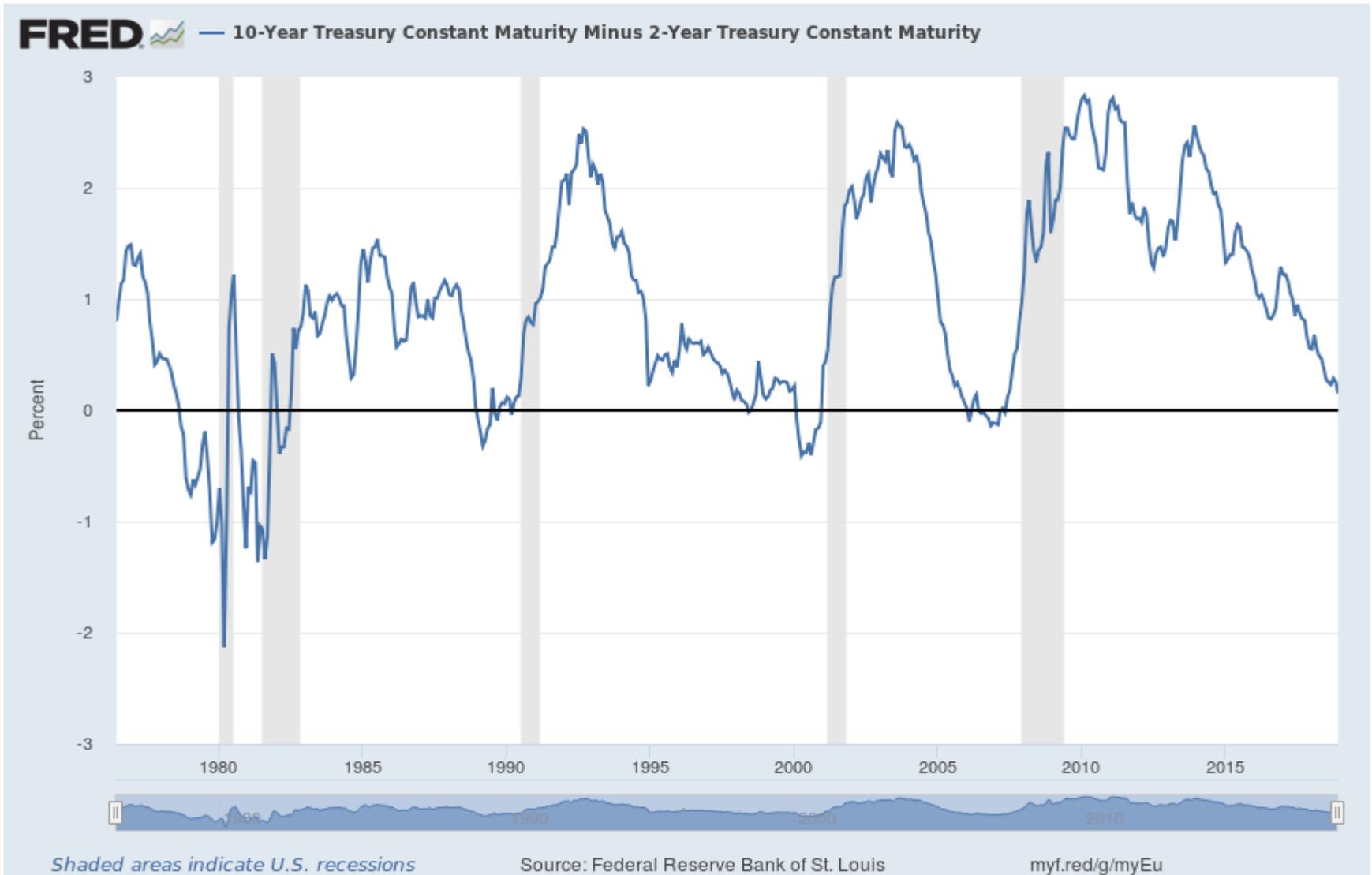
Will The Fed Kill The Economic Party?



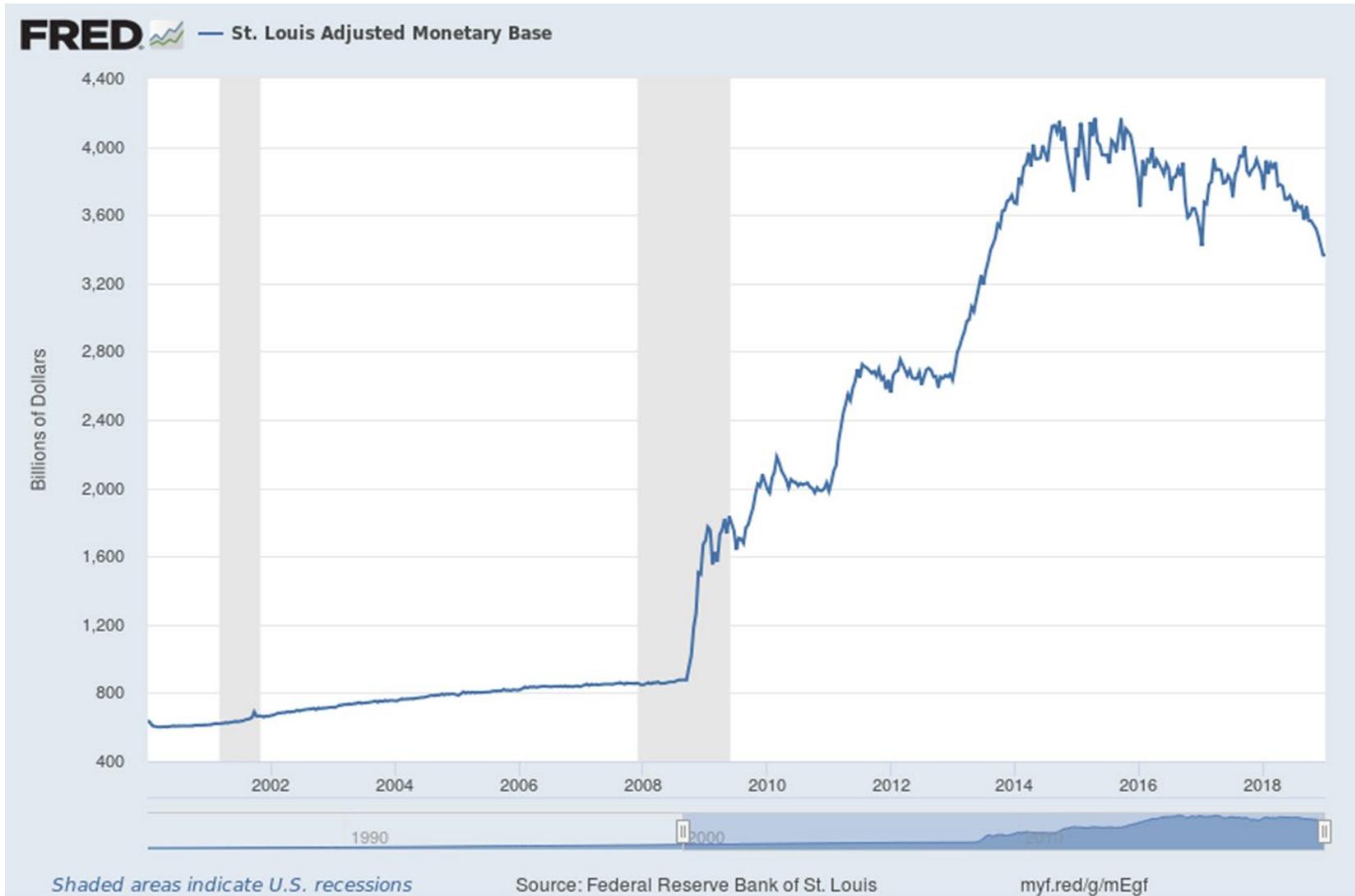
Mortgage Rates Have Risen, But Slipping Now



Yield Curve Near Inversion... Recession Ahead?



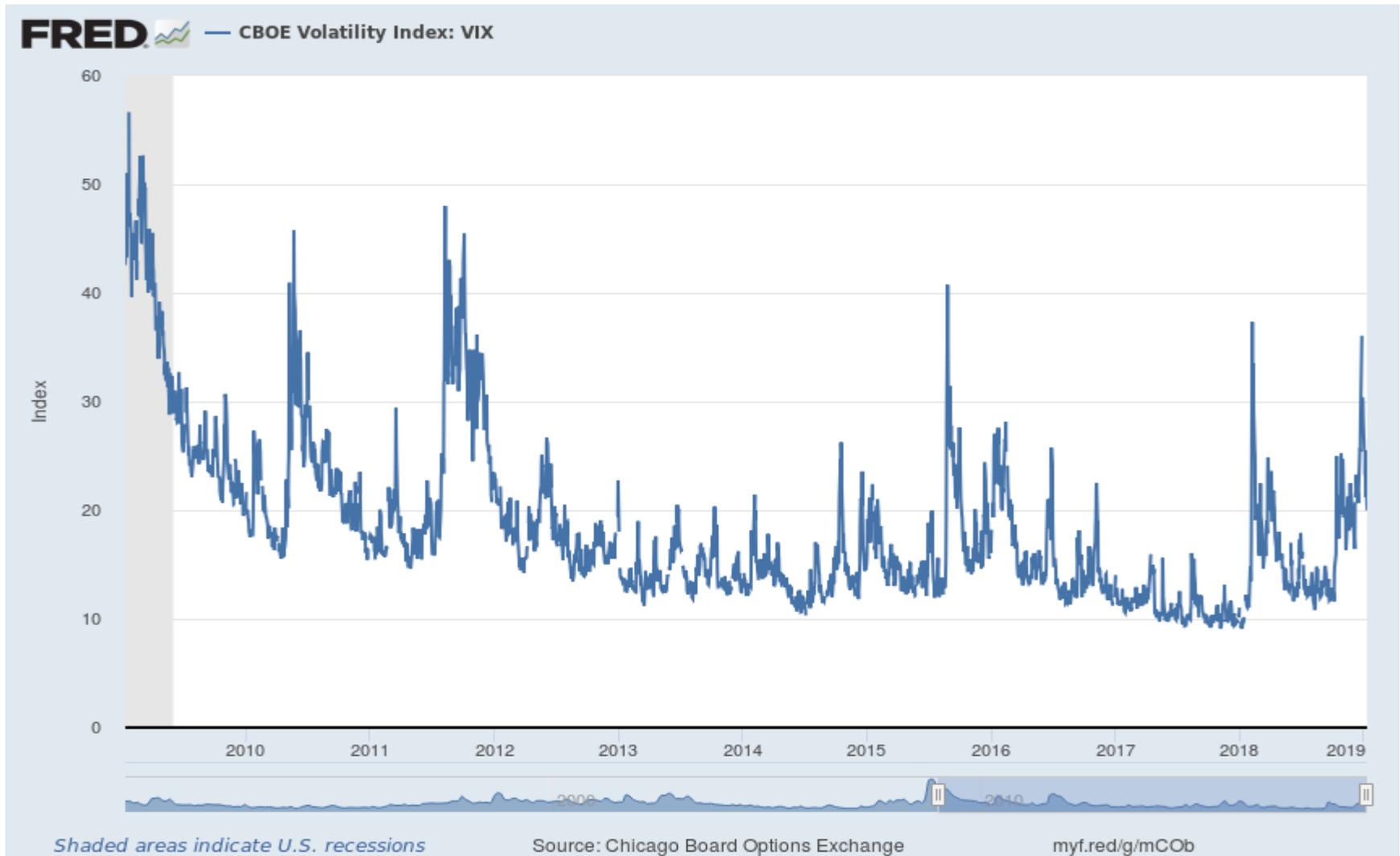
From QE To QT...An Unknown Risk



““The last duty of a central banker is to tell the public the truth.”

**Alan Blinder, former vice
chairman of the Federal Reserve**

Volatility Increasing. More Uncertainty In Market.



The Two Sides Are Dug In...Something Has To Give

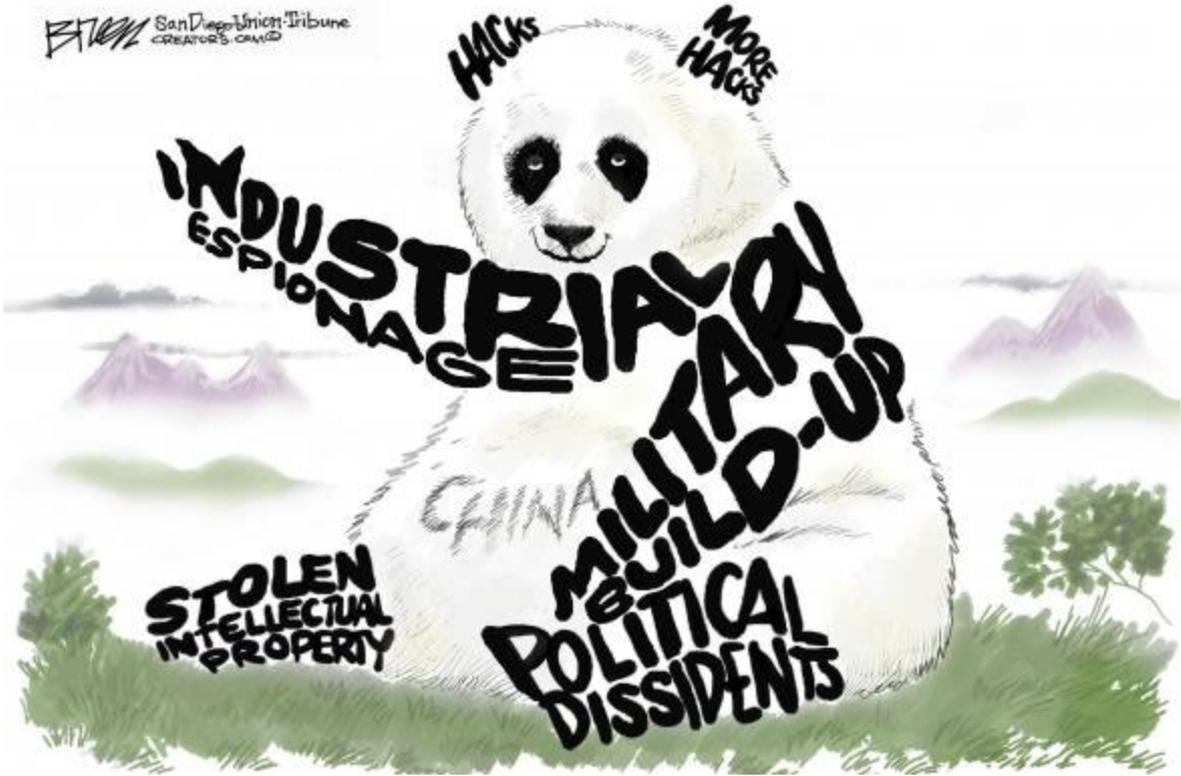


Impeachment?



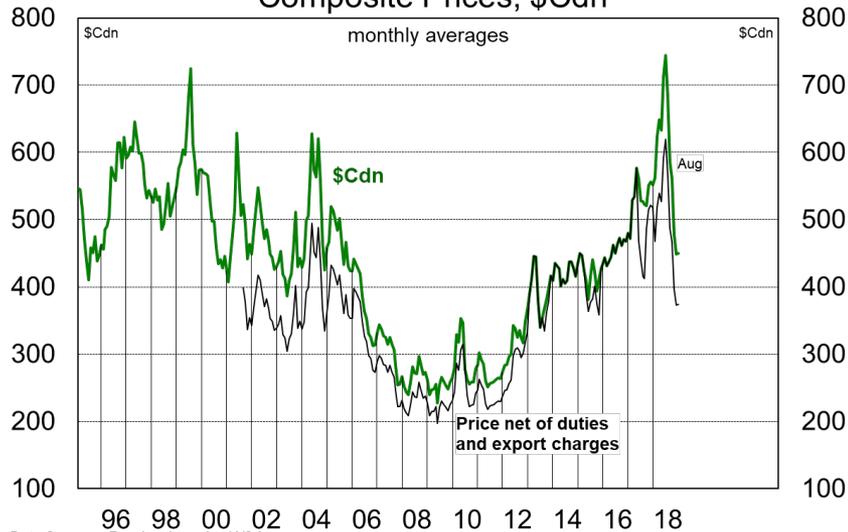
TRADE AND CURRENCY

U.S.-China Trade...

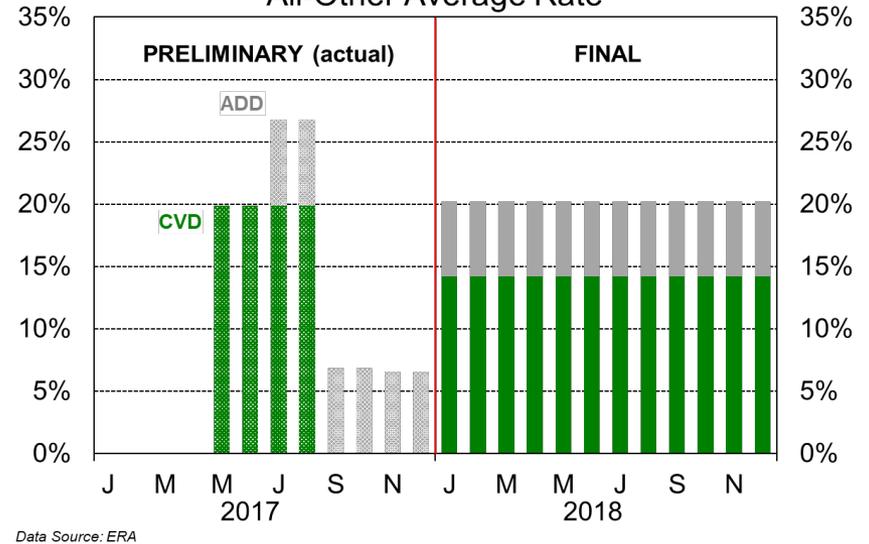


The Enduring Softwood Battle...

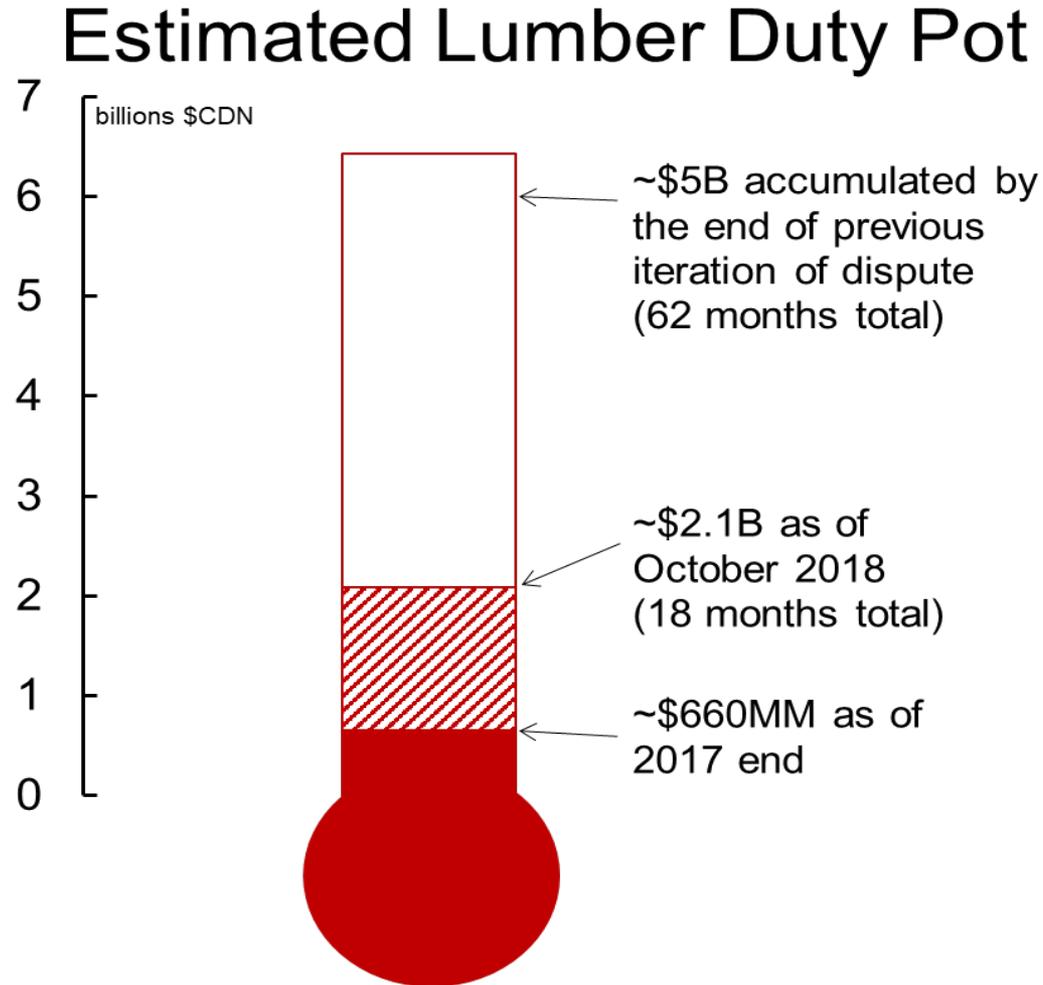
Random Lengths Framing Lumber
Composite Prices, \$Cdn



U.S. Duties on Canadian Softwood Lumber
All-Other Average Rate

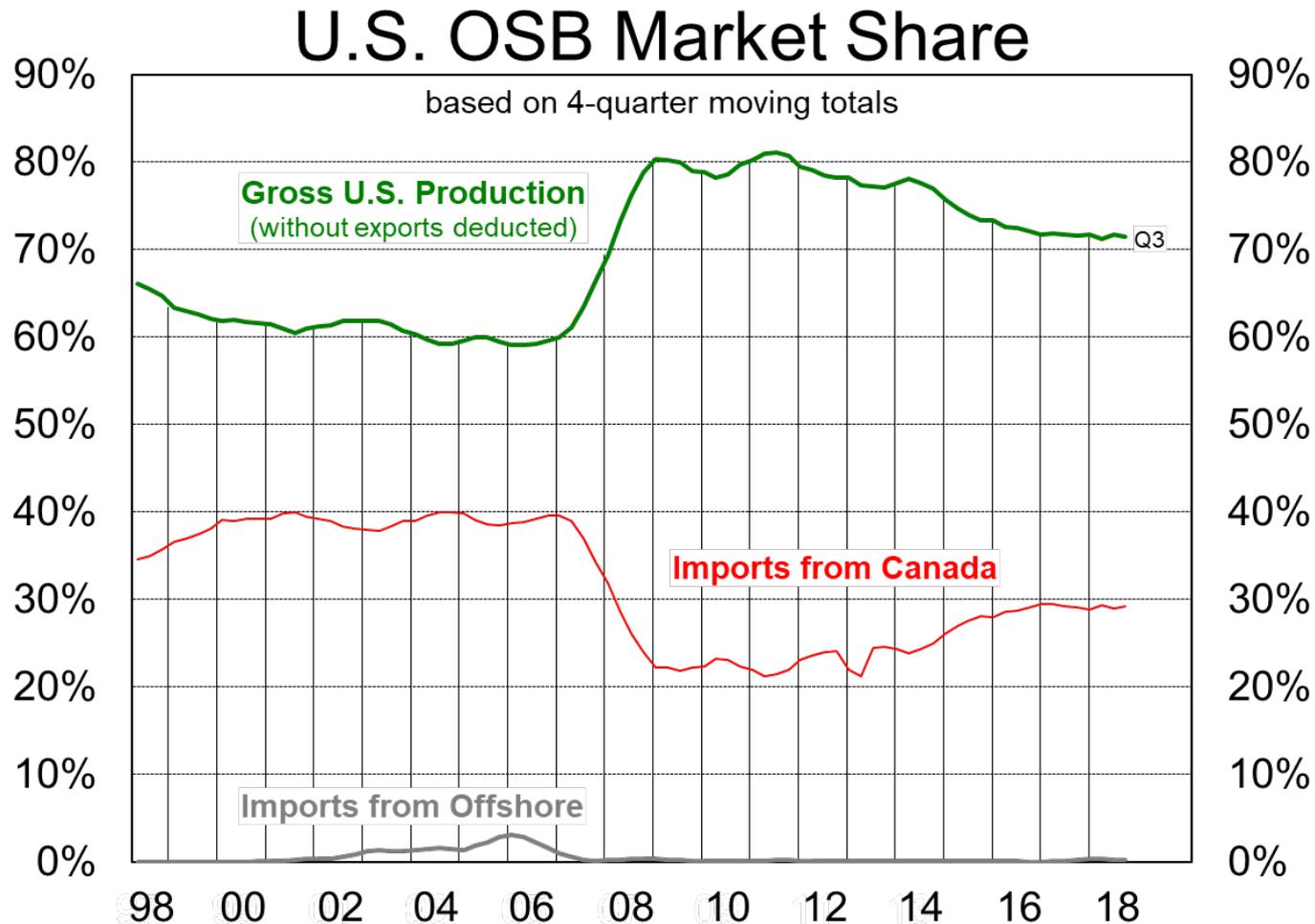


Trade Battles Can Have A Big Monetary Component



Data Sources: COFI, ERA

Other Trade Challenges? No Longer Unthinkable...



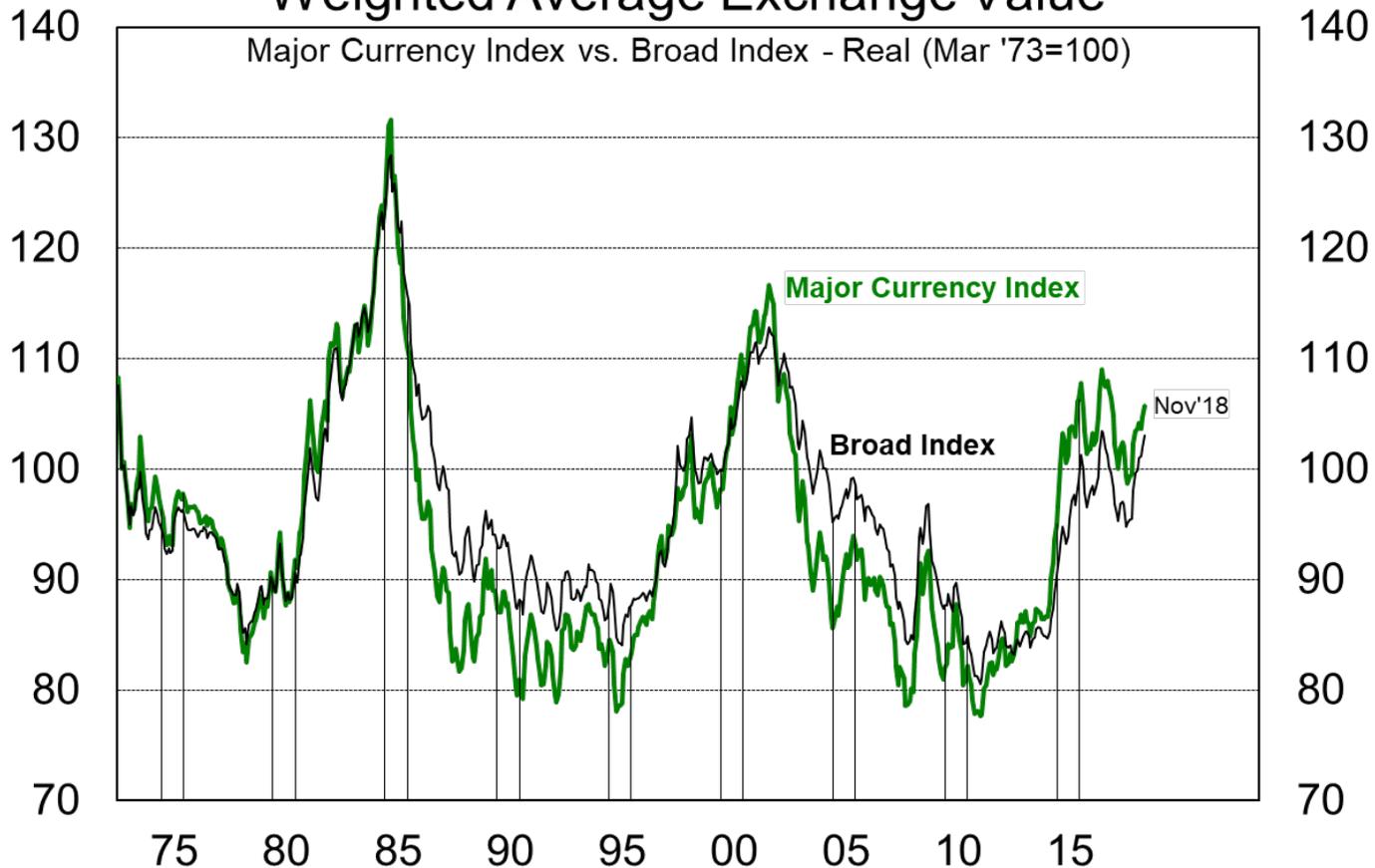
Data Sources: APA; FAS

Risks To Trade And Currencies

1. NAFTA ratification?
2. Brexit failure?
3. Italian debt issues
4. German bank challenges
5. Yellow vest protests and broader risks to euro
6. Do “yellow vest” protests spread?
7. Does China devalue?
8. Other?

Strong U.S. Dollar Is Likely To Persist

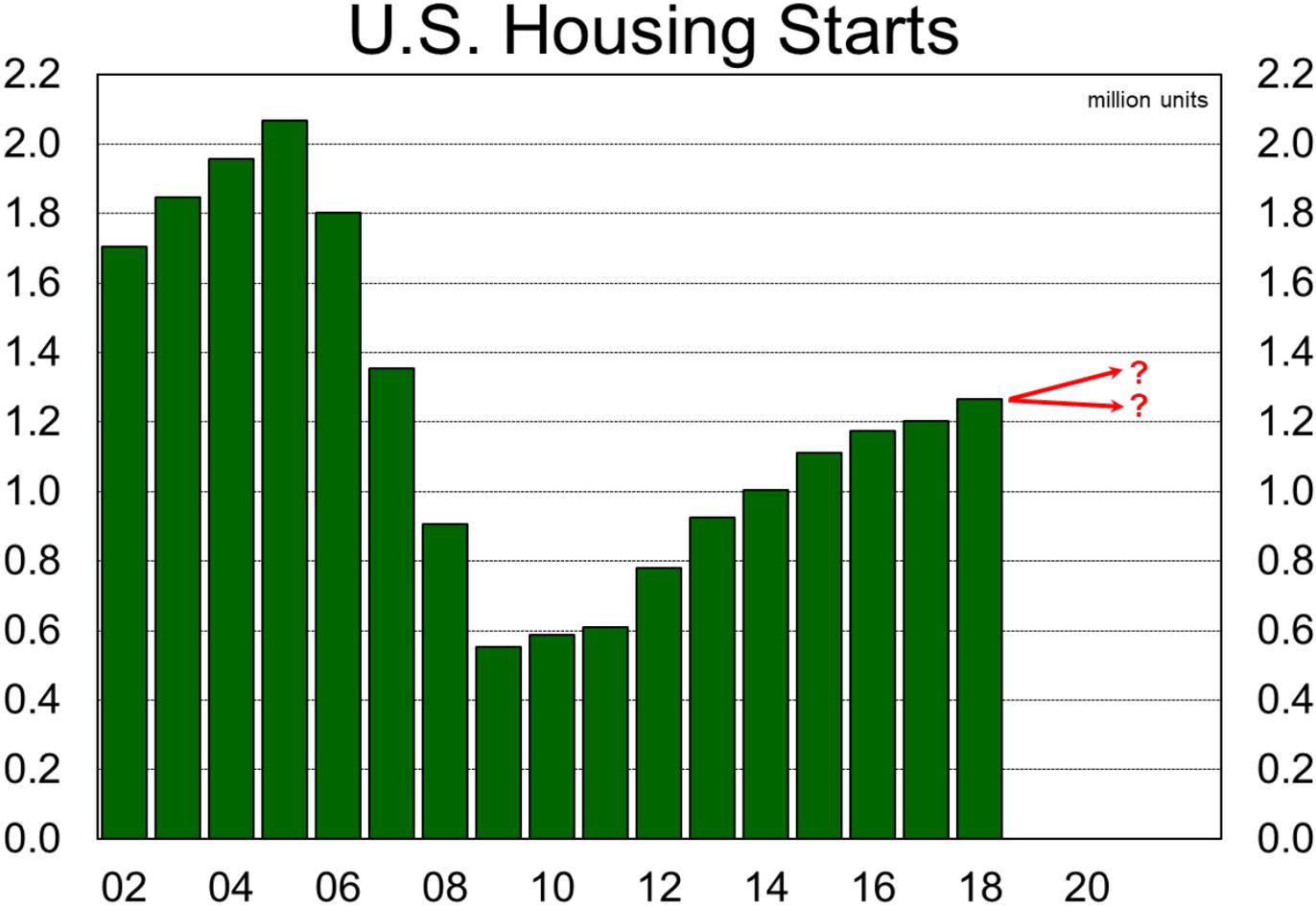
The U.S. Dollar Weighted Average Exchange Value



Data Source: FRB

SOLID WOOD MARKETS

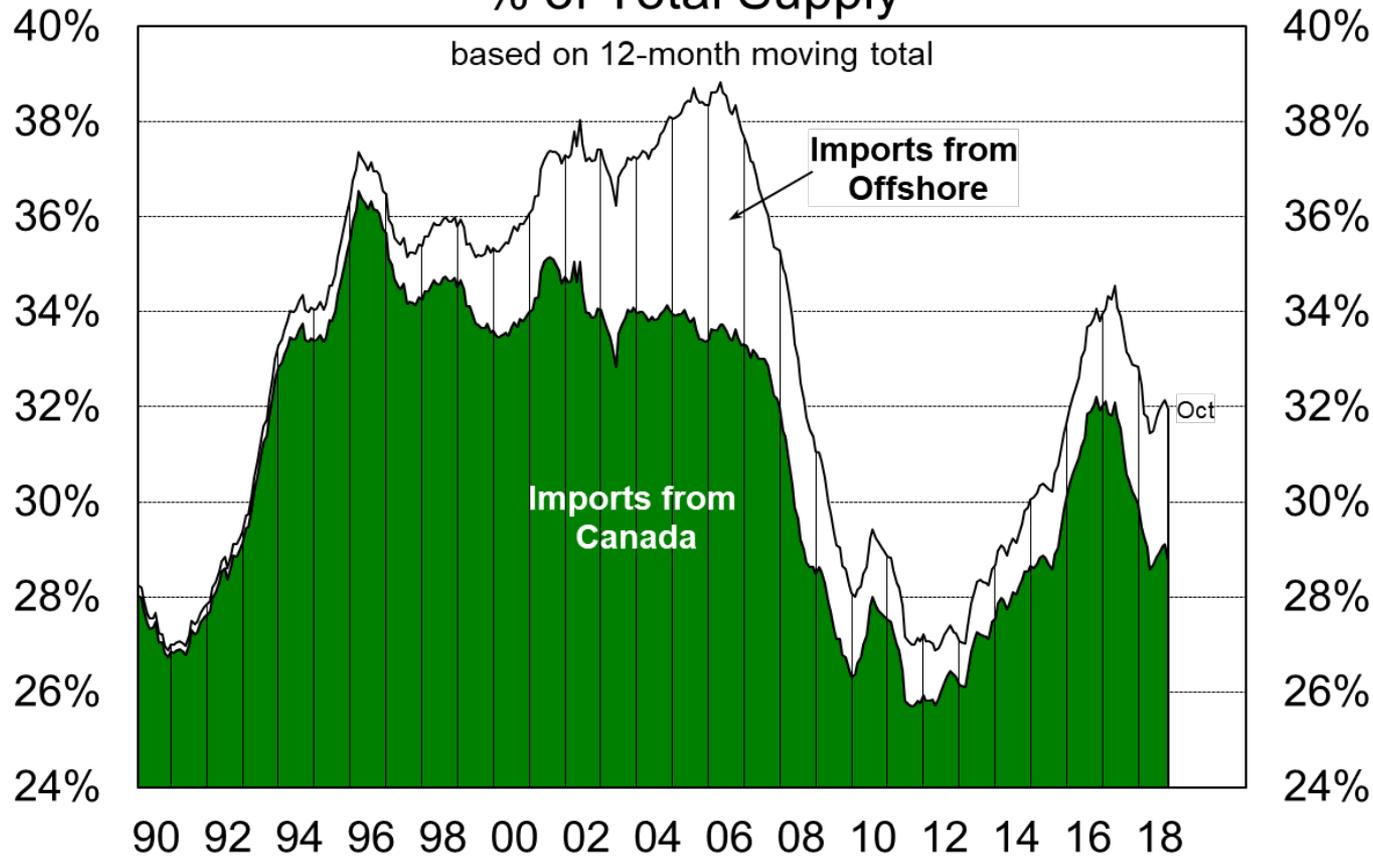
What To Make Of Housing Starts?



Data Sources: Census Bureau; ERA

Less Canadian Wood, But More From Offshore

Imported Lumber in the U.S. Market % of Total Supply



Data Source: WWPA

BC Interior Log Prices Climbing Steadily

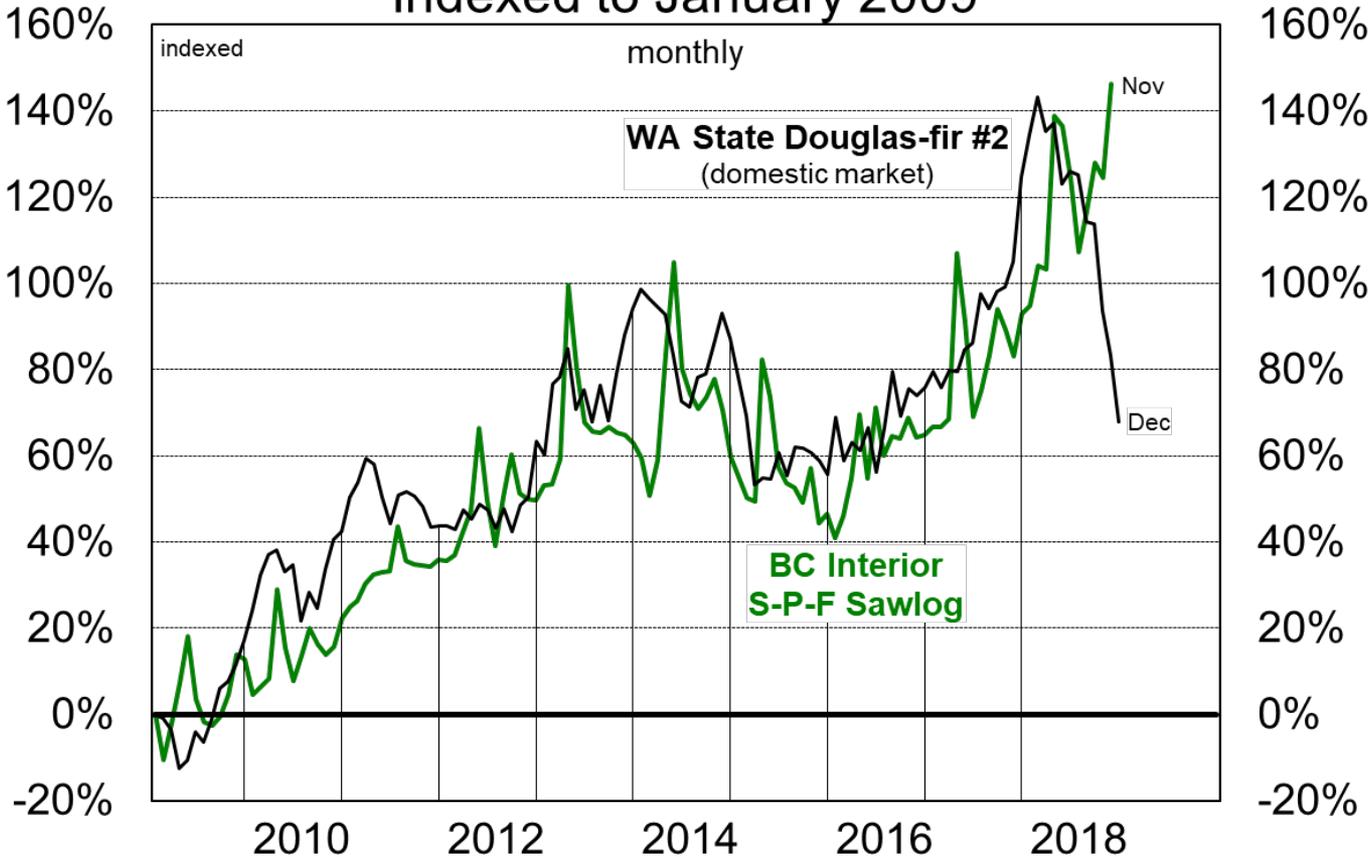
S-P-F Sawlog Prices, BC Interior according to Ministry of Forests and Range



Data Source: BC Ministry of Forests and Range

BC Interior Log Prices Becoming An Economic Issue

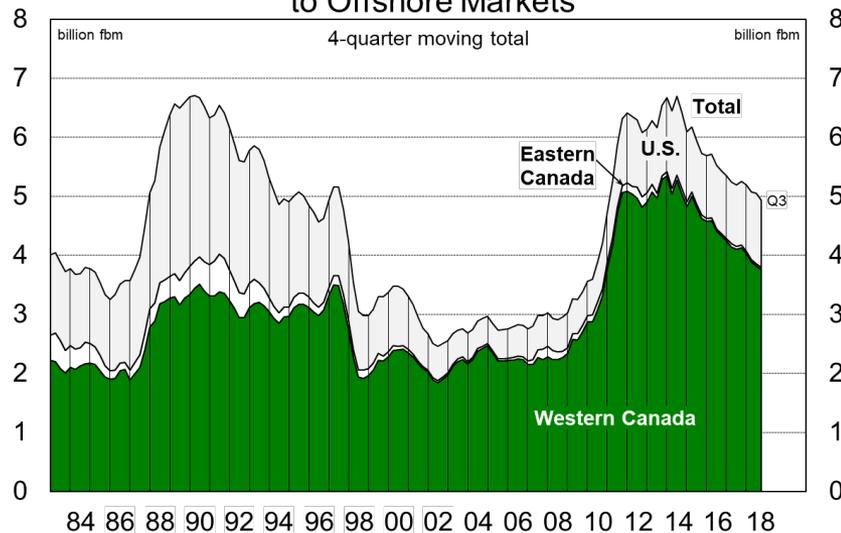
BC Interior vs. WA State Sawlog Prices Indexed to January 2009



Data Sources: BC Ministry of Forests and Range; WA State DNR

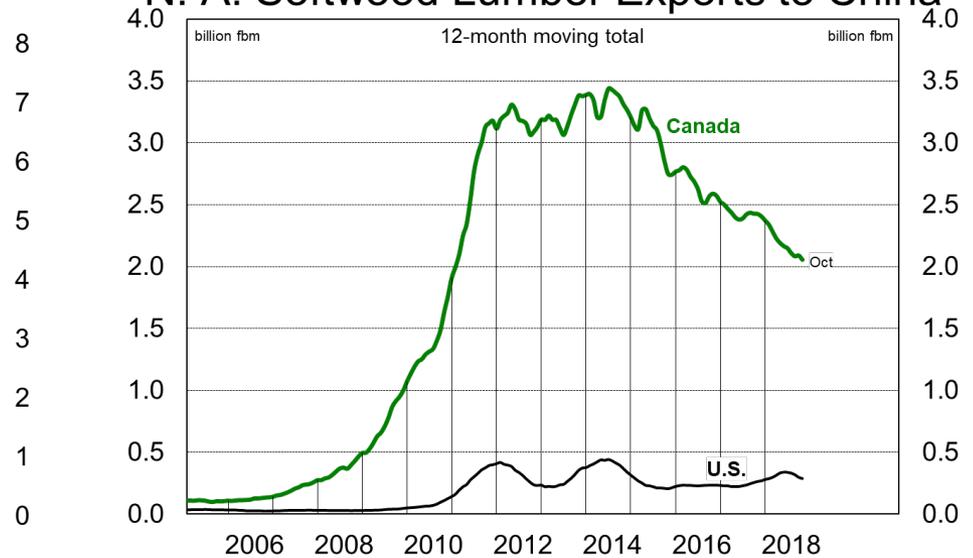
China A Bigger Risk (or Opportunity) For Western Canadian Lumber

North American Lumber Exports to Offshore Markets



Data Source: Random Lengths International

N. A. Softwood Lumber Exports to China



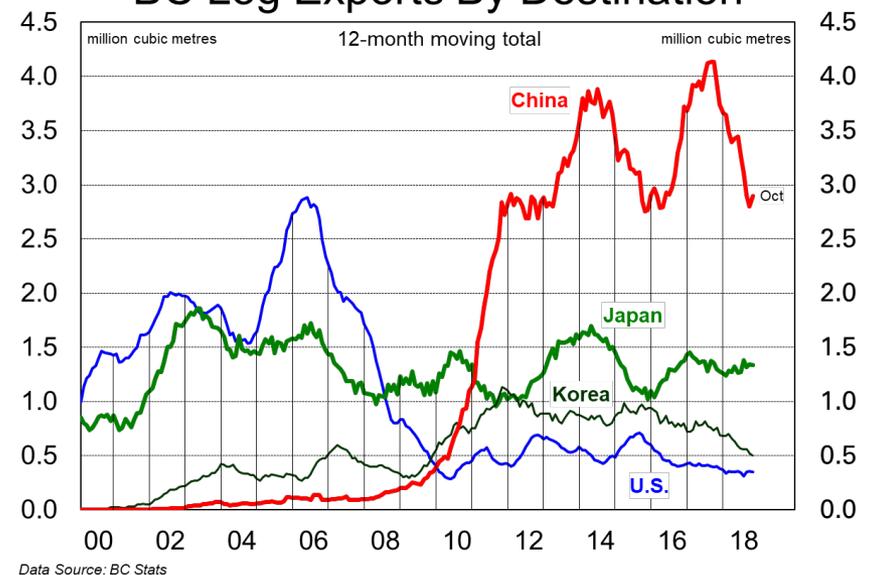
Data Source: Random Lengths

But China A Bigger Exposure For Western U.S. Log Sellers

U.S. Log Exports By Destination

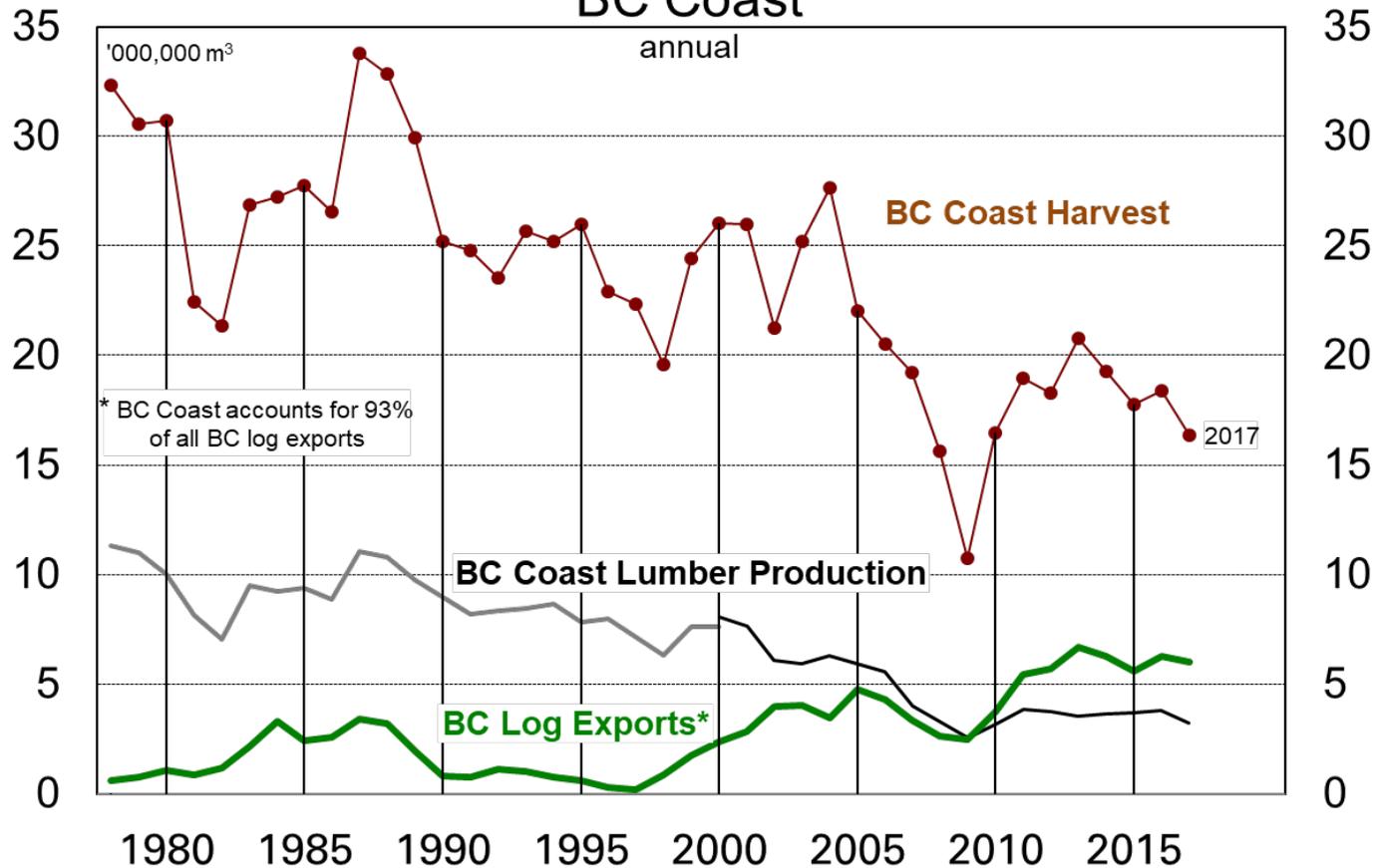


BC Log Exports By Destination



BC Log Exports Could Decline Will BC Coastal Lumber Production Increase?

Lumber Production vs. Log Exports BC Coast



Data Sources: Stats Can; COFI

Potential gov't policy changes impacting fibre supply?

1. Could U.S. gov't open up Federal lands to more harvesting?
2. BC gov't desires to see certain changes to log exports, fibre supply, less waste in the woods, etc.
3. Changes to road access, rain run-off, fire suppression, etc.
4. Other?

CLT Growing, But Doesn't Move The Needle Much

MASS TIMBER CAPACITY

North American Mass Timber Capacity ^{1,2,3,4}

	2018	2019	2020
Active & Operating	189,000	189,000	189,000
Under Construction ⁽⁵⁾		300,000	300,000
Announced ⁽⁶⁾			198,000
Projected CLT Capacity (m³)	189,000	489,000	687,000

Notes:

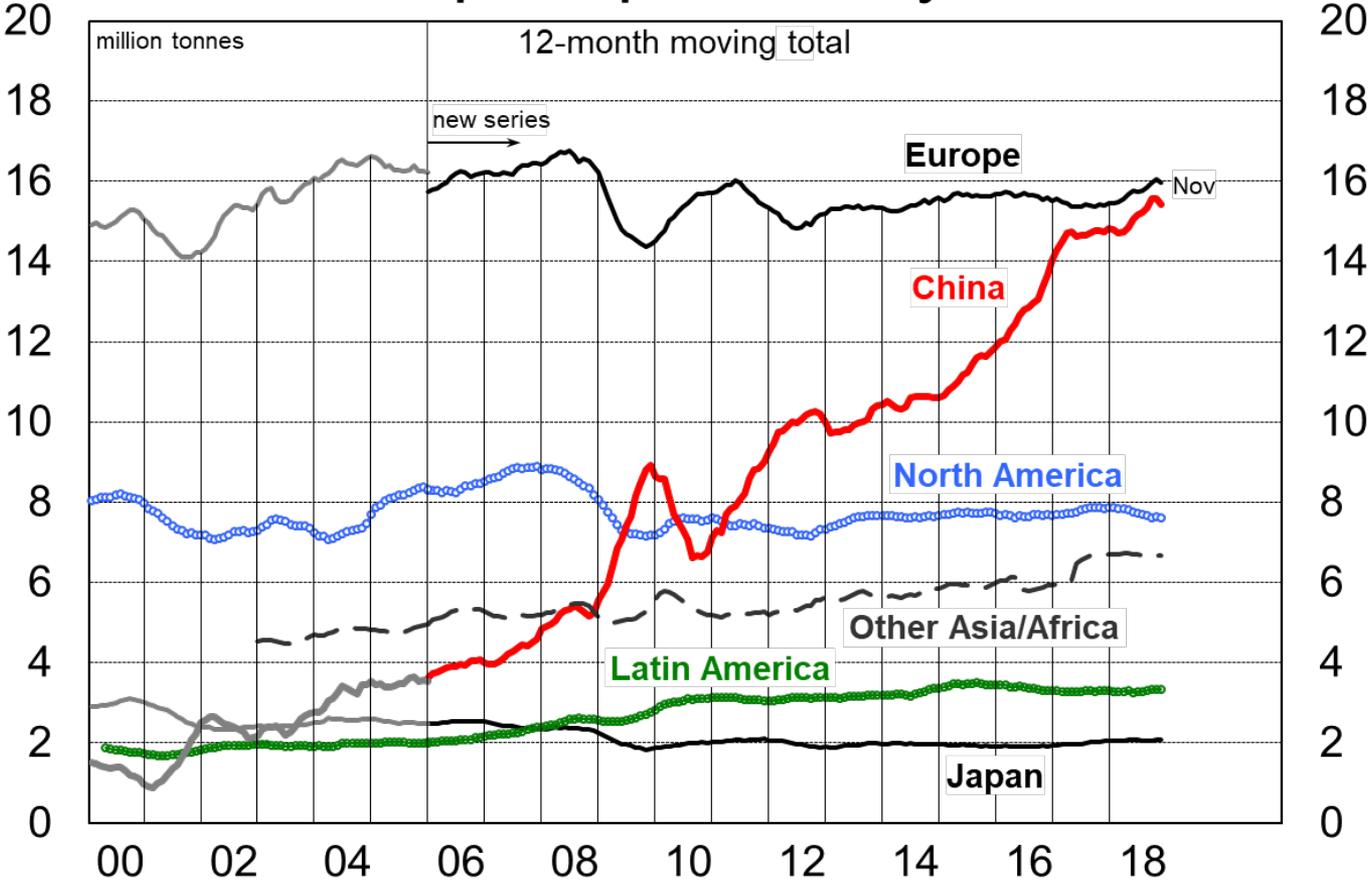
- 1) Based on two shift capacity. Some capacity estimated from capital announcements.
- 2) Includes Cross Laminated Timber (CLT), and Dowel Laminated Timber (DLT).
- 3) Includes CLT capacity for industrial uses.
- 4) Excludes Mass Plywood Panels (MPP) and Nail Laminated Timber (NLT).
- 5) Best efforts have been made to confirm construction, however, some projects in this category have not broken ground as of January, 2019.
- 6) Announced projects are public domain with no site specified.



PULP & PAPER MARKETS

Chinese Demand Drives The Pulp Market

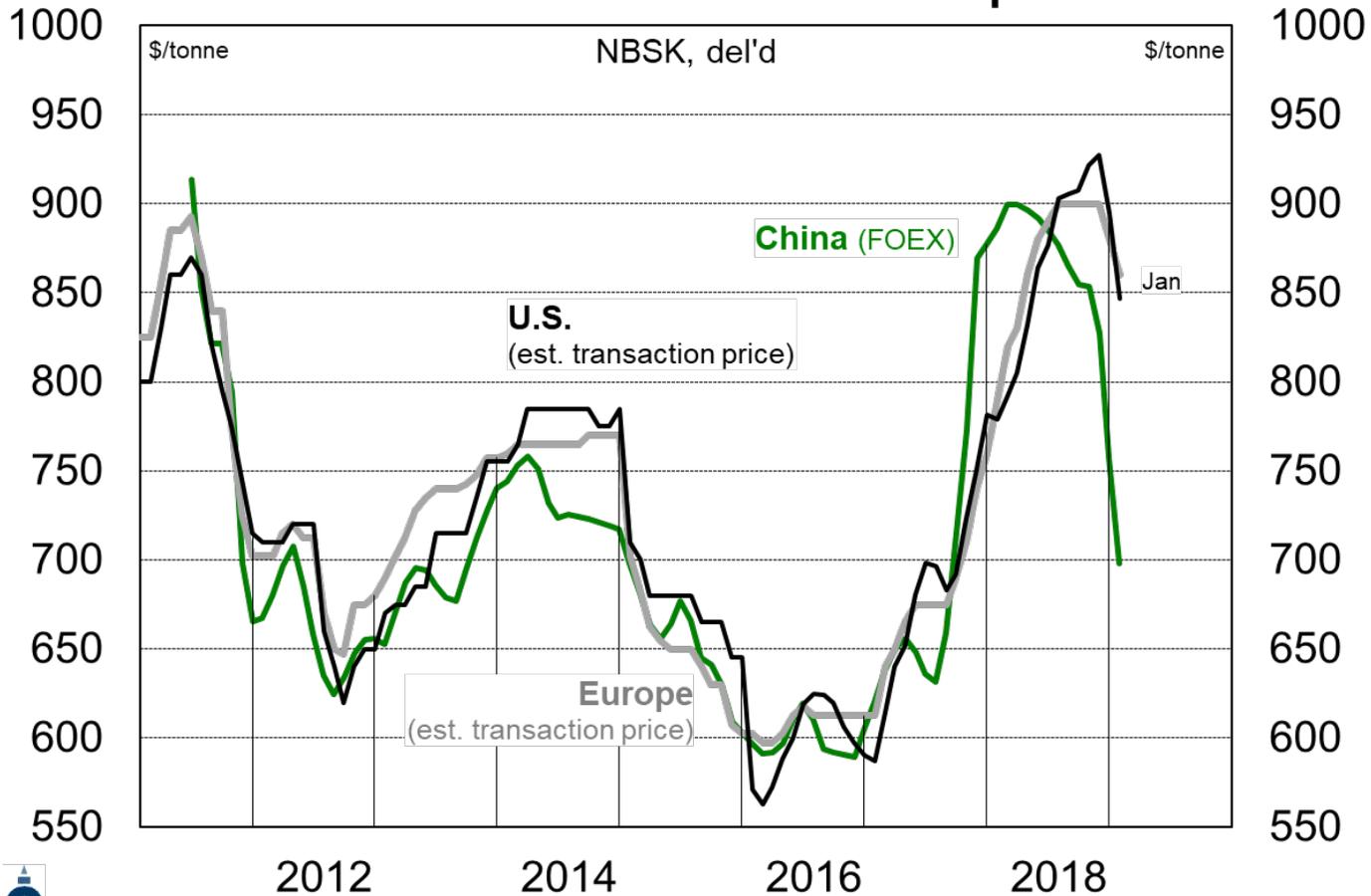
World-20 Pulp Shipments by Destination



Data Source: PPPC

But So Do Chinese Prices...

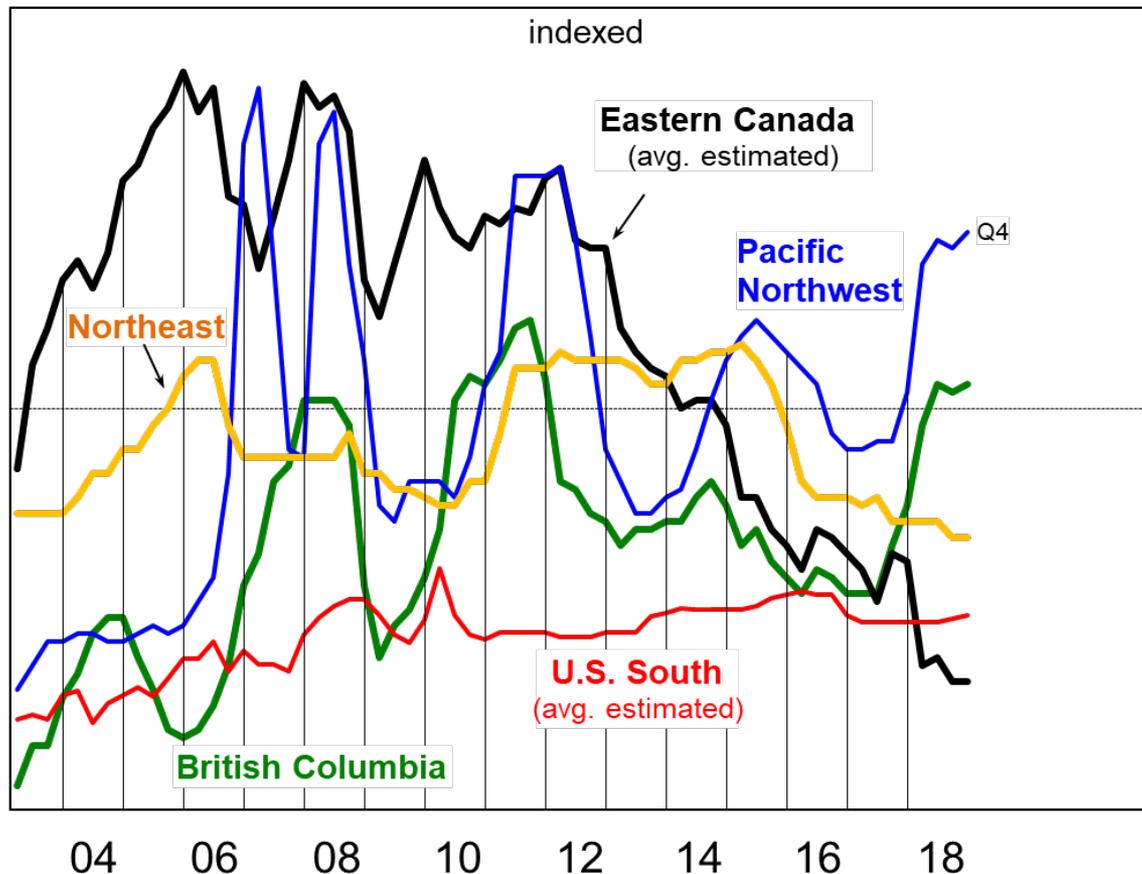
NBSK Prices - China vs Europe vs U.S.



Data Sources: FOEX; ERA; ForestWeb; McClay

Big Changes In Relative Chip Pricing

North American Chip Prices (Softwood)



Data Source: North American Wood Fiber Review (published by Wood Resources International LLC)

“We refuse to continue being
the receptacle of the world’s
garbage.”

**Chinese Ministry Of
Environmental Protection**

CONCLUSIONS

**May you live in interesting
times...**

Chinese Proverb/Curse

SUMMARY

- A lot of risks facing the global economy
- A recession in the next couple of years looks inevitable
- U.S.-China standoff having broad implications
- U.S. policy much harder to predict/handicap
- As U.S. and China battle, some opportunities for others to step in
- Risks outweigh opportunities as we near the end of the business cycle (domestically and globally)

THANK YOU!

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ERA Forest Products Monthly

A Comprehensive Analysis of the Forest Products Sector

April 2017

Industry Overview

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Editorial Board

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Claire Huxtable, CFA, RFP
Senior Analyst

- **Log** prices have been stronger in the PNW, due in part to wet weather. Prices in the U.S. South continue to slip. Exports are solid.
- **Lumber** prices are high, with buyers relying on secondaries for purchases. The standoff between buyers and sellers should break soon (to the downside?). The softwood battle is creating volatility.
- **Panel** prices are heading up as we move into the seasonally strong part of the housing cycle.
- **Pulp** prices show few signs of slowing and Chinese purchases of hardwood pulp have been exceedingly aggressive this year. We still expect prices to peak in Q2 — especially in China — but this market has surprised to the upside this year.
- **Newsprint** has been weaker in the west, but an apparent pickup in exports is encouraging producers to attempt a \$20 hike in the west.
- **Paper** prices are miserable everywhere. Prices were lower for all grades last month. Coated and SC keep setting new 10-year lows.
- **Containerboard** producers achieved the \$50 hike on board. The increase is now being pushed through to boxes. It should be generally successful, but won't achieve the announced 10%–12% (likely closer to 5%–6%).
- **Boxboard** grades are seeing prices rise in most grades, but with falling OCC there isn't much more to gain in CRB and URB. CUK and SBS are up \$20, but SBS is facing oversupply challenges.
- **Recovered-paper** prices are all collapsing as China pulls back.
- **European newsprint** is stable. Producers hope for gains in H2/17.
- **European printing paper** markets are generally weak — save for uncoated woodfrees, where prices are up €20–€30 in some cases.
- **European containerboard** is strong and prices are up, but oversupply is looming given the new capacity on the horizon.

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