



Market Situation and Outlook

Last years message: We were worried about China and Egypt and believed the US and European market was the key.

We still have an “overhang” of softwood, which combined with the low season is impacting the markets. But the global balance seems to improve slowly...

At the moment we have a (mainly) “redwood problem” generated by saturated and *weaker market in China* and *liquidity problems in Egypt* combined with continued *high Russian supply* to those markets!

Continued increase in USA-consumption and steady (but moderate) growth in Europe is the key to better times!

Only partly correct!

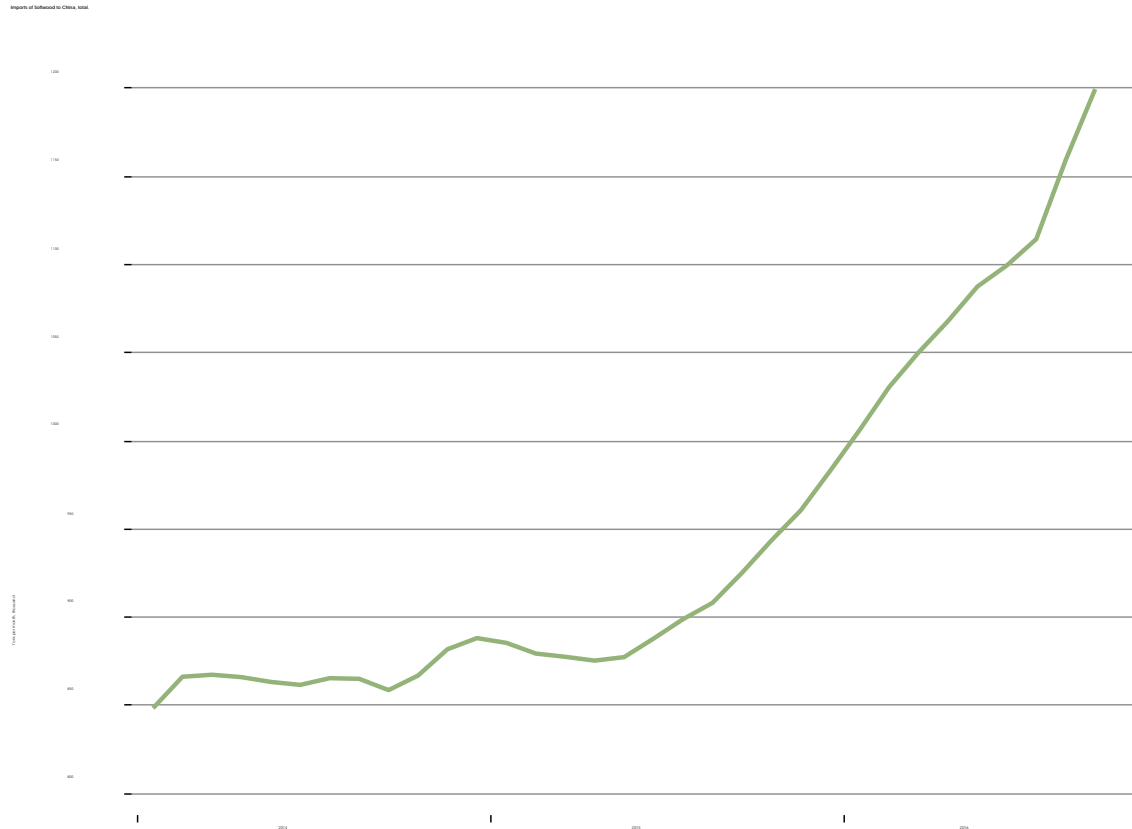
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Chinese surprise!

2016 the global softwood trade will reach a record high level.

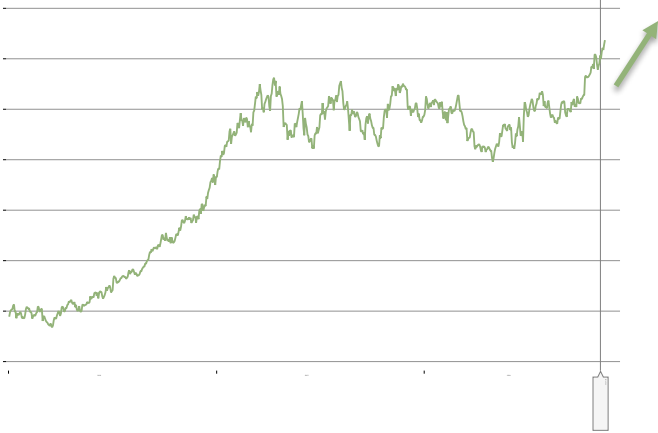
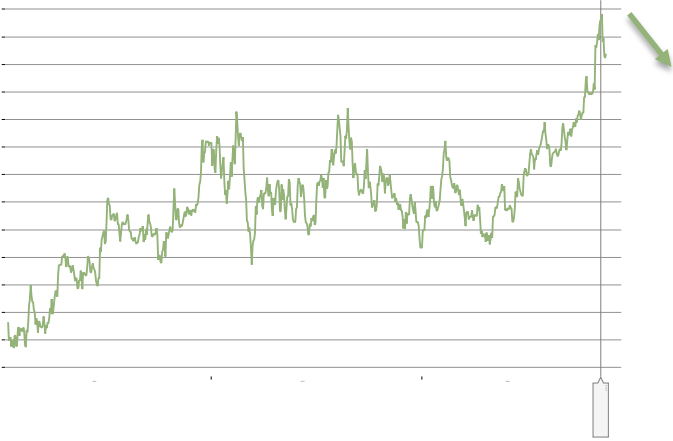
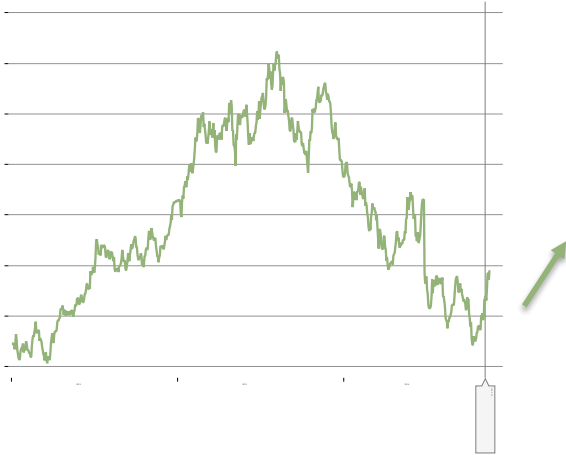


This year: Where are we going?



- Long term: Free trade in general?
- Expansive financial politics?
- More specifically and short term: Canada – U.S. – softwood trade?
- Short (and long) term: Currency development?

Initial moves on the currency markets: USD up and Euro down



A close-up photograph of a stack of softwood lumber. The top surface shows the natural wood grain with a prominent knot. The edges of the stack reveal the layered structure of the wood. A semi-transparent green rectangular box is overlaid in the center, containing the title text.

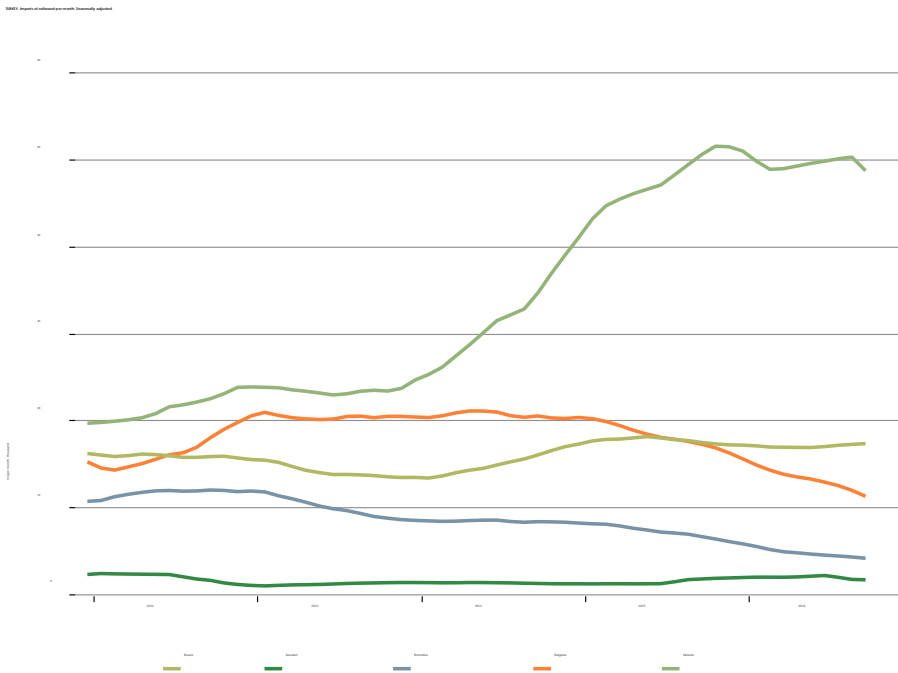
Trends in Softwood Trade

The background of the slide is a close-up photograph of several layers of light-colored wooden planks stacked on top of each other. The wood grain is clearly visible, showing a mix of straight and slightly wavy patterns. The lighting is warm, highlighting the natural texture and color of the wood.

The best performing
import markets 2012-
2016?

In Europe and globally.

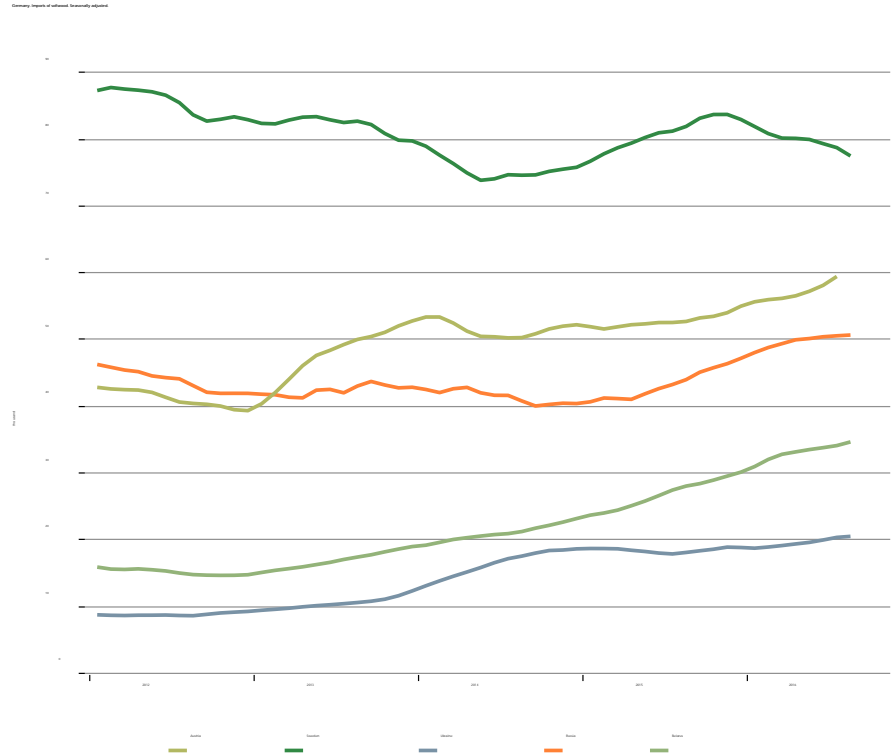
Third place: Turkey



- Turkey showed good development up to 2015
- About +350 000 m³ in import increase
- Ukraine has taken it all...

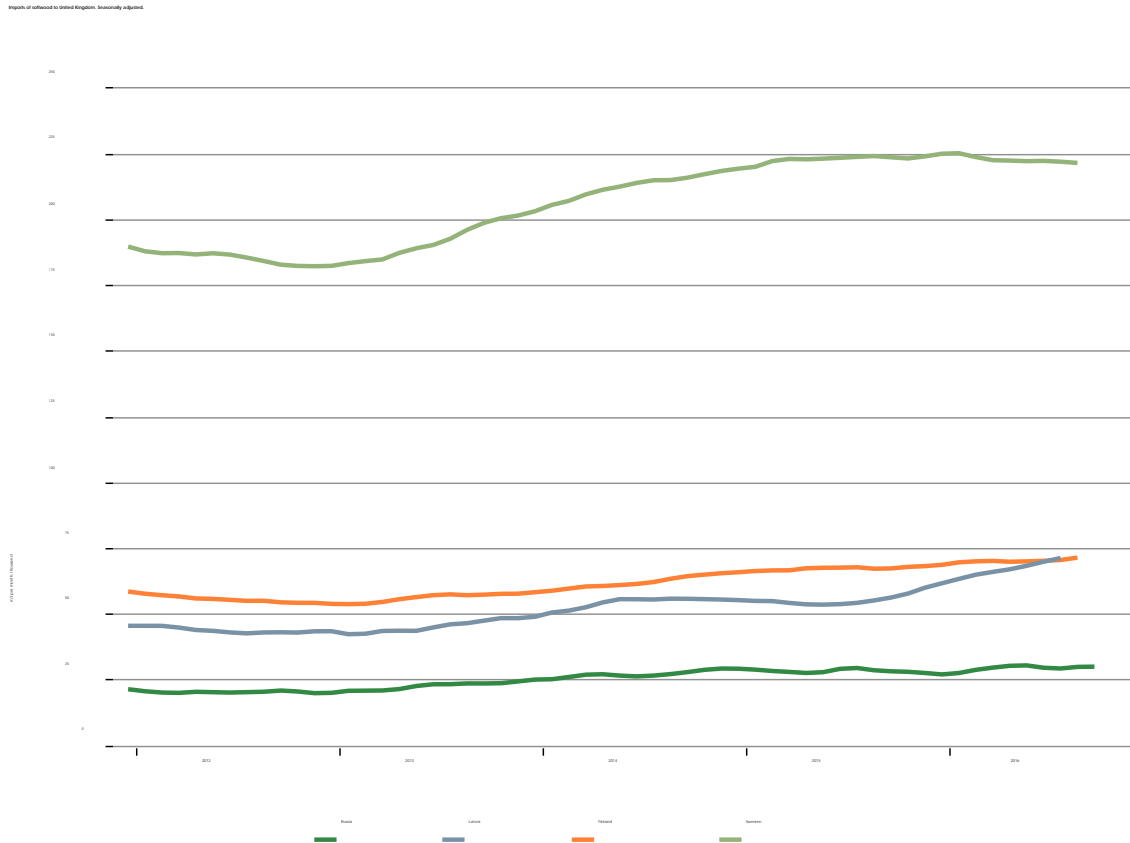
Second place: Germany

- Germany has showed stable gains throughout the recovery
- Belarus and Russia increases, together bigger than Sweden



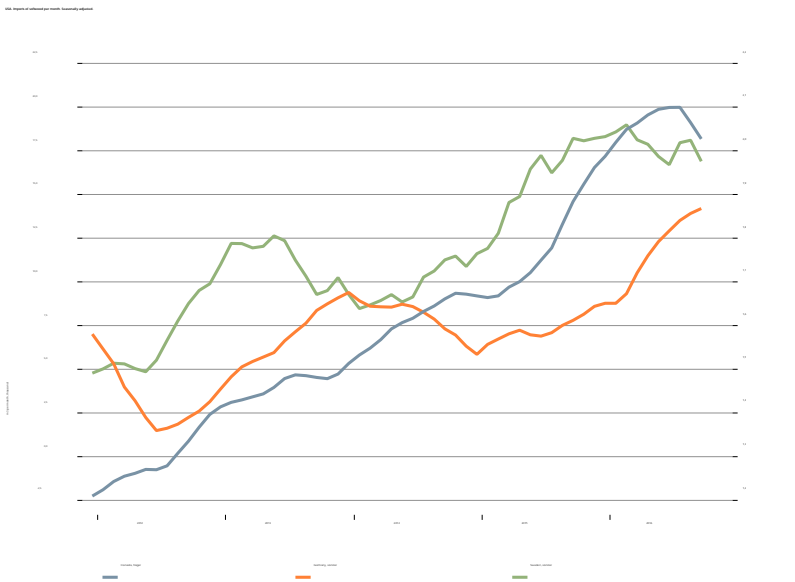
First place: UK

Sweden has almost one third of the total market.

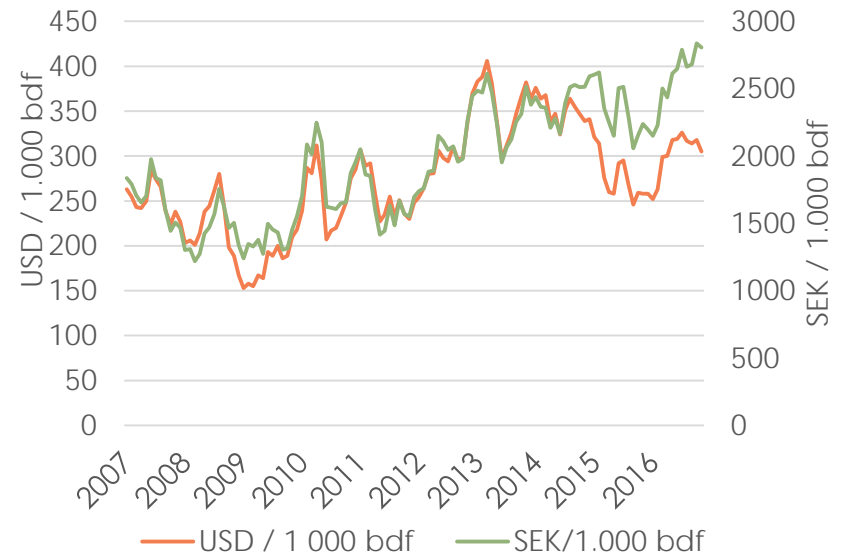


Globally: U.S. wins

- USA has grown more than China
- Good prices in SEK...



List price (Random Lengths) SPF 2x4
Western std&btr i USD and SEK up to
november 2016

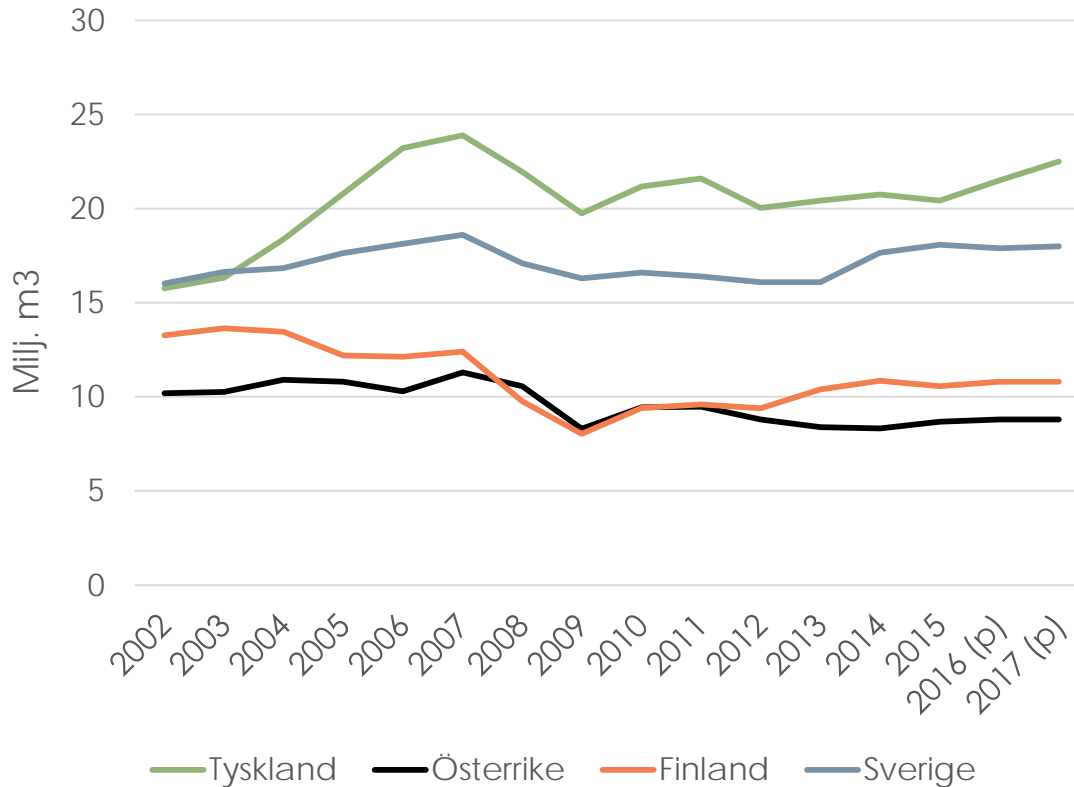




Supply

Small production increase in Europe

The increase in supply is believed to be lower than the increase in demand. Good for the balance!



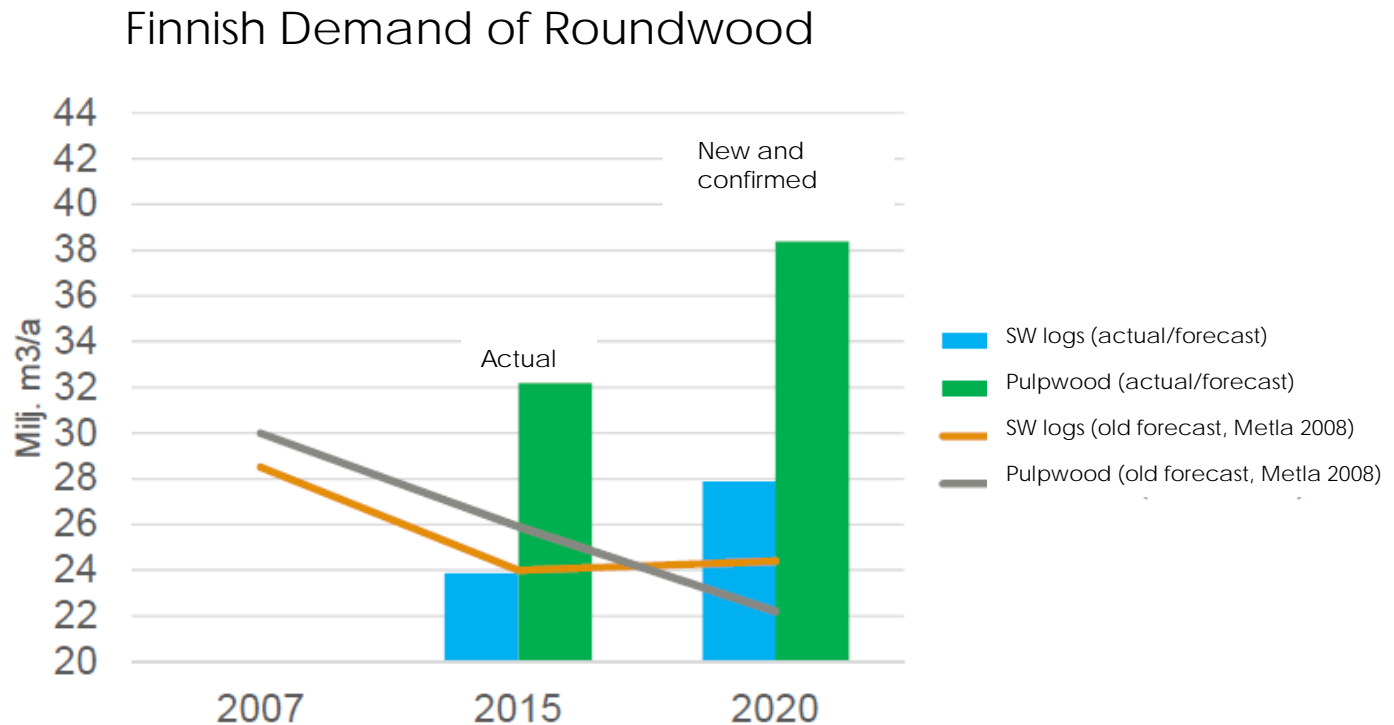
	Produktion 2015	Prognos (EOS) 2016
Germany	-2%	+5%
Sweden	+2%	-1% (-2%)
Finland	-3%	+2% (+6%)
Austria	+4%	+1%
Europe (14 countries*)	+0,1%	+1,8%

*Excl. Russia

Finland: New situation after ten years with decreasing production.

New pulp production demands pulpwood, which drives sawlog supply as well and thus softwood production.

Similar situation in Sweden...

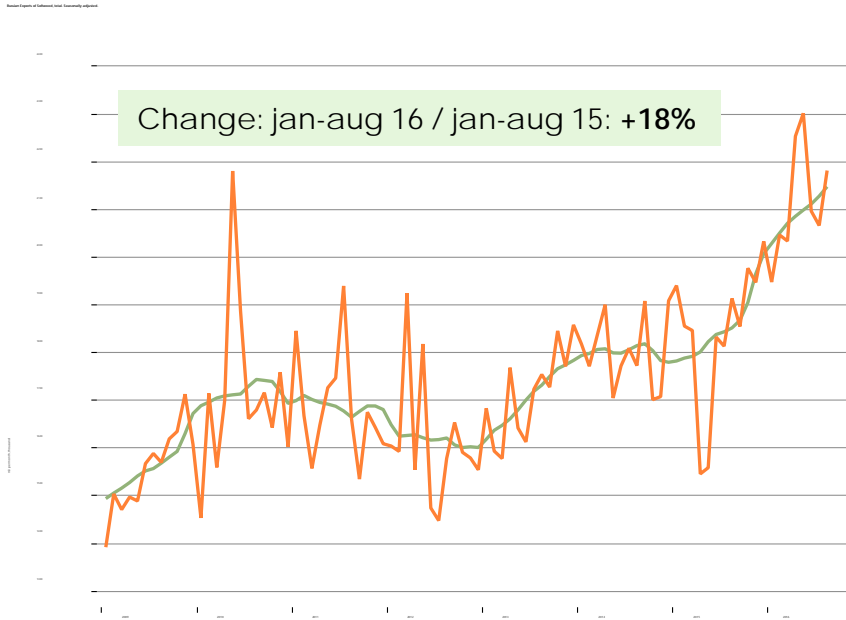


*) för att uppehålla balansen mellan massaved och timmer måste även timmeruttaget ökas

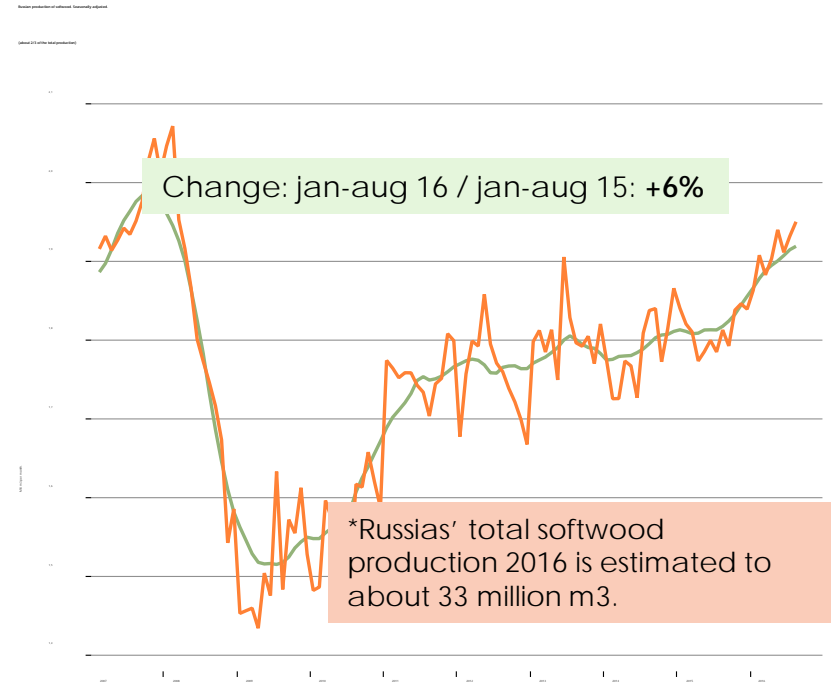
**) ökningen enbart inhemskt virke

Russian exports has increased heavily:
Very competitive and today profitable.

But how much can the production increase in the short and medium term? Availability of logs is the challenge!



Källa: SvanData

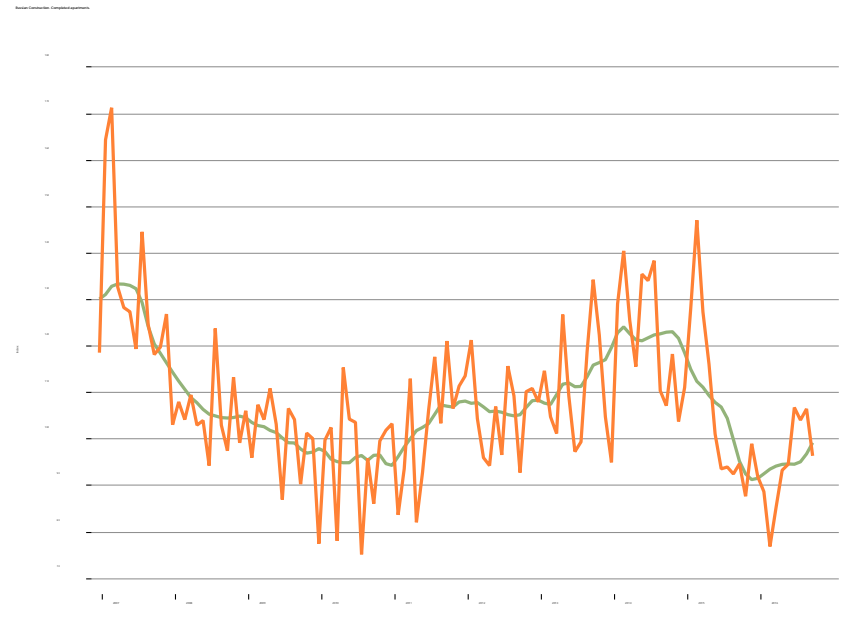


Källa: Pyrabelisk

How much can the Russian export increase?

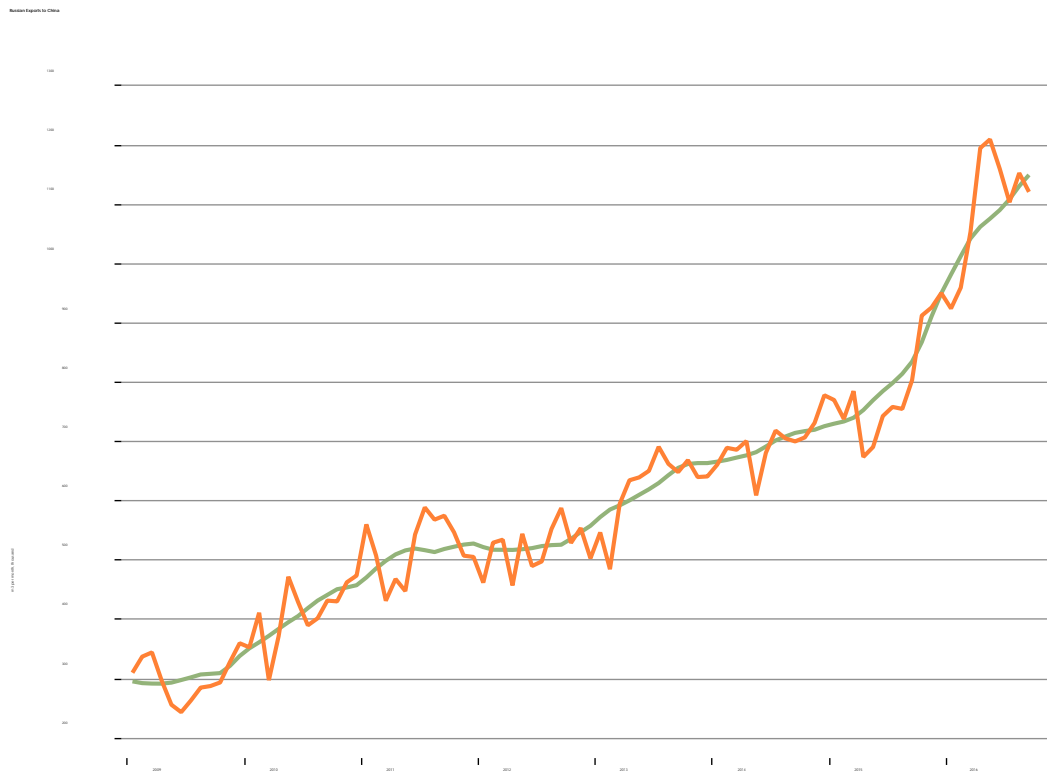
The Ruble has gained some strength again and the domestic market might have bottomed.

Thus, the competitiveness is no longer increasing.



Hardly continue with the same pace as during this first half year!

Russian exports to China increased 2.8 million m³ up to August, compared with 2015 (+48%).



A close-up photograph of a stack of light-colored wooden planks, likely pine or spruce, showing the natural grain and texture. The planks are stacked in a way that creates a strong sense of depth and perspective, with the top plank being in sharp focus and the others receding into the background. A semi-transparent green rectangular box is overlaid on the center of the image, containing the text "Swedish Main Markets".

Swedish Main Markets

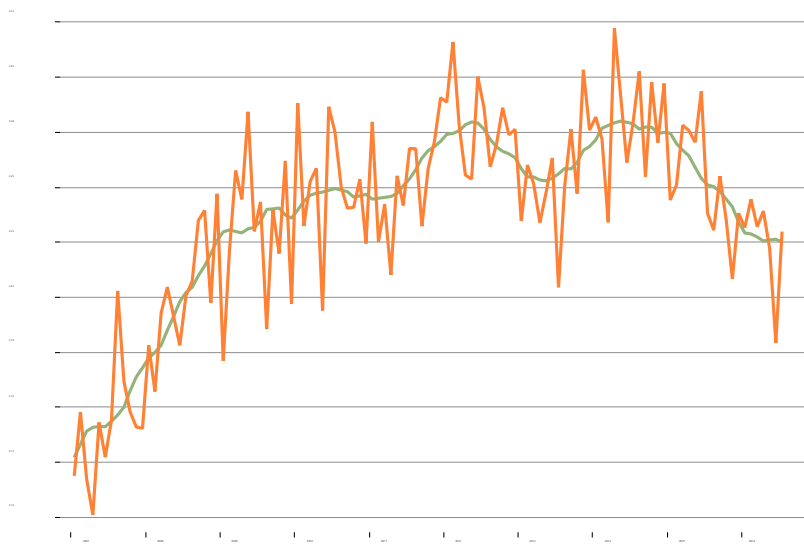
Sweden: The importance of MENA is decreasing and East Aisa increasing.

Last year we believed the importance of Overseas markets to decrease somewhat...

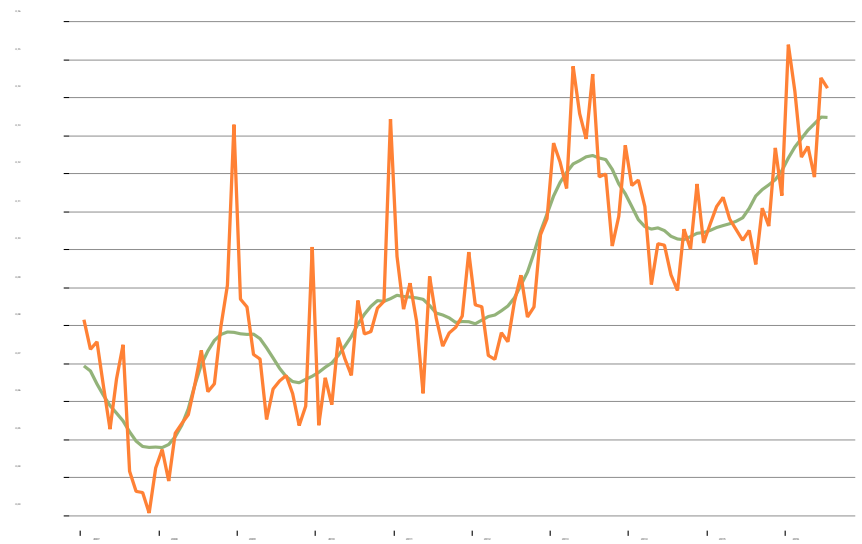
Correct when it came to Africa and Middle East

But the Strength in Chinese (and to some extent other Eastern Asian markets) were underestimated

The MENA markets as share of total Swedish exports.



East Asia as share of total Swedish exports.



China: Limited domestic supply and policies on construction brings a huge potential

China Softwood Logs: Demand vs. Prod'n


	<u>2010</u>	<u>2015</u>	<u>2020</u>	<u>VARIANCE</u> <u>20 vs '15</u>
China Demand	56	70	86	6.4
China Supply	32	30	33	3.1

One wildcard: Chinese government is in to its second year of a 3 year program that will eliminate timber harvesting on native forests.

The total program is up to 50 million m3 of permanent reductions.

If 40 million m3 is achieved, our estimates are that 65% is softwood = a net domestic softwood timber harvest reduction 'gap' of ~25 million m3.

This 25 million m3 would need to be made up log & lumber imports!

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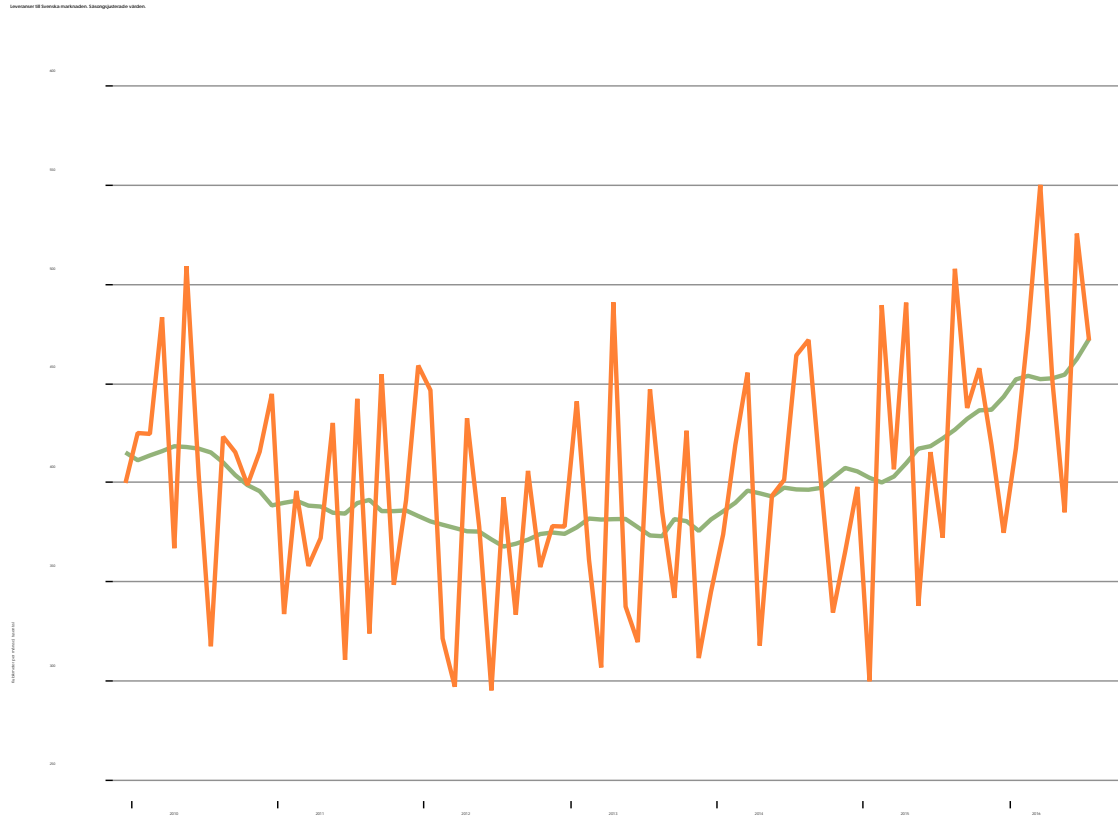
The new Chinese policy brings a substantial potential in wood construction

- "Prefabricated building in steel and wood preferred."
- "Target to 2025 that prefabricated building has a 30% market share"
- "Wood building today 0,07% share. 1% would mean another 5 million m3 softwood per year."

If this becomes real, it means an increase in import with up to 3 million m3 each year up to 2020!

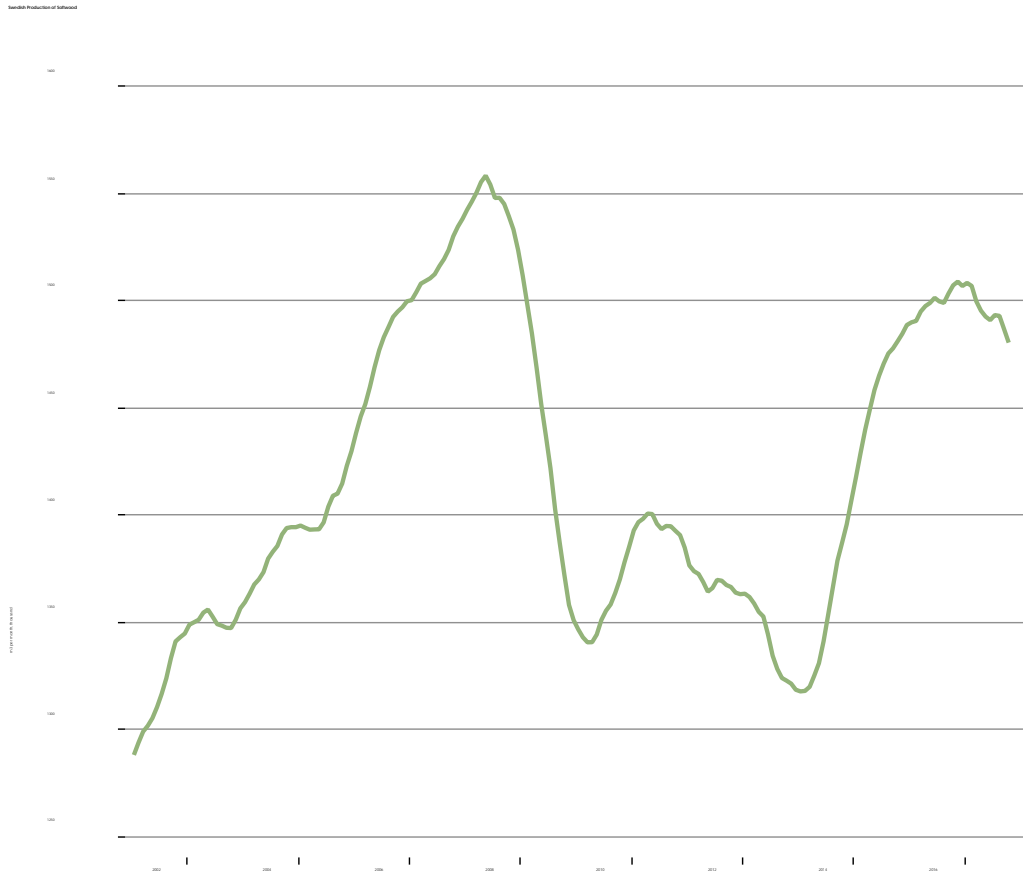
The domestic market the best of all Swedish markets!

Deliveries have increased with more than 1 million m³ per year.



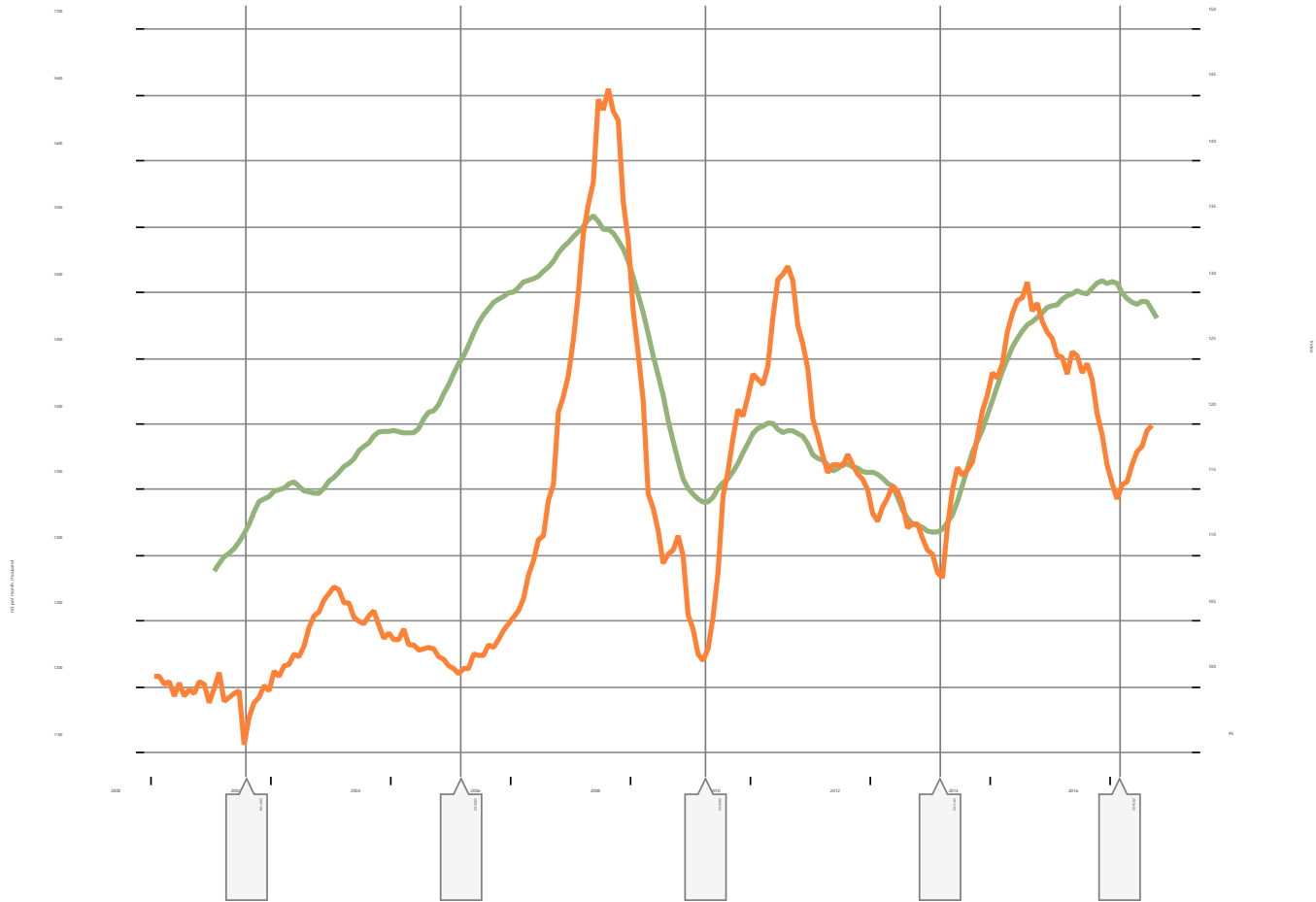
Swedish production down 300-400 000 m3 this year.

Mainly redwood in Southern and Northern Sweden, but also whitewood will probably decrease marginally.



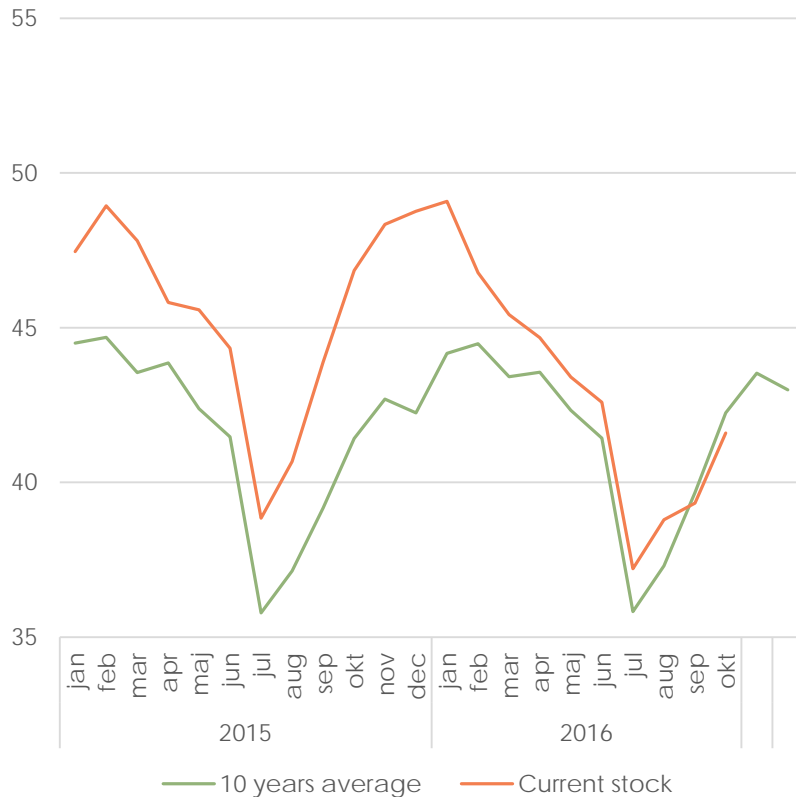
Prices up, production down!

Production and Prices: Unique development

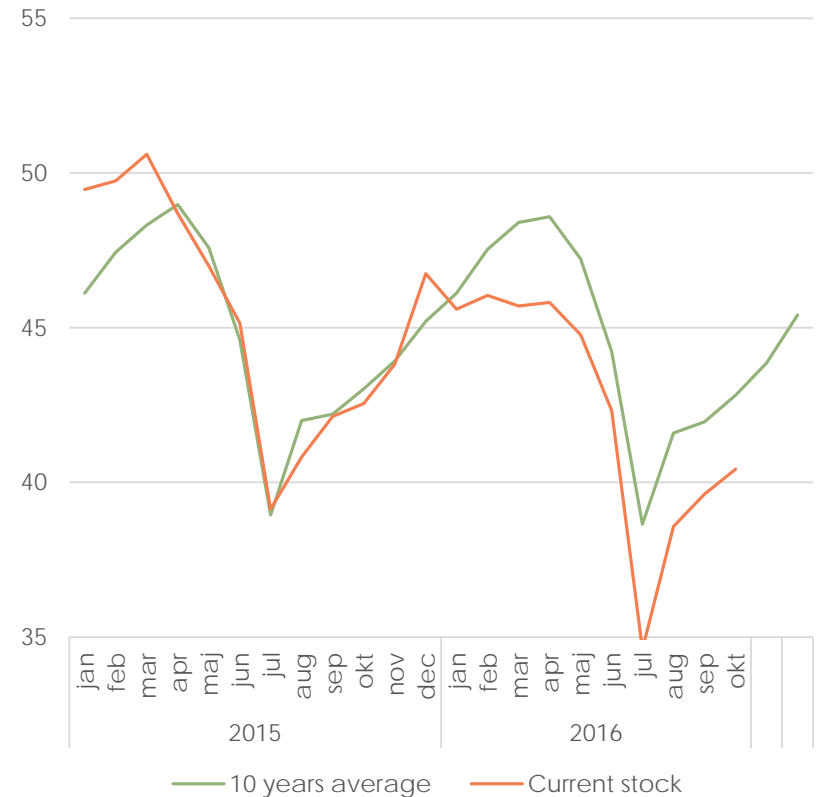


Whitewood stocks low, redwood stocks normal and falling.

Redwood stocks in days of production



Whitewood stocks in days of production



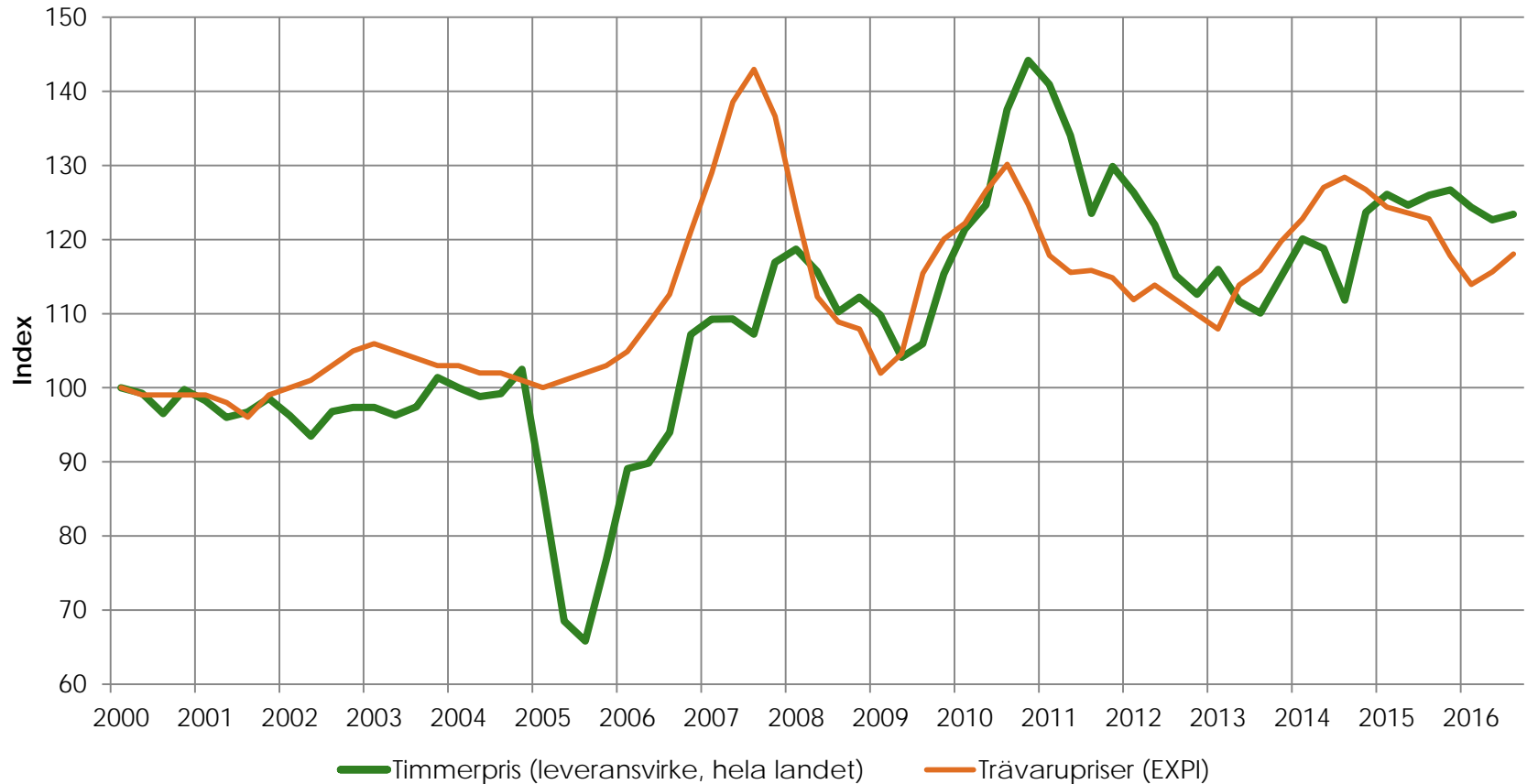
Clear price cycles with decreasing difference between highs and lows.

Are we entering a less volatile market?

Swedish Export Price Index.
Up to sep 2016.



Log prices have been relatively stable despite weaker softwood market...



Summary

- 2016 the market consumed the "overhang" of softwood.
- At the same time **consumption increases steadily: Improved balance.**
- **Redwood** markets are still a question mark, but the **balance/stock situation much better than last year.**
- Better starting point for 2017 than 2016.

Some big questions

- Russian exports?
- Chinese consumption?
- Chinese supply?
- Scandinavian supply?
- The NA lumber trade dispute