

Global Timber and Wood Products Market Update

- a news brief from Wood Resources International LLC

Global hardwood pulp producers face higher wood fiber costs and lower pulp prices, reports the Wood Resource Quarterly

Profit margins are being squeezed for many hardwood pulp producers worldwide with higher wood fiber costs and lower product prices. The hardwood wood fiber price index (HFPI) reached a 24-year high in the 3Q/11 at the same time as hardwood pulp prices fell by 26% from June through October, reports the Wood Resource Quarterly.

Seattle, USA. The global demand for market pulp has been weakening for the past four months, particularly that of hardwood pulp (BHKP). The market report Pulpwatch reports that global shipment of BHKP pulp fell from 1.76 million tons in June to 1.41 million tons during July. Although shipments picked up to 1.57 million tons in August, the outlook for the next six months is for lower demand and reduced pulp production as compared the first half of 2011.

Hardwood pulp prices (BHKP) have fallen steadily during the fall and were down by 26 percent from June to the early November, according to FOEX. At the same time as pulp prices have fallen, the wood costs have increased, which has squeezed the profit margins for many producers of hardwood pulp. Wood cost as a percentage of the Eucalyptus pulp (EuBKP) price has gone up steadily for five consecutive quarters, from 23 percent in the 2Q/10 to 32.2 percent in the 3Q/11, as reported in the Wood Resource Quarterly. The relative wood cost is currently substantially above the twenty-year average of 23 percent.

Pulp mills in Brazil, Indonesia, Japan, China and Chile saw the biggest increases in hardwood fiber prices the past year, while the rise in wood costs in North America and Europe have been more modest. The **Hardwood Wood Fiber Price Index (HFPI)** rose for the fifth quarter in a row, reaching US\$117.91/odmt, an increase of 14 percent since last summer and an all-time high, according to the Wood Resource Quarterly. Conversely, The **Softwood Wood Fiber Price Index (SFPI)** fell by less than one percent to \$108.90/odmt, which was the first decline since the 2Q/10. In addition to the exchange rate adjustments, wood prices also fell in the local currencies in Russia, France and Spain.

The Softwood Wood Fiber Price Index has been higher than HFPI for 21 of the past 24 years; it is only the past three years that HFPI has been sold at a premium, and the 3Q/11 premium of US\$9.01/odmt is the greatest to date. This is of note because over the past few years, some softwood pulp producers had switched to hardwood or invested in hardwood pulp capacity to take advantage of historically lower hardwood fiber costs and higher profit margins. In light of these recent price and cost developments, producers might consider returning to using more softwood pulp in their product mix, whether for market pulp or in their integrated pulp and paper facilities.

Global timber market reporting is included in the 52-page quarterly publication Wood Resource Quarterly. The report, established in 1988 and with subscribers in over 25 countries, tracks sawlog, pulpwood, lumber and pellet prices and market developments in most key regions around the world.

Contact Information

Wood Resources International LLC

Hakan Ekstrom

info@wri-ltd.com

www.woodprices.com