

Tropical Timber Market Report

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Top Story

Chief Minister declares certification is the way forward for timber industry in Sarawak

On 20 August at a seminar on forest certification Sarawak's Chief Minister, Tan Sri Datuk Amar (Dr.) Haji Adenan Bin Haji Satem, declared that forest certification is the way forward for the timber industries in Sarawak and set targets and a timeline for the industry.

He said "The timber industry must co-operate fully with the government to combat the negative perception that the state's forest policy is poorly or ineffectively managed.

For the timber industry, the forest management certification is the best available way forward."

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Report from Central/West Africa

Douala Port log stockpile to move in September

The new contractors, reportedly a consortium of Chinese companies, are due to take over port operations at Douala during September so the huge stockpile of logs awaiting export shipment may soon begin to move. Reports suggest that there could be as much as 400,000 cubic metres of timber at the port.

Analysts are speculating on the impact in the market of a surge in log availability and suggest that, in the short-term, demand could ebb but note that demand for logs remains firm so the export of the large volumes from Douala may not have much impact.

Gabon millers holding back on investments

Companies in Gabon say there is still no sign of the government effecting repayment of the TVA tax. Exporters say it is becoming more and more difficult to do business and the economic outlook is uncertain.

The burden on company waiting for the tax refund is affecting investments and adding to the perceived risk in the sector such that commercial financing is becoming more expensive and difficult to secure.

Most new private investment in the region is now concentrated in Congo Brazzaville where the government is pouring money into the renovation of road, rail and port facilities.

Weaker demand in Chinese market anticipated

International markets are said to be quiet at present and no price movements for either logs or sawnwood have been reported.

Demand for China is said to be steady but some exporters have been told that domestic demand in China for tropical wood products is easing as the government cools the housing market.

Producers content with current prices in EU markets

European buyers have not yet resumed purchasing after the summer vacation period but, with the economies in the main markets in the EU looking more positive, W. African producers are convinced they will see sustained business through to year end.

Overall, producer are expecting current price levels to be maintained and are saying that, because of rising production costs, price discounts are unlikely.

At the same time, few would expect any major upward movements in prices and will be content, for the time being, to see prices hold on to the better levels attained during the third quarter.

Log Export Prices

| West African logs, FOB | € per m ³ | | |
|---|----------------------|-----|------|
| Asian market | LM | B | BC/C |
| Acajou/ Khaya/N'Gollon | 220 | 220 | 155 |
| Ayous/Obeche/Wawa | 230 | 230 | 150 |
| Azobe & Ekki | 235 | 230 | 150 |
| Belli | 290 | 290 | - |
| Bibolo/Dibétou | 150 | 145 | - |
| Iroko | 330 | 290 | 260 |
| Okoume (60% CI, 40% CE, 20% CS) (China only) | 340 | 340 | 260 |
| Moabi | 320 | 300 | - |
| Movingui | 220 | 220 | 180 |
| Niove | 160 | 155 | - |
| Okan | 280 | 280 | - |
| Padouk | 300 | 275 | 210 |
| Sapele | 340 | 340 | 240 |
| Sipo/Utile | 360 | 360 | 220 |
| Tali | 315 | 315 | - |

Sawnwood Export Prices

| West African sawnwood, FOB | € per m ³ |
|----------------------------|----------------------|
| Ayous FAS GMS | 350 |
| Bilinga FAS GMS | 520 |
| Okoumé FAS GMS | 480 |
| Merchantable | 275 |
| Std/Btr GMS | 350 |
| Sipo FAS GMS | 660 |
| FAS fixed sizes | 660 |
| FAS scantlings | 670 |
| Padouk FAS GMS | 820 |
| FAS scantlings | 870 |
| Strips | 500 |
| Sapele FAS Spanish sizes | 660 |
| FAS scantlings | 670 |
| Iroko FAS GMS | 620 |
| Scantlings | 695 |
| Strips | 440 |
| Khaya FAS GMS | 450 |
| FAS fixed | 470 |
| Moabi FAS GMS | 580 |
| Scantlings | 560 |
| Movingui FAS GMS | 420 |

Report from Ghana

First half exports up 4.5%

Ghana's first half year wood product exports amounted to 143,541 cubic metres, up 4.5% on the 137,363 cubic metres shipped in the first half of 2013. Export of three products sawnwood, plywood and veneers accounted for 84% of the first half 2014 export volume.

First half 2013 and 2014 exports (cubic metres)

| | 2013 | 2014 | % change |
|---------------------|--------|--------|----------|
| Sawnwood (KD) | 33,159 | 28,190 | -14.99 |
| Sawnwood (AD) | 39,299 | 47,520 | 20.92 |
| Sawnwood (Overland) | 2,299 | 1,574 | -31.54 |
| Plywood | 1,458 | 1,178 | -19.2 |
| Plywood (Overland) | 31,359 | 28,538 | -9 |
| Sliced Veneer | 12,501 | 10,622 | -15.03 |
| Rotary Veneer | 3,571 | 3,002 | -15.93 |

Source: TIDD, Ghana

The average unit value (AUV) dropped from euro 447 per cubic metre in the first half of 2013 to euro 411 in the first half of 2014, an 8% decline. Exports to Mali recorded the highest AUV (Euro 455 per cubic metre) with exports to Nigeria earning the lowest at euro 312 per cubic metre.

Leading exporters in the first half of 2104

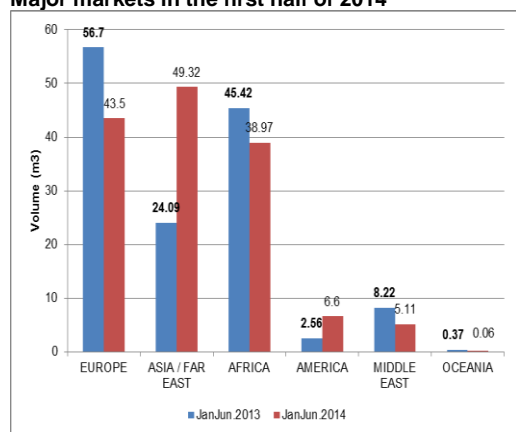
| Product | Exporter | Vol (m3) |
|--------------------|----------------------------|----------|
| Sawnwood (AD) | Product Link Ghana | 2,188.22 |
| Sawnwood (KD) | Logs & Lumber Co | 510.649 |
| Rotary veneer | Ayum Forest Products Ghana | 94.971 |
| Sliced veneer | John Bitar & Co. | 416.145 |
| Plywood | Naja David Veneer | 161.686 |
| Plywood (Overland) | Naja David Veneer | 741.82 |
| Mouldings | Logs & Lumber Co. | 213.157 |

Source: TIDD, Ghana

Ghana's wood exports in the first half of this year were shipped mainly to the Asian and Middle East markets (India, China, Israel, Singapore, Lebanon and Vietnam) 34%, Europe (Italy, France, Germany, Belgium and U.K.) 30% and Africa (South Africa, Egypt, Morocco, and the ECOWAS countries) 27%

Exports to ECOWAS countries totalled 31,741 cubic metres valued at euro 9.75 million and comprised mainly the overland export of plywood and sawnwood.

Major markets in the first half of 2014



Source: TIDD

Finance Ministry revises 2014 targets

Projections for Ghana's economy have been revised according to the Minister of Finance, Mr. Seth Terker. The forecast GDP of 8% has been revised to 7.1 percent while the annual inflation target of 9 percent has also been revised up to 13%.

Ghana's annual inflation rate rose to a four-year high of 15.3% in July, up from 15.0 per cent in June, mainly because of the increase in utilities and fuel.

Boule Export prices

| | Euro per m ³ |
|----------------------|-------------------------|
| Black Ofram | 245▲ |
| Black Ofram Kiln dry | 415▲ |
| Niangon | 475 |
| Niangon Kiln dry | 570 |

Export Rotary Veneer Prices

| Rotary Veneer, FOB | € per m ³ | |
|--------------------|----------------------|------------|
| | CORE (1-1.9mm) | FACE (2mm) |
| Ceiba | 265 | 333↓ |
| Chenchen | 320 | 366 |
| Ogea | 300 | 344 |
| Essa | 318 | 350 |
| Ofram | 333 | 358↓ |

Export Sliced Veneer Prices

| Sliced Veneer, FOB | € per sq. m | |
|--------------------|-------------|---------|
| | Face | Backing |
| Afrormosia | 1.32 | 0.48 |
| Asanfina | 1.20 | 0.59▲ |
| Avodire | 2.90 | 0.75▲ |
| Chenchen | 1.10 | 0.37↓ |
| Mahogany | 1.30 | 1.07 |
| Makore | 1.30 | 0.49▲ |
| Odum | 1.76 | 0.49↓ |

Export Sawnwood Prices

| Ghana Sawnwood, FOB | € per m ³ | |
|-----------------------------------|----------------------|------------|
| | Air-dried | Kiln-dried |
| FAS 25-100mm x 150mm up x 2.4m up | 855 | 945 |
| Afrormosia | 480 | 564 |
| Asanfina | 220 | 270↓ |
| Ceiba | 307↓ | 358↓ |
| Dahoma | 409 | 525↓ |
| Edinam (mixed redwood) | 385 | 550 |
| African mahogany (Ivorenensis) | 593 | 720▲ |
| Makore | 580 | 618↓ |
| Niangon | 579 | 710 |
| Odum | 610 | 807 |
| Sapele | 567 | 70 |
| Wawa 1C & Select | 275 | 340 |

Export Plywood Prices

| Plywood, FOB | € per m ³ | | |
|--------------|----------------------|-------|-------|
| | BB/CC | Ceiba | Ofram |
| 4mm | 460 | 600 | 641 |
| 6mm | 440 | 555 | 622 |
| 9mm | 382 | 423 | 490 |
| 12mm | 374 | 423 | 445 |
| 15mm | 350 | 380 | 443 |
| 18mm | 335 | 363 | 370 |

Grade AB/BB would attract a premium of 10%, B/BB 5%, C/CC 5% and CC/CC 10%.

Export Added Value Product Prices

| Parquet flooring 1st | FOB € per sq.m | | |
|----------------------|----------------|------------|---------|
| | 10x60mm | 10x65-75mm | 14x70mm |
| Apa | 13.70▲ | 15.70 | 18.80 |
| Odum | 10.80 | 12.20 | 12.52 |
| Hyedua | 14.67▲ | 14.93▲ | 18.45 |
| Afrormosia | 14.00↓ | 18.65 | 18.55 |

Grade 2 less 5%, Grade 3 less 10%.

Report from Malaysia

Chief Minister declares certification is the way forward for Sarawak

On 20 August at a seminar on forest certification Sarawak's Chief Minister, Tan Sri Datuk Amar (Dr.) Haji Adenan Bin Haji Satem, declared that forest certification is the way forward for the timber industries in Sarawak and set targets and a timeline for the industry.

The following is an extract of the 'Officiating Speech by the Chief Minister' delivered at the opening of a seminar 'Forest Management Certification (Natural Forest)'. Copies of the address were distributed to participants:

"I would like to draw your attention to the theme of the seminar 'FOREST MANAGEMENT CERTIFICATION - THE WAY FORWARD'."

Is it the way forward for the state and our timber industry in Sarawak? Forest management certification is a voluntary market based instrument to promote sustainable forest management. It serves to inform the final consumer that they are buying the product of a sustainably managed forest. Although it is mainly driven by market actors there are equally important actors involved in the processes

Forest management certification's development over the years has also drawn governments into discussion of how they should, or should not intervene to promote their broader policy objectives.

As a responsible government, the state has a major role to play in setting out a policy and institutional framework, and as a significant actor ourselves, for instance as forest owners, the state as I emphasized earlier is fully committed to SFM. The state government will adopt any best practices in forest management.

The state considers forest management certification as one of the key tools to improve forest management standards and practices in Sarawak.

The timber industry must co-operate fully with the government to combat the negative perception that the state's forest policy is poorly or ineffectively managed.

For the timber industry, the forest management certification is the best available way forward.

Some benefits can be anticipated from the forest certification especially in terms of improved market access, image and forest management.

The forest certification has transformed forest products markets over the last 15 years. Demand for certified forest products is growing, driven by concern for the sustainability of supply, either by companies up and down the wood chain, or by purchasers of wood and paper products, especially business to business and governments.

It is now difficult to export products from uncertified tropical forests to environmentally sensitive markets, for example, to the Netherlands and United Kingdom. Conversely, tropical timber from certified forests in other parts of Malaysia is finding improved export opportunities and strong market growth.

The state will assist the timber industry in Sarawak to achieve its forest certification. We will contribute to capacity building in the field of certification, provide support, guidelines and required standards and provide assurance of a level playing field in international trade and on domestic markets.

To ensure that the forest areas in Sarawak are sustainably managed based on international standards and recognized by the world communities, the Forest Department Sarawak will act as a central facilitator and catalyst in the certification process. The Forest department had already prepared action plan and develop relevant guidelines and procedures for the implementation of forest certification in Sarawak.

The state government is encouraging all major license holders namely ShinYang, WTK, KTS, Samling, Rimbunan Hijau, Ta Ann and STIDC to obtain international forest management certification for their timber products.

The certification can be the Malaysian Timber Certification Scheme (MTC) of Forest Stewardship Council (FSC) or Programme for the Endorsement of forest certification (PEFC) schemes.

I had announced in June 2013, during my tenure as the Special Functions Minister, in one of a state functions that the state government wants concession areas within the heart of Borneo to obtain sustainable forest management (SFM) certification by July 2017.

I would like to reiterate here again that the major players as mentioned is requested to get certification for at least one of their licence areas by July 2017.

At the moment, the government is encouraging the timber industry, especially the major licence holders to get certification.

The government will review this policy from time to time and in the future we may make forest certification mandatory for all licence areas.

Earlier this year, the Sarawak Timber Association (STA) has highlighted and brought to my attention the challenges that are facing the timber industry in Sarawak. I took note there are many challenges in obtaining the forest certification but we must pursue it now to become competitive.

I believe we can overcome the problems since we already have certified forest management unit which is Anap Muput FMU in Bintulu. Peninsula Malaysia and Sabah are doing well in forest management certification.

I noted that one of the challenges is that many timber licenses have short tenure periods which are not conducive for logging operators to undertake forest management certification in view of the high costs involved.

I acknowledge their concerns and would like to make a special announcement here that the tenure of the license will be extended up to 60 years. The 60 year tenure will be granted from the date of the license issued. But one of the conditions that will be imposed is that the license operators shall incorporate the requirement for certification within three years from the date of approval and failure to comply with the condition shall cause the license to be terminated."

The reaction of industry analysts is that this is a significant change and will present major challenges to the Sarawak timber industry. With such a strong push by the state government and an equally attractive pull of a 60 year license tenure, forest certification will come to Sarawak.

First half year exports disappoint

Exports of timber and timber products from Sarawak in the first half of 2014 grew by just one percent compared to the same period in 2013 (2014 first half RM 3.66 billion; 2013 first half RM 3.61 billion). Plywood was the main export product, commanding 54% of total exports in the first half (RM1.98 billion, approx. US\$ 617 million).

The key market for the state's timber products was Japan (RM1.548 billion; approx. US\$482 million which accounted for 40% of the state's total revenue from the export of wood products.

India was the second major buyer (RM702 million; approx. US\$219 million) followed by Taiwan P.o.C (RM 379 million or US\$118 million) and South Korea (RM253 million or US\$79 million). Combined, the total revenue from these three countries alone amounted to RM1,334 billion.

Awang Tengah Ali Hasan, Minister for Resource Planning and Environment, was quoted by local newspapers as saying "We see the increase in export value of our timber products in the first six months of this year as a positive sign for the industry, despite the unstable global economy."

He said that, in addition to the traditional markets, the state was trying to explore other markets such as Yemen and Vietnam having examined the market in Kazakhstan last year.

Traders based in Sarawak reported log FOB export prices as follows:

Meranti SQ US\$255 - 285/cu.m
 Kapur SQ US\$325 - 355 /cu.m
 Keruing SQ US\$325 - 365 /cu.m
 Selangan Batu regular US\$ 490 - 520 /cu.m.

Plywood traders based in Sarawak reported the following FOB export prices:

Floor base FB (11.5mm) US\$ 630
 Concrete formboard panels CP (3' x 6') US\$525
 Coated formboard panels UCP (3' x 6') US\$605
 Standard boards
 Middle East (9-18 mm) US\$470
 South Korea (8.5 – 17.5 mm) US\$465
 Taiwan P.o.C (8.5 – 17.5 mm) US\$ 465
 Hong Kong US\$ 470

Correction

Apologies for omissions the tables for the export statistics of Sabah provided in the previous issue of this report. The following tables provide the complete data.

Top destinations for Sabah sawnwood in first half 2013 and 2014

| Destination | 2013 cu.m | 2014 cu.m | % change |
|-----------------------------|--------------|--------------|-------------|
| Thailand | 27,696 | 21,164 | 23.6 |
| China | 17,065 | 22,112 | 29.6 |
| Taiwan | 15,366 | 19,041 | 23.9 |
| Japan | 11,491 | 12,201 | 6.2 |
| South Africa | 11,212 | 10,689 | -4.7 |
| Peninsular Malaysia | 7,168 | 2,847 | -60.3 |
| Philippines | 5,334 | 18,145 | 340 |
| Pakistan | 2,744 | 3,298 | 20.2 |
| Netherlands | 2,154 | 5,310 | 246 |
| Sub-total | 100,230 | 114,807 | 14.5 |
| Total (all destinations) | 118,990 | 130,360 | 9.6 |

Source: Statistics Department of Sabah

Top Destinations for Sabah plywood in first half 2013 and 2014

| Destination | 2013 cu.m | 2014 cu.m | % change |
|-----------------------------|--------------|--------------|-------------|
| Japan | 61,534 | 63,661 | 3.5 |
| Peninsular Malaysia | 52,692 | 52,185 | -0.01 |
| Korea, Rep. of | 35,951 | 37,748 | 5 |
| Egypt | 29,995 | 8,021 | -73.2 |
| USA | 29,630 | 25,161 | -15.3 |
| Mexico | 29,294 | 14,526 | -50.4 |
| Jordan | 18,831 | 777 | -959 |
| Philippines | 17,671 | 18,052 | 2 |
| Thailand | 13,260 | 15,542 | 17.2 |
| Taiwan | 16,214 | 12,710 | -21.6 |
| Sub-total | 305,072 | 248,383 | -18.5 |
| Total (all destinations) | 329,917 | 280,276 | -15.0 |

Source: Statistics Department of Sabah

Report from Indonesia

Big jump in furniture exports to EU

According to recently released data from the Ministry of Forestry wood product exports in the first half year were almost 12% up on the same period in 2013.

Forestry Minister Zulkifli Hasan attributed the improvement in exports as partly due to the conclusion of the VPA with the EU which opened the way for an increase in timber exports to the EU.

The latest data shows that wooden furniture exports more than doubled to US\$11 million in the first six months of the year, up from the US\$5.4 million in the first half of 2013.

In related news the Minister forecast furniture and handicraft exports to exceed US\$2 billion for the full year as the pace of timber legality verification in Indonesia accelerates.

IFEX encouraged investment in processing

Trade fairs, such as Indonesia's International Furniture Expo (IFEX), provide a boost to both export sales and domestic investment as new opportunities emerge from exchange between fair participants.

The Chairman of the Association of Indonesian Furniture and Handicrafts (AMKRI), said that buyers, manufacturers and designers from many countries visited IFEX and created an environment fostering innovation and creativity. The second IFEX will be held in Jakarta 12-15 March 2015.

Satellite Imagery – technology to identify forest fire 'hotspots'

The newly created agency 'Reduced Emissions from Deforestation and Forest Degradation' (BP-REDD) has introduced an online technology equipped with real time high-resolution satellite imagery utilising NASA data. This online system can be used to identify the location of track fires and relate them to land-use and concession maps.

Information generated by the BP-REDD system can be relayed to the National Disaster Mitigation Agency (BNPB), the Ministry of Forestry as well as the fire service and police.

Domestic Log Prices

| Indonesia logs, domestic prices | US\$ per m ³ |
|---------------------------------|-------------------------|
| Plywood logs | |
| core logs | 210-230 |
| Sawlogs (Meranti) | 200-240 |
| Falcata logs | 150-190 |
| Rubberwood | 95-120 |
| Pine | 120-140 |
| Mahoni (plantation mahogany) | 130-150 |

Domestic Ex-mill Sawwood Prices

| Indonesia, construction material, domestic | US\$ per m ³ |
|--|-------------------------|
| Kampar (Ex-mill) | |
| AD 3x12-15x400cm | 510-620 |
| KD | - |
| AD 3x20x400cm | 590-630 |
| KD | - |
| Keruing (Ex-mill) | |
| AD 3x12-15x400cm | 550-720 |
| AD 2x20x400cm | 490-520 |
| AD 3x30x400cm | 415-440 |

Export Plywood Prices

| Indonesia ply MR BB/CC, export FOB | US\$ per m ³ |
|------------------------------------|-------------------------|
| 2.7mm | 650-680 |
| 3mm | 670-700 |
| 6mm | - |

Domestic Plywood Prices

| MR Plywood (Jakarta), domestic | US\$ per m ³ |
|--------------------------------|-------------------------|
| 9mm | 370-420 |
| 12mm | 350-400 |
| 15mm | 320-350 |

Export and Domestic Other Panel Prices

| Indonesia, Other Panels, FOB | US\$ per m ³ |
|------------------------------|-------------------------|
| <i>Particleboard</i> | |
| Export 9-18mm | 720-750 |
| Domestic 9mm | 900-990 |
| 12-15mm | 650-670 |
| 18mm | 520-600 |
| <i>MDF</i> | |
| Export 12-18mm | 700-750 |
| Domestic 12-18mm | 430-530 |

Report from Myanmar

Revenue from log sales down since log export ban

Quoting an official from the Myanmar Timber Enterprise (MTE), Mizzima News has reported that, during this fiscal year, MTE has sold over 30,000 tons of teak logs worth Myanmar Kyats 11 billion as well as teak sawnwood worth US\$1.6 million.

The MTE Local Marketing Department sold logs and sawnwood from depots in Mandalay and Yangon through five open tenders and earned Kyats 11 billion.

The MTE Export Marketing Department also sold teak and other hardwood logs and sawnwood from depots in Yangon. Revenue from the sale of 588 tons of teak logs totaled US\$1.6 million. Revenue from log sales has fallen sharply since the log export ban.

FJV auctions hardwoods

The Myanmar Forest Products Joint Venture Corporation (FJV) has announced it put up for sale 2,172 hoppus tons of hardwood logs by open tender during August.

FJV General Manager, Soe Moe Win, explained that these logs were for the domestic industry and were sold with a view to promote expansion of domestic milling.

IWPA initiative to spur SFM

Eleven News Media on 21 August reported that the decision by the US to resume timber imports from Myanmar could help save Myanmar forests.

The press was referring to the news that the US government has granted a one year waiver of the sanctions allowing members of the International Wood Products Association (IWPA) to establish direct trade with Myanmar.

The news of the one year waiver on has been welcomed by the timber industry. Some analysts in Myanmar went as far as suggesting this move could have a positive impact on efforts to protect Myanmar's forests.

Analysts say the IWPA initiative could assist Myanmar exporters in their efforts on timber legality verification and in efforts towards the sustainable management.

Hardwood prices at 22 August tender sales

Hardwood sealed tender prices (Yangon)

| Species | H. tons | Avg Price US\$/H.ton |
|----------|---------|----------------------|
| Padauk | 9 | 2339 |
| Thinwin | 22 | 1100 |
| Pyinkado | 335 | 609 |
| Kanyin | 80 | 709 |

Note: Hnaw log lots were withdrawn

Hardwood special open tender (SOT) prices (Toung-Oo, Myintkyina)

| Species | H. Tons | Avg. Price US\$/H.ton |
|----------|---------|-----------------------|
| Pyinkado | 392 | 391 |
| Kanyin | 431 | 275 |

Hardwood special open tender (SOT) prices (Momeik, Pyin Oo Lwin, Mandalay)

| Species | H. Tons | Avg. Price/H.ton |
|---------|---------|------------------|
| Padauk | 160 | 2228 |

Pyinkado, Thinwin and Tamalan lots were unbid

Teak tender sale prices

Teak special open tender (SOT) prices (Bamaw, MyitKyina, Monywa)

| Grade | H. tons | Avg. Price US\$/H.ton |
|-------|---------|-----------------------|
| SG-6 | 81 | 1375 |
| SG-7 | 381 | 1091 |
| SG-8 | 312 | 815 |
| SG-9 | 8 | 709 |

Teak log sales by MTE Export Department (25 August 2014)

| Grade | H.tons | US\$/H.ton |
|-------|--------|------------|
| SG-2 | 16 | 4009 |
| SG-4 | 52 | 3377 |
| SG-5 | 55 | 2590 |
| SG-6 | 34 | 2552 |
| SG-7 | 15 | 2106 |

SG =Sawing Grade

Domestic prices for sawn teak and hardwoods, Yangon

| Specification | MMK per cubic ton |
|-----------------------------------|-------------------|
| Teak, length 6 ft. and up | 2.8 – 3.0 mil. |
| Teak, Length less than 10 f.t | 2.3 – 2.5 mil. |
| Pyinkado, Length 10 ft. and up | 1.2 – 1.3 mil. |
| Pyinkado, Length less than 10 ft. | 1.0 – 1.1 mil |
| Others, Length 10 ft. and up | 6.5- 6.7 mil. |

Prices per ton of 50 cubic feet and are those quoted for the construction sector.

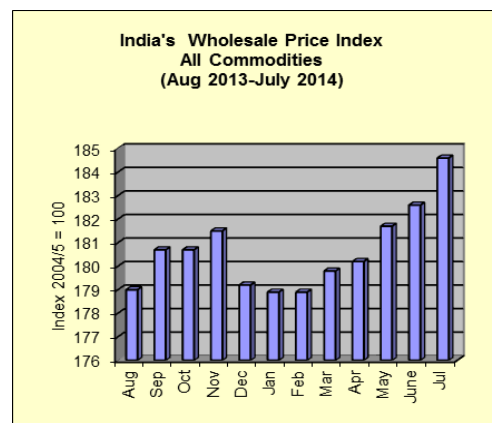
Report from India

Wood product price index drops

The Office of the Economic Adviser (OEA) to the Indian government provides trends in the Wholesale Price Index (WPI). The official Wholesale Price Index for All Commodities (Base: 2004-05 = 100) for July 2014 rose to 184.6 (provisional) from 182.6 for the previous month.

The annual rate of inflation based on the July WPI was 5.19% compared to 5.43% for the previous month. See <http://eaindustry.nic.in/cmonthly.pdf>

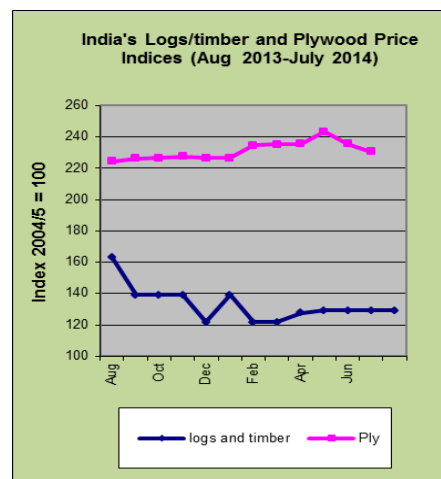
The index for all wood and wood products declined by 0.9 percent to 185.4 (provisional) from 187.0 (provisional) for the previous month due to lower price of plywood and fibreboard.



Data source: Office of the Economic Adviser to the Indian government

Timber and plywood wholesale price indices

The OEA reports Wholesale Price Indices for a variety of wood products. The Wholesale Price Indices for logs/timber and Plywood are shown below. The July 2014 logs/timber index continued almost unchanged but the plywood price index slipped further in July.



Data source: Office of the Economic Adviser to the Indian government

Enthusiastic support for Van Mahotsav

Van Mahotsav, the annual tree-planting festival in India, is celebrated in all states with the onset of the monsoon. This year Gujarat State, for example, planned to raise and distribute 10 million seedlings. Every citizen in India dreams of planting saplings during Van Mahotsav week.

This movement was initiated in 1950 by India's then Minister for Agriculture, Dr. K.M Munshi. This festival has gained immense national importance and every year millions of saplings are distributed and planted across the country.

The planting of trees during the festival has a practical as well as traditional purpose. The seedlings eventually produce fuelwood, create farm shelter-belts, provide fodder for farm animals, create shade and help soil stability.

Sandalwood prices continue to rise

At the most recent auction held in Marayoor 35.4 tonnes of sandalwood were sold earning Rs.234 million for the Kerala Forest Department.

The Department maintains about 3,500 ha. of natural sandalwood forest in the Western Ghats section of Idukki district of Kerala. The sandalwood grown here has a worldwide reputation for quality.

The highest price realised was Rs.10,500 per kg. for class 5 sandalwood while the average price for this class was Rs.9950 per kg, higher than the average at February auctions. Protection of sandalwood trees receives the highest priority and only fallen trees and branches and dead trees are auctioned.

Improved business sentiment drives up demand for reconstituted boards

In keeping with its election manifesto the new Government has begun implementing stalled infrastructure, power generation, road building, port and mining projects.

The wood panel sector has suffered weak demand during the past few years but is now coming to life as domestic demand expands and prices rise helped by the rising prices of chips and fibre as well as imported boards. Currently domestically manufactured boards are competing well with imported thick plywood prices of which have been rising.

India's annual wood panel market is estimated at Rs.200 billion comprising 75% plywood and 25% particleboard and MDF.

Local manufacturers have been improving the surface quality of boards and are producing higher density panels to permit accurate routing.

Indian manufacturers are also supplying laminated panels in a variety of designs and colors to compete with imported surfaced plywood.

Domestic pre-laminated particleboard is now produced by the particleboard mills which eliminates the need for on-site lamination which would almost double the cost of each panel. Additionally, the lower raw material cost for reconstituted boards compared to that for plywood is also helping the revival of the particleboard and MDF industries in India.

Imported plantation teak

Prices for small teak log thinnings from Costa Rica, Ghana, Panama and Togo have fallen reflecting the lower quality and small size of logs but, as exporters in Congo, Ivory Coast and Panama have shipped better grades, prices for their plantation teak logs have risen. A new supplier, Belize, has started to export plantation teak log thinnings.

The current prices for plantation teak logs per cubic metre C & F Indian ports are shown below:

| | US\$ per cu.m C&F |
|--------------------------|----------------------|
| Belize logs | 350-400 |
| Benin logs | 320-680 |
| Benin sawn | 400-800 |
| Brazil logs | 390-750 |
| Brazil squares | 360-680 |
| Cameroon logs | 390-510 |
| Colombia logs | 320-650 |
| Congo logs | 450-710 |
| Costa Rica logs | 360-840 |
| Côte d'Ivoire logs | 330-720 |
| Ecuador squares | 300-540 |
| El-Salvador logs | 340-695 |
| Ghana logs | 370-650 |
| Guatemala logs | 270-550 |
| Guyana logs | 300-450 |
| Kenya logs | 350-600 |
| Laos logs | 300-605 |
| Liberia logs | 350-460 |
| Malaysian teak logs | 350-525 |
| Nicaragua logs | 370-535 |
| Nigeria squares | 340-450 |
| Panama logs | 275-660 |
| PNG logs | 400-575 |
| Sudan logs | 450-700 |
| Tanzania teak, sawn | 350-885 |
| Thailand logs | 460-700 |
| Togo logs | 230-715 |
| Trinidad and Tobago logs | 420-680 |
| Uganda logs | 440-860 |
| Uganda Teak sawn | 680-900 |

Variations are based on quality, length of logs and the average girth.

Exmill prices for sawnwood

| Sawnwood Ex-mill | Rs per cu.ft |
|---------------------|-----------------|
| Merbau | 1550-1650 |
| Balau | 1700-1900 |
| Resak | 1200-1400 |
| Kapur | 1250-1300 |
| Kempas | 1100-1200 |
| Red Meranti | 925-975 |
| Radiata pine AD | 550-650 |
| Whitewood | 600-650 |

Variations are based on quality, length and average girth of logs

Myanmar veneer logs in short supply

The declining stocks in India of Myanmar teak is beginning to bite and prices are rising especially for veneer quality logs required by manufacturers of fancy plywood. Prices for Myanmar teak sawnwood milled in India are also rising.

| Sawnwood (Ex-mill) | Rs. per ft ³ |
|---------------------------|-------------------------|
| Myanmar Teak (AD) | |
| Export Grade F.E.Q. | 7500-17500 |
| Plantation Teak A grade | 5700-6200 |
| Plantation Teak B grade | 4200-4700 |
| Plantation Teak FAS grade | 3400-3700 |

Price variations depend mainly on length and cross section

Imported 12% KD sawn wood prices per cu.ft ex-warehouse

| Sawnwood, (Ex-warehouse) (KD) | Rs per ft ³ |
|-------------------------------|------------------------|
| Beech | 1300-1350 |
| Sycamore | 1300-1400 |
| Red oak | 1500-1650 |
| White Oak | 1600-1800 |
| American Walnut | 2300-2400 |
| Hemlock clear grade | 1300-1400 |
| Hemlock AB grade | 1100-1200 |
| Western Red Cedar | 1600-1650 |
| Douglas Fir | 1200-1300 |

Price variations depend mainly on length and cross section

Diversified sources of veneer

The shortage of Myanmar gurjan face veneers has been alleviated to some extent by imports from China and Vietnam.

Malaysia and South Africa have also started supplying veneers to Indian factories.

As domestic and imported particleboard is starting to replace thicker plywood panels shippers of plywood in China have started to lower their prices.

Prices for WBP Marine grade plywood from domestic mills

| Plywood, | Rs. per sq.ft |
|----------------------------|---------------|
| Ex-warehouse, (MR Quality) | |
| 4 mm | 37 |
| 6 mm | 50 |
| 9mm | 63.5 |
| 12 mm | 78.4 |
| 15 mm | 104 |
| 18 mm | 109.7 |

Domestic ex-warehouse prices for locally manufactured MR plywood

| | Rs. per sq.ft | |
|---------------------|---------------|----------|
| | Rubberwood | Hardwood |
| 4mm | Rs.19.50 | Rs.28.70 |
| 6mm | Rs.29.90 | Rs.37.00 |
| 9mm | Rs.37.50 | Rs.44.60 |
| 12mm | Rs.44.60 | Rs.54.30 |
| 15mm | Rs.55.00 | RS.66.30 |
| 19mm | RS.63.30 | Rs.74.20 |
| 5mm Flexible ply | Rs.39.00 | |

Report from Brazil

Restructuring of forest sector boosts output in Mato Grosso

Forestry and wood product manufacturing is the fourth largest economic sector in Mato Grosso and sector activities are spread across more than 40 municipalities generating 100,000 direct jobs.

In 2013 the sector paid to government R\$85 million in ICMS (Tax on Circulation of Goods and Services) and R\$19 million in State Fund for Transport and Housing (FETHAB) tax.

In order to reconcile economic development and environmental conservation the forestry sector in the State of Mato Grosso has been improving forest management.

According to CIPEM (Center for Wood Industry Producers and Exporters of Mato Grosso), the restructuring of the forest sector in the state was a major factor in boosting output of wood products. Further improvement in forest management practises are expected to lead to high output.

2015 forest concession plan

The 2015 Forest Concession Plan (PAOF 2015) for public forests in the states of Amazonas, Pará and Rondônia has been published by the Ministry of the Environment (MMA). The plan identifies 3.4 million hectares available for allocation.

The PAOF 2015 plan is based on the National Register of Public Forests (CNFP) for which some 313 million ha of forests had been registered as of November 2013. Of this total, approximately 224 million ha. are Federal Public Forests, 89 million ha. Are State Public Forests and the balance are Municipal Public Forests.

The inclusion of Public Forest in the PAOF 2015 does not necessarily mean all areas will be available as harvesting concession during the period of the current plan.

The PAOF 2015 identifies areas that may become available as forest concessions allowing entrepreneurs access to public forests for sustainable management. Around 92% of Public Forests in Brazil are in the Amazon region.

Hardwood price movements

Prices fro Brazilian roundwood from natural forests in the period reviewed ranged from US\$109/cu.m to US\$183/cu.m at mill yard. The price of Brazilian sawnwood from natural forests varied from US\$265 per cu.m to US\$911 per cu.m ex-factory depending on the species. In each case the upper price refers to ipê (Tabebuia sp.).

The average price of parica WBP glue plywood ranged from US\$565 percu.m to US\$795 per cu.m ex-factory depending on thickness.

Prices for parica MR glue plywood ranged from US\$519 per cu.m to US\$703 per cu.m ex-factory depending on thickness. Average prices for reconstituted wood panels were, in the period reviewed, US\$346 per cu.m ex-factory for raw MDP (15 mm) and US\$501 per cu.m ex-factory for raw MDF (15 mm).

Pine product exports lead the field

In July 2014, wood product exports (except pulp and paper) increased 12.2% in terms of value compared to July 2013, from US\$204.0 million to US\$228.9 million.

Pine sawnwood exports increased 43.4% in value in July 2014 compared to July 2013, from US\$14.5 million to US\$20.8 million. In terms of volume, exports rose 37.6%, from 64,400 cu.m to 88,600 cu.m inthe same period.

Tropical sawnwood exports increased 9.2% to 27,300 cu.m in July 2014 compared to the 25,000 cu.m exported in July 2013. In terms of value July 2014 exports increased 2.8% year on year.

Pine plywood exports also improved in July rising 45.3% in value compared to levels in July 2013 (US\$ 24.5 million to US\$ 35.6 million). The volume of pine plywood exports also increased from 66,400 cu.m in July last year to to 96,000 cu.m. On the other hand tropical plywood exports fell 2.6% in volume, from 3,900 cu.m in July 2013 to 3,800 cu.m in July 2014.

Wooden furniture exports increased slightly from the US\$41.0 million in July 2013 to US\$41.8 million in July this year.

Pará timber exporters face a raw material crisis

Exports of processed and manufactured timber products in the state of Pará, one of the main timber products exporter states of Brazil, grew 21% in the first half of 2014 compared to the same period in 2013. Currently, added value product exports from Pará comprise mainly sawnwood (44%) and flooring (38%).

According to the Association of Timber Industries Exporters of Pará State (AIMEX), the good performance of exporters in the state of Pará in the first half of 2014 was due to an abundant supply of raw materials and firm order books reflecting the favourable exchange rate in the first half of the year.

AIMEX is warning that the good export performance in the first half of this year is threatened by the change in the BRL/US\$ exchange rate and a looming crisis in the supply of raw material brought on by delays in the approval of forest management plans.

Regional markets dominate veneer exports

Brazil's tropical hardwood veneer exports in July 2014 fell 48% in value and 3% in volume compared to levels in July last year. In July 2013 the main markets for veneer were Argentina, Italy, Chile and Belgium, representing 30%, 25%, 12% and 7% respectively.

In July 2014, Argentina remained the main importer of Brazilian tropical veneer, (21%), followed by Chile (20%), the United States (15%), and China (12%).

Manufacturers in Paraná state were the main tropical veneer exporters in July 2014, (45%) followed by Pará (42%) and Rondônia (12%).

Export Sawnwood Prices

| Sawnwood, Belem/Paranagua Ports, FOB | US\$ per m ³ |
|--------------------------------------|-------------------------|
| Ipe | 1247 |
| Jatoba | 1080 |
| Massaranduba | 725 |
| Miiracatiara | 707 |
| Pine (KD) | 228 |

Export Plywood Prices

| Pine Plywood EU market, FOB | US\$ per m ³ |
|-----------------------------|-------------------------|
| 9mm C/CC (WBP) | 374 |
| 12mm C/CC (WBP) | 343 |
| 15mm C/CC (WBP) | 331 |
| 18mm C/CC (WBP) | 323 |

Export Prices For Added Value Products

| FOB Belem/Paranagua Ports | | US\$ per m ³ |
|---------------------------|--------|-------------------------|
| Decking Boards | Ipê | 2,297 |
| | Jatoba | 1,501 |

Domestic Log Prices

| | US\$ per m ³ |
|-------------------------------------|-------------------------|
| Brazilian logs, mill yard, domestic | 183↓ |
| Ipê | 113 |
| Jatoba | 122↓ |
| Massaranduba | 127 |
| Muiracatiara | 117↓ |
| Angelim Vermelho | 109↓ |
| Mixed redwood and white woods | |

Domestic Sawnwood Prices

| | US\$ per m ³ |
|---|-------------------------|
| Brazil sawnwood, domestic (Green ex-mill) | 911↓ |
| Ipê | 546↓ |
| Jatoba | 439↓ |
| Massaranduba | 484↓ |
| Muiracatiara | 424↓ |
| Angelim Vermelho | 265↓ |
| Mixed red and white | |
| Eucalyptus (AD) | 249↓ |
| Pine (AD) | 195↓ |
| Pine (KD) | 208↓ |

Domestic Plywood Prices (excl. taxes)

| | US\$ per m ³ |
|----------|-------------------------|
| Parica | 795↓ |
| 4mm WBP | 662↓ |
| 10mm WBP | 565↓ |
| 15mm WBP | 703↓ |
| 4mm MR | 549↓ |
| 10mm MR | 519↓ |
| 15mm MR | |

Domestic prices include taxes and may be subject to discounts.

Prices For Other Panel Products

| | US\$ per m ³ |
|-------------------------|-------------------------|
| Domestic ex-mill Prices | |
| 15mm MDP/Particleboard | 346↓ |
| 15mm MDF | 501↓ |

Report from Peru

IFC issues first green bond in Sols

The International Finance Corporation (IFC) focusses on support for the private sector in developing countries. In August the IFC issued a 'green' bond denominated in Peruvian sols which generated around US\$15 million for investments that favor the environment in emerging markets.

IFC Vice President, Jingdong Hua, said the latest 'green' bond offers an opportunity for investors in emerging markets. The bond will support investment projects in renewable energy and energy efficient technologies.

For more see:

<http://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/5C75C78F84D22AB685257D320069686B?OpenDocument>

US\$3 billion from exports by 2021

The production and marketing of forest products could generate more than US\$3 billion per year from 2021 representing a 10 fold increase in output, said the Minister of Agriculture and Irrigation.

For this to be achieved the Minister reiterated the importance of land use planning and support for an efficient and competitive industry.

He said the ministry is working on a financing scheme for forestry and confirmed that industry development will be

carefully monitored and the utilisation of forest resources will be carefully planned.

In support of the government's objectives the Minister announced that MINAGRI plans to allocate some 5 million hectares of forest concessions over the next ten years which will generate more than 100,000 jobs and should have a positive impact on GDP growth.

Protected areas control Amazon deforestation

Manuel Glave, principal investigator of the Group of Analysis for Development (GRADE), <http://www.grade.org.pe/en/novedades/> reported that the designation of Protected Natural Areas (PNA) has been successful to some extent in controlling deforestation in the Peruvian Amazon.

It was reported that in the San Martin region and in some provinces of Loreto and Madre de Dios, land use plans are being developed that will lead to an inclusive plan for sustainable development.

Export Sawnwood Prices

| | US\$ per m ³ |
|--|-------------------------|
| Peru Sawnwood, FOB Callao Port | |
| Mahogany S&B KD 16%, 1-2" random lengths (US market) | 1570-1655 |
| Spanish Cedar KD select | |
| North American market | 958-977 |
| Mexican market | 946-965 |
| Pumaquiro 25-50mm AD Mexican market | 545-598 |

| | US\$ per m ³ |
|---|-------------------------|
| Peru Sawnwood, FOB Callao Port (cont.) | |
| Virola 1-2" thick, length 6'-12' KD | |
| Grade 1, Mexican market | 439-508 |
| Grade 2, Mexican market | 388-423 |
| Cumaru 4" thick, 6'-11' length KD | |
| Central American market | 841-865 |
| Asian market | 871-916↓ |
| Ishpingo (oak) 2" thick, 6'-8' length | |
| Spanish market | 509-549 |
| Dominican Republic | 606-631 |
| Marupa (simarouba) 1", 6-11 length Asian market | 444-495 |

| | US\$ per m ³ |
|--|-------------------------|
| Peru Sawnwood, FOB Iquitos | |
| Spanish Cedar AD Select Mexican market | 911-931 |
| Virola 1-2" thick, length 6'-13' KD | |
| Grade 1, Mexican market | 433-474 |
| Grade 2, Mexican market | 342-381 |
| Grade 3, Mexican market | 161-176 |
| Marupa (simarouba) 1", 6-13 length KD | |
| Grade 1, Mexican market | 369-426 |

Domestic Sawnwood Prices

| | US\$ per m ³ |
|-------------------------|-------------------------|
| Peru sawnwood, domestic | |
| Mahogany | - |
| Virola | 1562-184 |
| Spanish Cedar | 296-355 |
| Marupa (simarouba) | 123-129 |

Export Veneer Prices

| | US\$ per m ³ |
|------------------------|-------------------------|
| Veneer FOB Callao port | |
| Lupuna 3/Btr 2.5mm | 221-249 |
| Lupuna 2/Btr 4.2mm | 234-266 |
| Lupuna 3/Btr 1.5mm | 219-228 |

Export Plywood Prices

| | |
|---|-------------------------|
| Peru plywood, FOB Callao (Mexican Market) | US\$ per m ³ |
| Copaiba, 2 faces sanded, B/C, 15mm | 328-365 |
| Virola, 2 faces sanded, B/C, 5.2mm | 466-489 |
| Cedar fissilis, 2 faces sanded, 5.5mm | 759-770 |
| Lupuna, treated, 2 faces sanded, 5.2mm | 373-399 |
| Lupuna plywood B/C 15mm | 413-441 |
| B/C 9mm | 366-385 |
| B/C 12mm | 350-360 |
| C/C 4mm | 389-425 |
| Lupuna plywood B/C 4mm Central Am. | 370-393 |

Domestic Plywood Prices

| | |
|--|-------------------------|
| Lupuna Plywood BB/CC, domestic (Iquitos mills) 2440x1220 | US\$ per m ³ |
| 4mm | 494↑ |
| 6mm | 495 |
| 8mm | 497 |
| 12mm | 446 |
| (Pucallpa mills) | |
| 4mm | 473↑ |
| 6mm | 439 |
| 8mm | 430 |
| 12mm | 429 |

Domestic Prices for Other Panel Products

| | |
|------------------------------|-------------------------|
| Peru, Domestic Particleboard | US\$ per m ³ |
| 1.83m x 2.44m x 4mm | 282 |
| 1.83m x 2.44m x 6mm | 230 |
| 1.83m x 2.44m x 12mm | 204 |

Export Prices for Added Value Products

| | |
|--|-------------------------|
| Peru, FOB strips for parquet | US\$ per m ³ |
| Cabreuva/estoraque KD12% S4S, Asian market | 1287-1388 |
| Cumaru KD, S4S Swedish market | 915-1043 |
| Asian market | 1234-1298↓ |
| Cumaru decking, AD, S4S E4S, US market | 1187-1278↓ |
| Pumaquiro KD # 1, C&B, Mexican market | 479-554 |
| Quinilla KD, S4S 2x10x62cm, Asian market | 493-519 |
| 2x13x75cm, Asian market | 732-815 |

Report from Guyana

Incentives for added value production

The Forest Products Development and Marketing Council (FPDMC) will conduct a seminar to discuss key issues in the forest sector.

There is a growing need for stakeholders to be made aware of the full range of government incentives that are available to the forest sector. Such incentives include tax relief and investment incentives. Another issue to be discussed is compliance with national worker protection laws.

The seminar will provide an opportunity for discussion on the investment incentives that are available and the application process.

Another key area in the forestry sector is the need to for all companies to comply with the National Insurance scheme in order to access benefits offered by government.

The FPDMC is hoping the seminar will encourage the timber industry and help make the sector more productive and efficient and through this contribute more to the country's development.

Representatives from the Guyana Manufacturing and Services Association as well as the Forest Producers Association are expected to deliver key addresses at this seminar.

Export Log Prices

| | | | |
|----------------------|--|------|-------|
| Logs, FOB Georgetown | SQ - US \$ Avg unit value per m ³ | | |
| | Std | Fair | Small |
| Greenheart | 250 | 220 | - |
| Purpleheart | 200-325 | 200 | 200 |
| Mora | - | - | - |

Export Sawnwood Prices

| | | |
|--------------------------|-------------------------------------|-----------|
| Sawnwood, FOB Georgetown | \$ Avg unit val. per m ³ | |
| | Undressed | Dressed |
| EU and US markets | | |
| Greenheart Prime | - | - |
| Standard | - | 650-1,060 |
| Select | 784-954 | - |
| Sound | - | - |
| Merchantable | - | - |
| Purpleheart Prime | - | - |
| Standard | - | 700-1,158 |
| Select | 1,080 | - |
| Sound | - | - |
| Merchantable | - | - |
| Mora Prime | - | - |
| Select | 500-600 | - |
| Sound | - | - |
| Merchantable | 530 | - |

In the case of no price indication, there is no reported export during the period under review.

Export Plywood Prices

| | | |
|------------------------------|---------------------------------------|--|
| Plywood, FOB Georgetown Port | US\$ Avg unit val. per m ³ | |
| Baromalli BB/CC 5.5mm | No export | |
| 12mm | 465-584 | |
| Utility 5.5mm | No export | |
| 12mm | No export | |

Report from Japan

State of the Japanese economy – assessment by BoJ

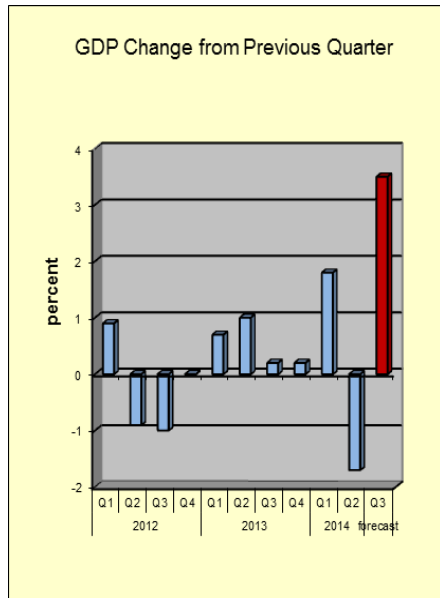
The Bank of Japan (BoJ) has determined in its latest assessment that the Japanese economy is on a moderate recovery track and that consumption is improving after the huge boom in consumption just prior to the consumption tax increase.

In the words of the BoJ:

- Private consumption shows movements of picking up, while some weakness remains.
- Business investment shows some weak movements recently, while it is on the increase.
- Exports are flat.
- Industrial production is in a weak tone with a reaction after a last-minute rise in demand before a consumption tax increase.
- Corporate profit improvement appears to be pausing.
- Firms' judgment on current business conditions is cautious, while it shows signs of improvement.
- The employment situation is improving steadily.
- Consumer prices are rising moderately.

On short-term prospects the BoJ warns that there remains a downside risk to the economy if the negative impact of the consumption tax increase continues. The government has revised down its assessment of short-term factory output and has indicated that if weakness in the economy continues it will take action to sustain growth so that its inflation goal is achieved.

The consensus amongst analysts is the third quarter GDP growth will be around 3.5%.



Data source for Q2 growth: Cabinet Office, Japan

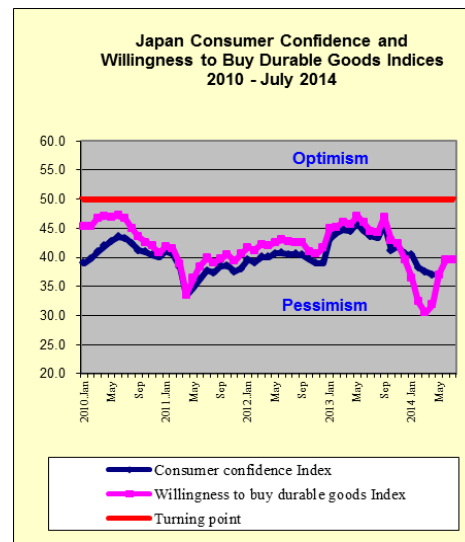
Fourth consecutive fall in household spending

Japan's Ministry of Internal Affairs and Communications has released the results of its survey on household spending showing an almost 6% decline in July compared to June. This marks the fourth consecutive decline in household spending since the consumption tax was raised.

August is vacation time in Japan but reports show a sharp drop in holiday spending which added to the decline already being experienced with sales of electronics and cars.

The July data confirms what the BoJ had deduced, namely that the effect of the consumption tax rise is taking longer to dissipate than expected.

The biggest problem facing consumers is that wages are not catching up with price rises and this puts a downward pressure on household spending. The next consumer confidence survey is expected to show persistent weakness.

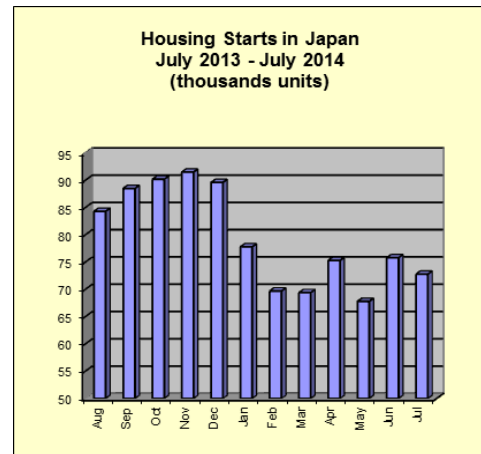


Data source: Cabinet Office, Japan

July housing starts reverse course

Japan's Ministry of Land, Infrastructure and Transport has released July housing starts data showing a downturn. A fall in building activity was anticipated but the extent of the fall was more than expected.

July 2014 housing starts were just 86% of those in July 2013.

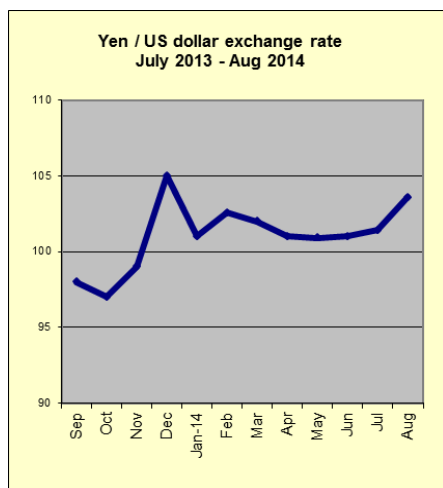


Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

Yen moves above 103 to the US dollar

The Japanese yen:dollar exchange rate altered significantly towards the end of August as funds were withdrawn from the 'safe haven' Japan as tensions eased in Ukraine and Iraq.

A yen:dollar exchange rate of over yen 103 to the dollar is higher than what the BoJ appears to be targeting so if the yen weakens further the BoJ may intervene.

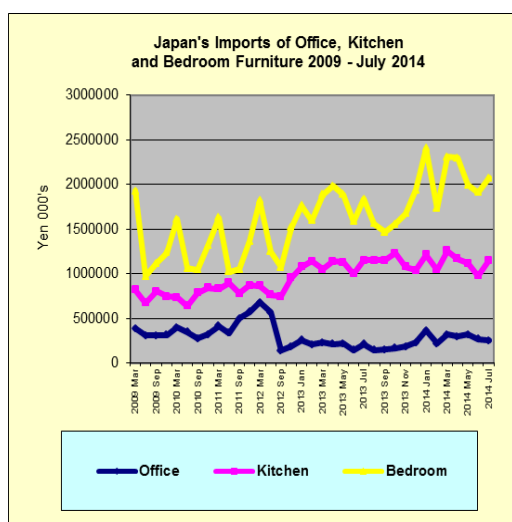


Trends in office, kitchen and bedroom furniture imports

Japan's office, kitchen and bedroom furniture imports from 2009 to the end of July 2014 are shown below.

Japan's imports of bedroom furniture increased in July reversing the downward trend for the past two months. Demand for imported kitchen furniture has improved slightly but was capped by the weak housing starts.

Imports of office furniture have settled back into the steady and unchanged levels seen before the peak just before the consumption tax increase in April this year.



Source: Ministry of Finance, Japan

Office furniture imports (HS 9403.30)

Japan's July 2014 imports of office furniture were up 17% compared to levels in July 2013. China remains the major supplier (56%) with the bulk of the balance being supplier from the EU, notably Poland, Italy Germany and Portugal.

July 2014 office furniture imports

| | Imports, July 2014 Unit 1,000 Yen |
|------------------------|--------------------------------------|
| S. Korea | 279 |
| China | 141036 |
| Taiwan P.o.C | 5590 |
| Hong Kong | - |
| Vietnam | 1145 |
| Thailand | - |
| Malaysia | 1698 |
| Philippines | 327 |
| Indonesia | 11574 |
| Sweden | 307 |
| Denmark | 1517 |
| UK | 870 |
| Netherlands | - |
| Belgium | - |
| France | - |
| Germany | 17566 |
| Switzerland | - |
| Portugal | 14632 |
| Italy | 18978 |
| Poland | 22769 |
| Lithuania | 5898 |
| Slovakia | 3350 |
| Canada | - |
| USA | 1553 |
| Mexico | 1477 |
| Australia | - |
| Total | 250566 |
| Total July 2103 | 213606 |

Source: Ministry of Finance, Japan

Kitchen furniture imports (HS 9403.40)

The top suppliers of kitchen furniture to Japan in July continued to be Vietnam (40%), Philippines (21%) and China (18%) which together supplied almost 80% of all kitchen furniture imports in July.

The other major suppliers were all in SE Asia, Thailand, Malaysia, Philippines and Indonesia with the last two being the major suppliers in the region.

Year on year, July 2014 imports of kitchen furniture barely changed from 2013.

July 2014 kitchen furniture imports

| | Imports July 2014 Unit 1,000 Yen |
|------------------------|-------------------------------------|
| S. Korea | - |
| China | 215930 |
| Taiwan P.o.C | 2752 |
| Vietnam | 464773 |
| Thailand | 11170 |
| Malaysia | 18858 |
| Philippines | 238203 |
| Indonesia | 151428 |
| India | - |
| Sweden | 510 |
| Denmark | - |
| UK | - |
| France | - |
| Germany | 27631 |
| Portugal | - |
| Italy | 14416 |
| Poland | - |
| Austria | - |
| Romania | - |
| Lithuania | 1901 |
| Canada | - |
| USA | 4748 |
| Total | 1152320 |
| Total July 2013 | 1153075 |

Source: Ministry of Finance, Japan

Bedroom furniture imports (HS 9403.50)

Year on year Japan's imports of bedroom furniture were 13% up on levels in July 2013 and were also higher than in June this year.

China, Vietnam and Thailand dominated bedroom furniture imports in July as they have since the beginning of the year. Other major suppliers include Malaysia, Poland and Romania.

July 2014 Bedroom furniture imports

| | Imports, July 2014 Unit 1,000 Yen |
|--------------|--------------------------------------|
| S. Korea | - |
| China | 1106220 |
| Taiwan P.o.C | 17787 |
| Vietnam | 470596 |
| Thailand | 111289 |
| Singapore | - |
| Malaysia | 97663 |
| Philippines | 1173 |
| Indonesia | 75015 |

| | |
|------------------------|----------------|
| Kazakhstan | - |
| Sweden | 13086 |
| Denmark | 228 |
| UK | 548 |
| France | - |
| Germany | 3621 |
| Switzerland | - |
| Spain | 303 |
| Italy | 23085 |
| Poland | 75166 |
| Austria | 350 |
| Romania | 37847 |
| Turkey | - |
| Latvia | - |
| Lithuania | 17524 |
| Bosnia and Herzegovina | - |
| Slovakia | 7003 |
| USA | 11841 |
| Brazil | - |
| New Zealand | 688 |
| Total | 2071033 |
| Total July 2103 | 1835396 |

Source: Ministry of Finance, Japan

Trade news from the Japan Lumber Reports (JLR)

The Japan Lumber Reports (JLR), a subscription trade journal published every two weeks in English, is generously allowing the ITTO Tropical Timber Market Report to extract and reproduce news on the Japanese market.

The JLR requires that ITTO reproduces newsworthy text exactly as it appears in their publication.

For the JLR report please see:

<http://www.n-mokuzai.com/modules/general/index.php?id=7>

Revision of JAS rules on 2x4 lumber

The Ministry of Agriculture, Forestry and Fisheries drew up revised JAS rules on 2x4 lumber. The main change is to classify domestic cedar, cypress and larch to reflect physical characteristics and strength of domestic species properly since the original rule was made based on North American lumber.

Domestic species have been classified and adapted same as North American lumber standard. As more domestic species have been used for 2x4 construction, it becomes necessary to have own rules for domestic species to evaluate the characteristic correctly.

There are accumulated data on domestic species, which is another background for the revision. Restriction on ring count is also revised. In the past, the rule is that core wood

does not have enough strength so that wood with more than 6 mm ring count is automatically graded as the lowest grade but now domestic cedar, cypress, larch, Southern yellow pine are excluded from the ring count restriction to evaluate original performance properly.

There will be a new rule on MSR vertical edge glued lumber, which allows utilization of short lumber for sawmills.

South Sea(tropical) logs

South Sea log export prices continue firm with low log production. Weather in Sarawak, Malaysia has been dry and water level of rivers is low, which makes log towing difficult. In particular, log supply in Tanjung Manis, where majority of logs come by rivers, is tight.

India’s purchase has been very aggressive after Myanmar banned log export. India is now buying Sarawak low grade logs for plywood mills. This pushes log export prices up.

Currently, meranti low grade prices are about \$270 per cbm FOB. The demand in India is brisk and with their currency Rupee getting strong so export log prices seem to stay up high by India’s robust demand.

Log prices for Japan, which needs quality logs and selected logs, are pushed up by strong log prices for India. Current meranti regular log prices are US\$280-295 per cbm FOB. Small meranti prices are US\$245-260 and super small meranti prices are about US\$230.

In PNG and Solomon Islands, log supply decreased by prolonging rain so that the prices remain firm.

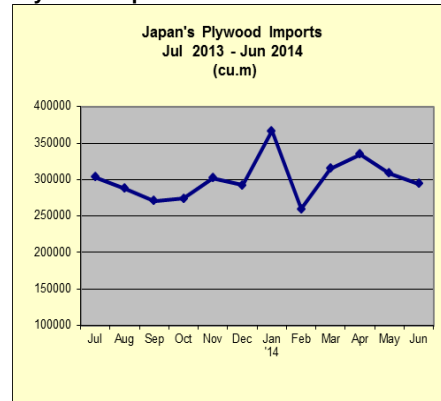
In Japan, log market continues depressed by reactionary demand drop after the consumption tax hike in April.

Accordingly, the market has no room to accept higher FOB prices but supply side has been tight in log supply since last February even after rainy season was over in June when log prices slacken normally but this year is different with log prices staying up high. If this high level continues through summer then rainy season starts in fall, further increase of log prices is possible as log supply decreases again in rainy season.

Plywood

Domestic softwood plywood market is weakly holding. The demand slowed down since May after the consumption tax increase. Shipment from plywood mills dropped and the inventories started increasing.

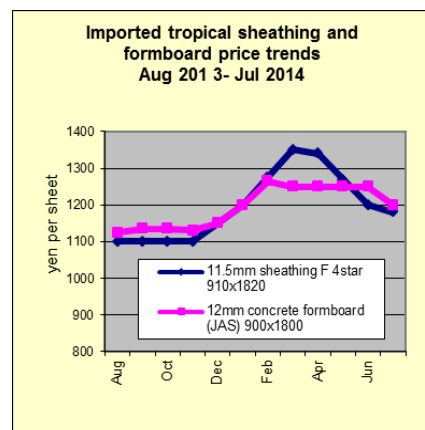
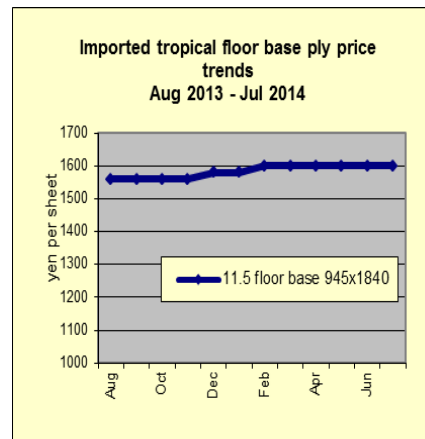
Plywood imports

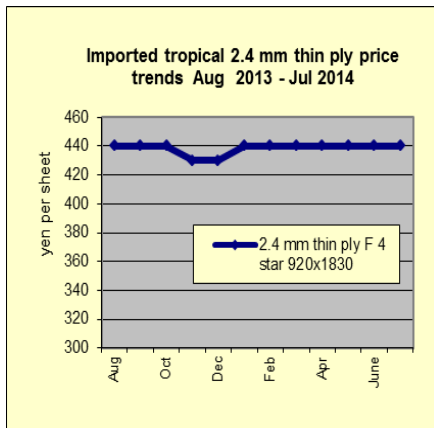


Because of this, all the softwood plywood mills started curtailing the production since late June and this time they are all making the same pace orderly to stop decline of the market. The market reacted favorably to this action and the trading has been normal without any confusion until middle August.

However, the production curtailment actually started in July and June statistics did not reflect this move.

Price trends for Japanese imports of Indonesian and Malaysian plywood





The Ministry of Agriculture, Forestry and Fisheries disclosed June statistics. The production of softwood plywood was 231,500 cbms, 3.7% more than June last year and 4.4% more than May while the shipment was 178,700 cbms, 18.9% less and 0.1% less. The inventories were 212,000 cbms, 33.6% more than May so the inventories finally reached about 0.9 month for the production.

Current market prices of 12 mm 3x6 panel in Tokyo region are yen 940-950 per sheet delivered, 10 yen down from July.

Imported plywood market is bottoming. Since late May, the market started slackening with slow demand but with continuous higher export prices by the suppliers, the importers finally started stop under selling since late July and asking higher prices and wholesalers and dealers have started making procurement with bottom feeling.

Nevertheless, the demand has not really recovered and with ample port inventories, the importers struggle to pass higher prices. Current market of 3x6 JAS concrete forming panel for coating is yen 1,300-1,340 per sheet delivered, unchanged from July.

Import of North American logs for the first half of 2014

According to the summary the tallying organizations made up, total import of North American logs were 1,789,000 cbms, 4.3% more than the same period of last year.

Logs for sawmills in major Douglas fir ports like Kure, Matsunaga and Kashima decreased considerably by mills' slower production but log arrivals increased for the ports like Ishinomaki and Sakai Minato where plywood mills are so increase of logs for plywood mills offset decrease of logs for sawmills.

Volume for top three port of Kure, Kashima and Matsunaga where Chugoku Lumber and other major Douglas fir sawmills like Toa decreased and total of three ports was 852,000 cbms, 13.6% drop and share of three ports in total import was 47.6%, 7.6 points down from the same period of last year. Another port of Matsuyama where another large Douglas fir sawmill, Tsurui Sangyo islocated, showed 19% decline as well.

Report from China

China implements green construction action plan

Recently China began to implement a 'green construction action plan' which requires, by 2015, 20% of new town construction to meet the requirements of green building standard. It is estimated that China's urbanisation rate will increase from 54% in 2013 to 60% by 2020.

The 'green construction action plan' is one element of the government's "China National New Type Urbanization Plan" prepared to meet the challenges of urbanization..

To meet the demand for urban housing China plans to build 100 'green' ecological urban demonstration zones. Low income housing built by municipalities will take the lead in the implementation of green building standard.

In particular some 400 million square metres of housing in China's Northeast will be reformed for energy saving. The forecast pace of urbanisation will create a steadily expanding demand for wood products and the 'green construction action plan' is expected to result in higher wood consumption per square metre of completed housing.

Zhangjiagang Port acts to prevent ebola

On 19 August Zhangjiagang Port authorities began a programme to eliminate the risk of the Ebola virus entering China. A shipment of logs from Ebola affected African regions was quarantined.

In order to protect dock workers strict measures have been introduced. Quarantine officers follow strict guidelines for disinfection of imported timber from Ebola affected countries which requires:

- Imported timber from affected countries will not be released until disinfected.
- All containers will be disinfected and inspected.
- All on-site staff and workers must wear gloves and other protective equipment.
- If animal carcasses are found in the shipment additional protection measures will be applied.

As the animal host of the disease is not completely clear Chinese authorities are acting to eliminate all animals in timber shipments.

At present the port quarantine staff use methyl bromide or sulfuryl fluoride fumigation treatment of containers from African ports.

Workers from Greater Khingan Mountains relocate overseas

Since logging in the Greater Khingan Mountains was stopped in April some forest workers have begun to create opportunities outside the forestry sector while others have taken their skills overseas. Recently, 1600 workers from 9 forest bureaus relocated to Russia to work in the forestry sector.

Some Chinese companies from the Greater Khingan Mountain region have relocated entire processing plants overseas or have started to sell or rent out processing equipment. In addition to moves to Russia workers and companies are beginning to relocate to S. America and Africa.

Furniture exports from Heilongjiang collapse

According to the statistics from Heilongjiang Customs, in the first half of 2014 the value of furniture and furniture parts exports fell 76% to yuan 880 million. This rapid decline is a direct result of the halt to timber extraction in most of the province.

The main features of the first half 2014 furniture export trade in Heilongjiang Province are summarised below.

- The value of furniture exports by private enterprises in Heilongjiang Province fell to yuan 840 million and comprised 96% of provincial total furniture exports.
- Furniture exports to traditional market fell but grew in emerging market.

In the first half of 2014, the value of Heilongjiang’s furniture exports to ASEAN fell 73%, exports to the EU fell over 75% and at the same time exports to the US declined 54% while exports of furniture to Russia fell 25%. The value of furniture exports to ASEAN, EU, US and Russia accounted for around 70% of total provincial furniture exports.

In addition to exports to traditional markets the value of furniture exports to Angola rose 4.3 times to yuan 70 million, to Nigeria exports grew 41% to yuan 20 million and exports to Senegal increased 5.6 times to yuan 20 million.

Timber processing in Shandong Province

Shandong province has extensive forest resources as well as a vibrant wood processing sector.

Output from the wood processing industry currently accounts for about 50% of the total provincial output value. Development of the wood-based panel sector dominates the sector and most enterprises have advanced processing equipment.

The wood processing industries in Shandong fall into the following main categories: veneer, particleboard, fibreboard, plywood, furniture, wooden door and flooring production.

It has been reported that the value of output from the wood processing industry in Shandong Province in 2013 totalled yuan 268.6 billion accounting for around 13% of the total national output from the wood processing industries.

There are 2,754 timber processing enterprises in Shangdong of which 1,639 are wood-based panel enterprises and the individual value of output from around half of these enterprises is more than yuan 5 million

annually. In addition to the wood processing sector, Shandong Province is well known for its woven wicker products.

US and EU log imports dominate business at Tianjin Port

According to statistics from Tianjin Customs, log imports through Tianjin Port in the first half of 2014 were 1.156 million cubic metres valued at yuan 1.28 billion, up 46% in volume and 46% in value from the same period in 2013. The main features of log imports through Tianjin Port in the first half of 2014 are summarised below.

- log imports by state-owned enterprises rose 46% to 576,000 cubic metres,
- log imports by private enterprises grew 25% to 497,000 cubic metres,
- imported logs through Tianjin Port were mainly from the US and Europe,
- imported logs from the US rose 23% to 469 000 cubic metres,
- imported logs from European countries grew 1.4 times to 199 000 cubic metres,
- log imports from the US and EU accounted for 57% of all log imports through Tianjin Port in the first half of 2014.

China’s plywood exports expand

According to the latest data from China Customs, plywood exports between January and July totaled 6.78 million cubic metres valued at yuan 20.5 billion, up 16% in volume and 15% in value from the same period in 2013. China’s plywood exports in July alone were 1.09 cubic metres valued at yuan 3.3 billion, up 17% in volume and 17% in value from the same month in 2013.

Guangzhou Yuzhu International Timber Market Wholesale Prices

Logs

| | Logs | yuan/cu.m |
|-----------|---------------|------------|
| Merbau | dia. 100 cm+ | 5200-5400 |
| Bangkirai | dia. 100 cm+ | 5300-5500 |
| Kapur | dia. 80 cm+ | 2800-3000 |
| Ulin | All grades | 6500 |
| Lauan | dia. 60 cm+ | 2000-2200 |
| Kempas | dia. 60 cm+ | 2000-2100 |
| Teak | dia. 30-60 cm | 8000-12000 |

| | Logs | yuan/cu.m |
|-----------------------|-------------|-------------|
| Greenheart | dia. 40 cm+ | 2300-2450 |
| Purpleheart | dia. 60 cm+ | 3100-3300 |
| Pau rosa | dia. 60 cm+ | 4700-4800 |
| Ipe | dia. 40 cm+ | 4000-4800 |
| yuan per tonne | | |
| Cocobolo | All grades | 53000-58000 |

| | Logs | yuan/cu.m |
|-------------------|----------------|-------------|
| Wenge | All grades | 4300-5200 |
| Okoume | All grades | 2200-2500 |
| Okan | All grades | 3700-3800 |
| African blackwood | All grades | 8000-15000 |
| African rosewood | All grades | 5000-6500 |
| Bubinga | dia. 80 cm+ | 13000-15000 |

| | Logs | yuan/cu.m |
|------------|-------------|-----------|
| Ash | dia. 35 cm+ | 4200-4300 |
| Basswood | dia. 36 cm+ | 3500-3800 |
| Elm | dia. 36 | 2800-3600 |
| Catalpa | dia. 36 | 2800-4200 |
| Oak | dia. 36 cm+ | 4000-5500 |
| Scots pine | dia. 36 cm+ | 2000-2200 |
| Larch | dia. 36 cm+ | 1550-1900 |
| Maple | dia. 36 cm+ | 2700-3050 |
| Poplar | dia. 36 cm+ | 1650-1950 |
| Red oak | dia. 30 cm+ | 2500-2600 |

Sawnwood

| | Sawnwood | yuan/cu.m |
|-------------------|---------------|-------------|
| Makore | Grade A | 7300 |
| Zebrano | Grade A | 12000-15000 |
| Walnut | Grade A | 9500-10000 |
| Sapelli | Grade A | 7500-7900 |
| Okoume | Grade A | 4200-4500 |
| Padauk | Grade A | 14500-17000 |
| Mahogany | Grade A | 6500-7000 |
| yuan/tonne | | |
| Ebony | Special grade | 16000 |

| | Sawnwood | yuan/cu.m |
|--------|---------------|-------------|
| Ulin | All grade | 9000-10000 |
| Merbau | Special grade | 8600-9500 |
| Lauan | Special grade | 4600-4800 |
| Kapur | Special grade | 5500-6000 |
| Teak | Grade A | 9600 |
| Teak | Special grade | 14000-20000 |

| | sawnwood | yuan/cu.m |
|--------------|------------|-------------|
| Cherry | FAS 2 inch | 10000-12800 |
| Black walnut | FAS 2 inch | 14000-16000 |
| Maple | FAS | 7500-10000 |
| White oak | FAS | 8000-11000 |
| Red oak | FAS | 6800-9000 |
| Finnish pine | Grade A | 3000 |

| | Sawnwood | yuan/cu.m |
|------------|---------------|-------------|
| Maple | Grade A | 10000-10500 |
| Beech | Special grade | 5300 |
| Ash | no knot | 5000-5800 |
| Basswood | no knot | 2700-3500 |
| Oak | no knot | 4000-5500 |
| Scots pine | no knot | 2800 |

Shanghai Furen Forest Products Market Wholesale Prices

Logs

| Logs All grades | 000's yuan/tonne |
|--------------------|------------------|
| Bois de rose | 250-300 |
| Red sandalwood | 1600-2000 |
| Siam rosewood | 100-550 |
| Burma padauk | 27-45 |
| Rengas | 8-15 |
| Mai dou lai | 6000-8000 |
| Neang noun | 32-65 |
| Burma tulipwood | 28-60 |
| Cocobolo | 43-180 |
| Morado | 10 - 15 |
| Ebony | 15-40 |
| Trebol | 7-8 |
| African sandalwood | 18-32 |

Sawnwood

| | Sawnwood | yuan/cu.m |
|----------|----------|-------------|
| Okoume | Grade A | 4500-4700 |
| Sapelli | Grade A | 7600-7900 |
| Zebrano | Grade A | 8000-9000 |
| Bubinga | Grade A | 13500-15800 |
| Mahogany | Grade A | 6000-7000 |
| Wawa | FAS | 3700-3900 |
| Ayous | FAS | 4000-4200 |

| | Sawnwood | yuan/cu.m |
|--------|-----------|-------------|
| Lauan | Grade A | 3700-3900 |
| Merbau | All grade | 8000-10000 |
| Teak | All grade | 11500-36000 |

| | Sawnwood | yuan/cu.m |
|--------------|------------|-------------|
| Beech | Grade A | 4200-4800 |
| Ash | Grade A | 5500-6500 |
| Elm | Grade A | 4900-5300 |
| Red oak | 2 inch FAS | 8000-8600 |
| White oak | 2 inch FAS | 7500-8500 |
| Maple | 2 inch FAS | 9800-10500 |
| Cherry | 2 inch | 9500-10500 |
| Black walnut | 2 inch | 15000-17000 |

Zhangjiagang Timber Market Wholesale Prices

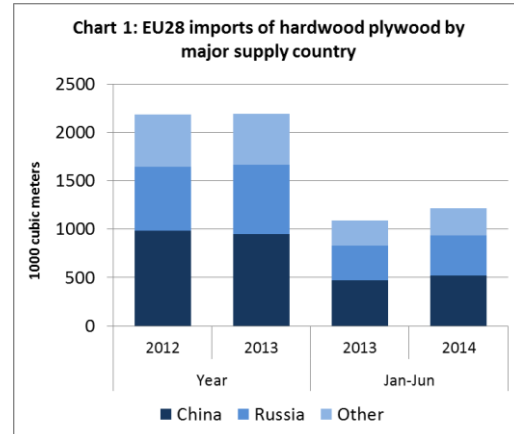
| Logs, all grades | yuan/tonne |
|------------------|------------|
| Sapelli | 4500-5700 |
| Kevazingo | 8700-34000 |
| Padouk de africa | 3000-3800 |
| okoume | 2100-2600 |
| Okan | 3490-3650 |
| Dibetou | 2200-2500 |
| Afrormosia | 5500-6500 |
| Wenge | 4500-5000 |
| Zingana | 4200-5500 |
| Acajou de africa | 3100-3600 |
| Ovengkol | 3850-4300 |
| Pao rosa | 5950-6600 |

| Logs, all grades | yuan/tonne |
|------------------|------------|
| Merbau | 3500-5800 |
| Lauan | 1600-2400 |
| Kapur | 2020-2500 |
| Keruing | 1700-2200 |
| Geronggang | 1600 |
| kauri | 1700-1850 |

| Logs, all grades | yuan/tonne |
|----------------------|------------|
| Amoora | 1900-2080 |
| Calophyllum | 2150-2350 |
| Red ganarium | 1300-1400 |
| Gray Canarium | 1100-1200 |
| Red-brown terminalia | 1680-1750 |
| Basswood | 1200-1400 |
| Sureni toona | 1500-1650 |
| Bunya | 1400-1550 |
| Walnut | 2900-3350 |

Sharp rise in EU imports of hardwood plywood

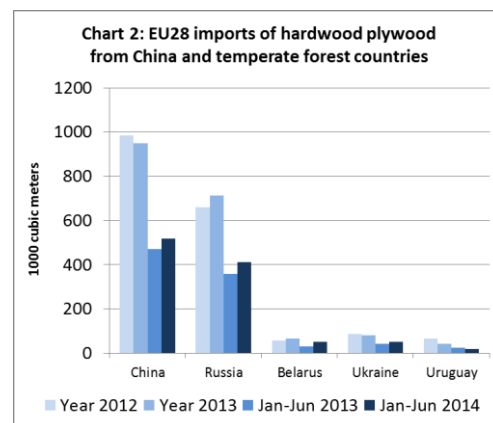
In the first six months of 2014, EU28 imports of hardwood plywood were 1.21 million cubic metre, 12% more than the same period the previous year. This follows stable imports between 2012 and 2013 (Chart 1).



Source: FII Ltd analysis of eurostat

Most of the gains this year have been in imports from China and temperate forest regions. After declining 3.5% between 2012 and 2013, EU imports of hardwood plywood from China increased 11% to 519,000 cubic metre in the first six months of 2014. Imports from Russia climbed 15% to 412,000 cubic metre in the first six months of 2014, building on the 8% rise in imports recorded the previous year.

Imports in the first six months of 2014 also rose strongly from Belarus and Ukraine. However imports from Uruguay have been declining (Chart 2).



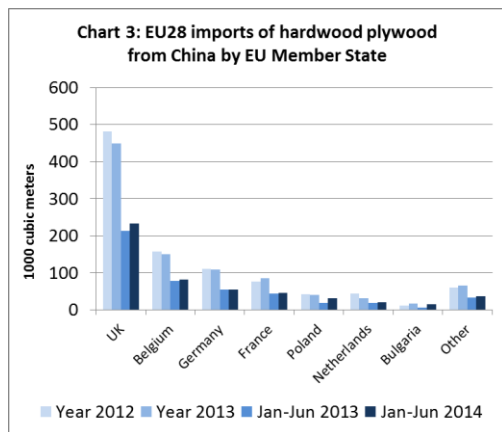
Source: FII Ltd analysis of eurostat

Firm European demand for Chinese hardwood plywood

There has been firm demand for Chinese hardwood plywood in Europe this year. Officially reported imports of Chinese hardwood plywood have risen into all the leading EU markets during 2014 with the exception of Germany (Chart 3).

Demand has been particularly strong in the large UK market, led primarily by strong recovery in construction and also benefitting from improving sales to the shop-fitting, furniture and packaging sectors. Nevertheless, there remains considerable resistance to increased prices in the highly competitive UK market.

This trend has favoured Chinese products which tend to be more competitively priced than South East Asian products. China's share of the UK market has been rising sharply this year, mainly at the expense of Malaysia.



Source: FII Ltd analysis of eurostat

While UK buyers often seem more inclined to compromise on quality rather than on price, some importers are raising concerns about the quality of Chinese plywood arriving in the country.

There are reports, for example, of thin and low quality veneers for plywood products claimed to be compliant with the BS1088 standard for marine plywood.

The apparent decline in imports of Chinese hardwood plywood into Germany may be partly due to emerging signs of weakness in German construction and other continental European countries in the second quarter of 2014.

However it also reflects the recent practice by German customs to record some plywood imports from China as LVL thereby pushing them into a higher tax bracket.

This issue has been raised with the German customs authorities by the German timber trade association GD Holz. As a result, some Chinese products currently included under LVL in German trade statistics may be reclassified and plywood import statistics for 2013 and 2014 amended.

After a period of tight supply for mixed light hardwood plywood from China in the first quarter of 2014 due to restricted availability of eucalyptus and poplar veneer, the supply situation eased in the second quarter of the year. Delivery times to Europe currently stand at around 4 to 5 weeks.

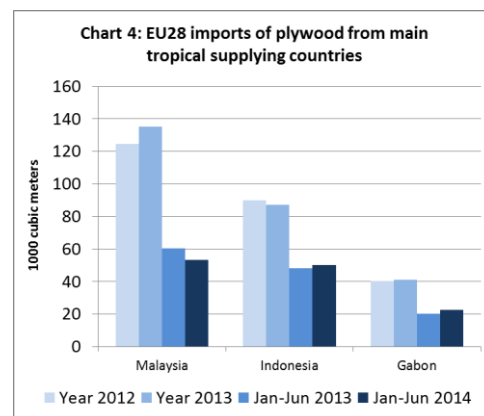
FOB prices for mixed light hardwood plywood from China were holding steady in the three months before the Chinese New Year, but prices increased in March and April this year to accommodate rising prices for eucalyptus and poplar veneer. Prices have since stabilised at the higher level.

CIF prices for delivery of Chinese plywood to Europe have been less certain due to continuing fluctuations in freight rates. After recovering to US\$1300 per TEU in early July, the Shanghai-North Europe freight index dipped again to US\$1,230 at the end of July and then jumped to US\$1,455 in the first week of August.

It remains to be seen whether shipping companies will be able to maintain these higher rates during the autumn months.

Mixed fortunes for tropical hardwood plywood in Europe

The fortunes of tropical hardwood plywood in the EU market have been mixed in 2014 (Chart 4).



Source: FII Ltd analysis of eurostat

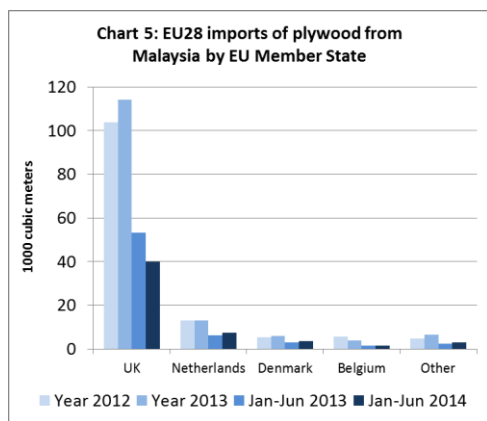
Imports from Malaysia declined 12% to 53,300 cubic metres in the first 6 months of 2014, a turnaround following a 9% increase in imports from Malaysia the previous year.

This is partly explained by rising prices for Malaysian plywood in 2014 due to various factors including: the increase in GSP duties from 3.5% to 7% on 1 January 2014; higher production and freight costs during 2014; and robust sales in other parts of the world, including the US and Middle East.

Prices for Malaysian raw plywood on offer to European buyers currently stand at around Indo 96+32%.

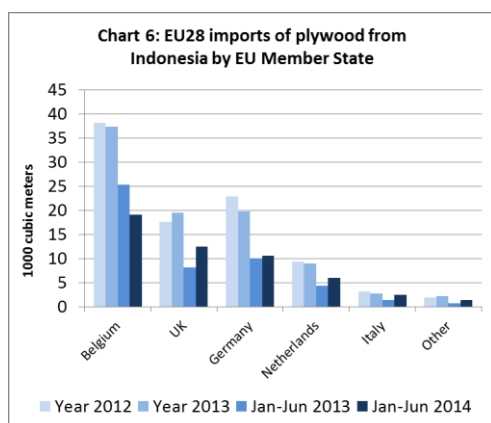
Higher prices for Malaysian plywood have particularly undermined demand in the relatively large but price conscious UK market.

However, imports of Malaysian plywood into the main continental European markets have increased this year (Chart 5).



Source: FII Ltd analysis of eurostat

Imports of hardwood plywood from Indonesia were up 5% in the first six months of 2014 following a decline in imports the previous year. Imports into Belgium declined by 25% but this was offset by rising imports into the UK, Germany, Netherlands, and Italy (Chart 6).



Source: FII Ltd analysis of eurostat

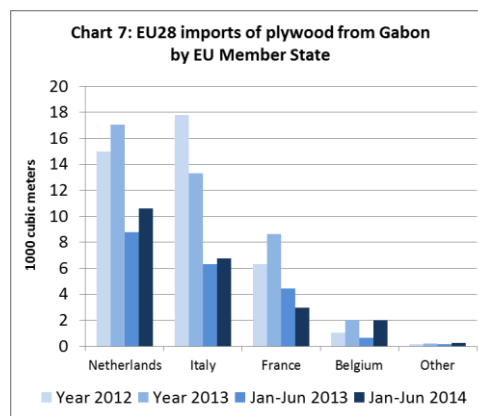
Like Malaysian products, Indonesian plywood prices have been rising this year and currently stand at around Indo '96 +40% for raw plywood. Much of the gain in prices is due to rising log costs in Indonesia and higher freight rates, both for break bulk and container shipment.

However, Indonesian plywood continues to benefit in the EU market from relatively high prices for competing Russian and European birch plywood. Break-bulk shipments of Indonesian plywood to Europe are now occurring around once every two to three months and are heavily subscribed.

EU plywood imports from Gabon are low but rising

EU imports of hardwood plywood from Gabon were 10% higher in the first six months of 2014 compared to the same period the previous year. Imports into France declined, but this was offset by rising imports into Netherlands, Italy and Belgium (Chart 7).

This is despite the change in Gabon's GSP status which led to imposition of a 7% tariff on EU imports of hardwood plywood from Gabon at the start of 2014. Imports this year have also been disrupted by occasional strikes by customs officials at Libreville port in Gabon.



Source: FII Ltd analysis of eurostat

Both EU manufacturers and importers report better demand for okoume plywood in 2014 than in the previous year. This is driven by improved construction activity in the opening months of 2014 in Netherlands and Belgium and, more recently, by rising boat-building in Italy.

However European consumption of okoume plywood is still very low by historical standards. Much of the existing demand is for FSC certified products. Apart from increases due to the imposition of higher export tariffs, prices for okoume plywood imported from Gabon have remained stable during the first half of 2014.

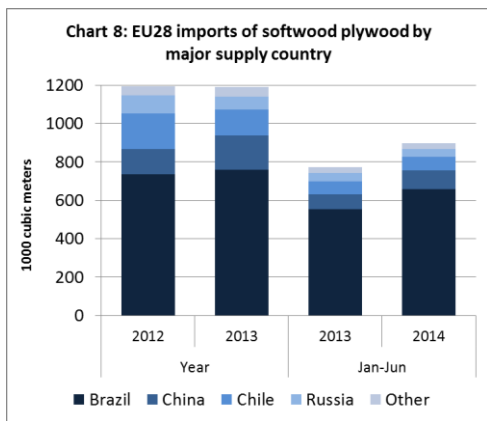
Following lobbying by associations representing European plywood manufacturers, the EU has reduced the tariff on imports of okoume veneer under product code 4408393010 from 7% to 0%. The tariff reduction was announced in European Council Regulation No 722/2014 of 24 June 2014 and backdated to 1 January 2014.

This reverses the increase imposed at the start of the year due to the change in Gabon's GSP status. The reduction does not apply to plywood imported from Gabon which continues to be subject to the 7% tariff. Gabon industry representatives have expressed concern that this measure favours EU-based over Gabon-based manufacturers.

UK demand boost EU imports of softwood plywood

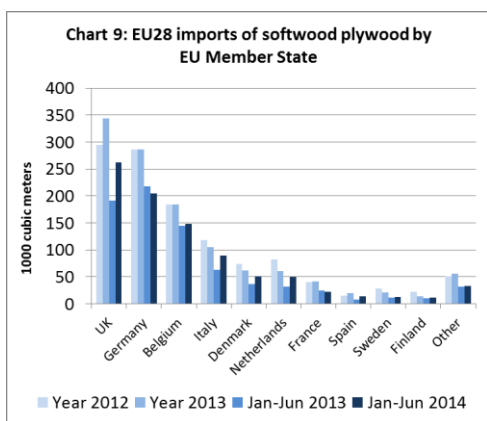
In the first six months of 2014, EU28 imports of softwood plywood were 898,000 cubic metres, 17% more than the same period the previous year (Chart 8).

Imports from Brazil increased 19% to 657,000 m3 in the first half of 2014. There was also a 26% rise in imports from China to 97,400 cubic metres, and a 5% increase from Chile to 72,300 cubic metres.



Source: FII Ltd analysis of eurostat

Much of the gain in imports was due to improving market conditions in the UK. However imports also increased into Belgium, Italy, Denmark and the Netherlands in the first half of 2014. Imports into Germany and France have been weaker this year (Chart 9).



Source: FII Ltd analysis of eurostat

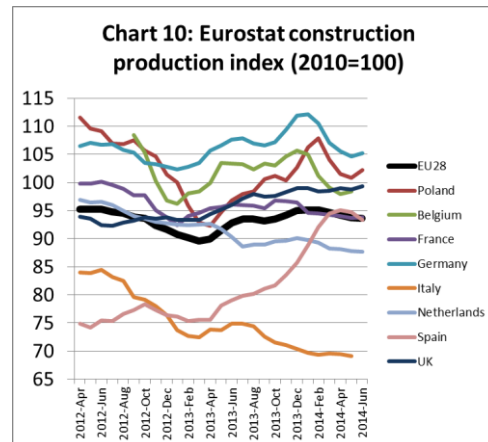
A large proportion of softwood plywood imported into the EU each year arrives in the first quarter as importers rush to benefit from the annual duty free quota of 650,000 cubic metres. This year there was a particularly strong surge in imports in January, but imports slowed dramatically in February and only recovered a little ground in the March to June period.

While consumption of softwood plywood has been good in the UK this year, disappointing construction activity in the spring months in other European markets has weakened demand elsewhere. European importers have been resistant to the higher prices asked by Brazilian exporters following rapid appreciation of the real exchange against the dollar in the first four months of this year. Brazilian exporters have also faced higher log, energy and wage costs this year.

In previous years, Brazilian suppliers have lowered prices for softwood plywood in Europe by an amount equivalent to the 7% duty rate once the duty-free quota is used up. However this year they have had little incentive to reduce prices to European buyers at a time of robust demand in North America.

Variable prospects for EU plywood market

While market conditions for plywood in Europe have improved in 2014, recent construction data and other economic indices suggest future prospects remain variable and uncertain. The EU Construction Production Index, having made gains between March 2013 and January 2014, lost ground in the months to June 2014. The slowdown was particularly evident in Germany but also affected Poland, Belgium and Spain (Chart 10).



Source: FII Ltd analysis of eurostat

There are also emerging signs that the recovery in the broader euro-zone economy may be stalling. The euro-zone recorded zero GDP growth in the second quarter of 2014. It had been expected to grow, if barely, but was dragged down by worse than expected GDP data from Germany and France. Germany's economy contracted by 0.2% as both its export industry and domestic construction sector struggled. France registered a second straight quarter of zero growth.

However prospects remain good in the UK. In August, the UK Construction Products Association (CPA) revised its forecast for construction output growth this year to 4.7%, up from 4.5% forecast in April. The CPA growth forecast for next year is 4.8%. Growth is expected to be fuelled by rapid expansion in private housing starts and commercial offices.

CPA expects private housing starts to grow 18.0% in 2014 and 10.0% in 2015, while commercial offices output are forecast to grow 10.0% in 2014 and 8.0% in 2015. Overall levels of UK construction activity will likely match their 2007 peak in 2017.

* The market information above has been generously provided by the Chinese Forest Products Index Mechanism (FPI)

Steady growth in tropical sawnwood imports

While being up 9% for the first half of the year hardwood sawnwood imports to the US fell by 50% in June, following the high point reached in May when imports were over 150,000 cu.m. In June, 75,742 cu.m of temperate and tropical sawnwood were imported into the US.

Tropical imports have gradually increased since the start of the year, while temperate imports fluctuated.

Imports of tropical species were 20,473 cu.m in June, up 8% from May. Year-to-date tropical sawnwood imports were 9% higher than in May 2013.

Imports from Brazil increased by 40% to 3,350 cu.m in June, but year-to-date imports remain below 2013 levels. Brazilian shipments to the US of both ipe and virola increased in June to 2,212 cu.m and 793 cu.m, respectively.

Balsa imports from Ecuador were 4,511 cu.m in June, up 5% from May. Imports from Peru reached 1,604 cu.m with a significant growth in virola sawnwood shipments.

Imports from Cameroon and Congo/Brazzaville fell due to lower sapelli shipments from both countries. Ghana shipped 1,669 cu.m of tropical sawnwood to the US in June. The increase was mainly in acajou d’Afrique shipments.

Imports from both Malaysia and Indonesia grew by about 40% in June. Keruing exports to the US increased and Malaysia also shipped more meranti (677 cu.m).

US imports of sawn tropical hardwood

| Source of US imports of tropical sawnwood | First half year % change 2013 - 2014 |
|---|--------------------------------------|
| Total imports | 9% |
| Ecuador | 56% |
| Brazil | -2% |
| Cameroon | 2% |
| Malaysia | 1% |
| Congo (Brazzaville) | 63% |
| Peru | -39% |
| Indonesia | 7% |
| Ghana | 40% |
| Cote d'Ivoire | -1% |
| Other | -13% |

Data source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

By species, the largest growth in US imports was in virola, mahogany and meranti. Ipe and keruing imports grew by about one third in June. Sapelli imports declined following very high volumes in May.

US imports of sawn tropical hardwood, by species (cu.m.)

| | June 2014 | Change from previous month | Year-to-date June 2014 | Change from previous year |
|------------------|---------------|----------------------------|------------------------|---------------------------|
| Balsa | 4,511 | 5% | 28,090 | 53% |
| Sapelli | 1,769 | -60% | 17,634 | 63% |
| Acajou d'Afrique | 1,648 | -18% | 9,991 | -18% |
| Keruing | 1,636 | 31% | 9,340 | -7% |
| Ipe | 2,416 | 29% | 13,367 | 19% |
| Mahogany | 1,918 | 98% | 7,226 | 7% |
| Virola | 1,898 | 499% | 4,681 | -36% |
| Meranti | 992 | 67% | 3,883 | 57% |
| Cedro | 855 | 18% | 4,253 | -1% |
| Jatoba | 182 | 17% | 1,031 | -58% |
| Teak | 470 | 6% | 2,784 | -51% |
| Iroko | 50 | 56% | 189 | 103% |
| Padauk | 50 | -60% | 301 | 31% |
| Aningre | - | | 184 | 268% |
| Other tropical | 2,078 | 17% | 10,141 | -14% |
| Total | 20,473 | 8% | 113,095 | 9% |

Data source: US Department of Commerce, US Census Bureau, Foreign Trade Statistics

Growth in Canadian tropical imports continues

Canadian imports of tropical sawn hardwood were worth US\$3.0 million in June, up 20% from May. On a year-to-date basis imports grew by 19% from 2013. The value of Canada’s imports represents 13% of total US tropical sawnwood imports in June (US\$22.1 million).

Much of the growth in imports was from Canada’s two main suppliers, Brazil and Cameroon. Both countries more than doubled their shipments to Canada, but imports from Congo/Brazzaville, Congo/Zaire and Indonesia also increased. Balsa imports from Ecuador declined.

Sapelli remained the most significant tropical species imported at US\$703,655 and a 33% month-on-month increase. The value of mahogany imports more than doubled in June to US\$120,382.

Demand for wood-plastic composites forecast to grow

US demand for wood-plastic composite and plastic lumber is forecast to rise 9.8% annually through 2018, according to a Freedonia market study (Wood Plastic Composite & Plastic Lumber, Study 3145, June 2014). Demand is expected to reach US\$5.5 billion in 2018. In 2013, the market was worth US\$3.45 billion according to Freedonia.

The main end uses of wood-plastic composite and plastic lumber are traditional wood product applications: decking, mouldings and trim, fencing, landscaping and outdoor products.

Decking is the largest market for wood-plastic composite and to a lesser degree for plastic lumber. Demand for wood-plastic composite and plastic decking was US\$1.4 billion in 2013, accounting for 19% of the total decking market. Demand is expected to grow 12% annually to reach US\$2.47 billion in 2018.

The second-largest market for wood-plastic and plastic is mouldings and trim, worth US\$1.0 billion in 2013. Annual growth is forecast at 8.7%, with demand estimated at US\$1.5 billion by 2018.

Demand for wood-plastic composite and plastic in fencing and outdoor products is expected to grow at a slightly lower rate of under 8% annually. Other miscellaneous applications will account for US\$415 million in 2018, up from US\$285 million in 2013.

Wood-plastic composite decking that copy the appearance of expensive wood species such as ipe and redwood are increasingly available and popular. Wood-plastic composite producers have also improved manufacturing technologies in recent years to improve resistance to fading and decay.

As wood-plastic products improve and consumers prefer low maintenance products, wood-plastics will continue to compete with wood in decking and other outdoor products. Environmental group files lawsuit over formaldehyde content in flooring made in China

Environmental group files lawsuit against large retailer

Lumber Liquidator over formaldehyde levels in laminate and engineered wood flooring imported from China.

California has stringent formaldehyde emission standards governed by the California Air Resources Board. Californian law allows citizens to file lawsuits to enforce the emission standards.

The standards were exceeded in several tests of flooring samples according to the environmental group. They claim the samples tested showed that Lumber Liquidators sells flooring from China with substantially higher formaldehyde emissions than flooring made in the US or Europe.

The US retailer, Lumber Liquidators has previously been accused of importing illegally logged hardwood products.

Last year US authorities investigated the company over alleged violations of the US Lacey Act.

* The market information above has been generously provided by the Chinese Forest Products Index Mechanism (FPI)

Disclaimer: *Though efforts have been made to keep prices near to accurate, these are published as a guide only. ITTO does not take responsibility for the accuracy of this information.*

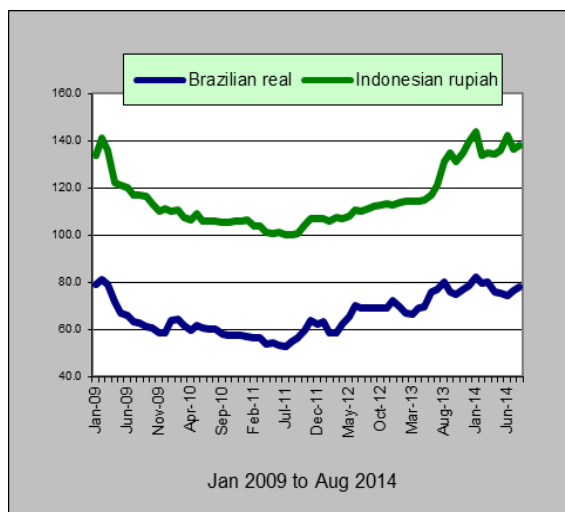
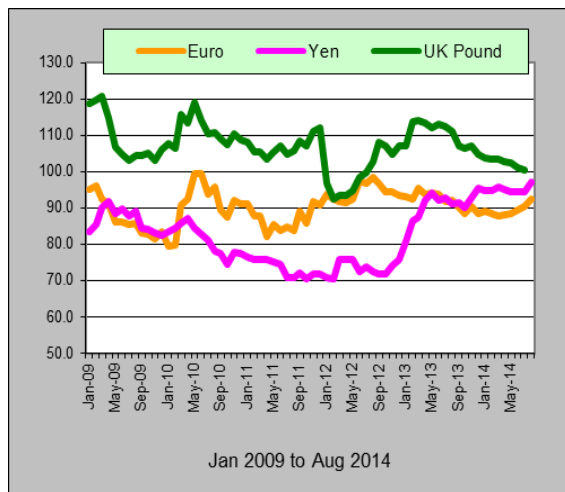
The views and opinions expressed herein are those of the correspondents and do not necessarily reflect those of ITTO.

in US Dollar Exchange Rates

As of 25th August 2014

| | | |
|---------------|-----------|---------|
| Brazil | Real | 2.2904 |
| CFA countries | CFA Franc | 497.77 |
| China | Yuan | 6.1551 |
| EU | Euro | 0.7580 |
| India | Rupee | 60.52 |
| Indonesia | Rupiah | 11,708 |
| Japan | Yen | 104.06 |
| Malaysia | Ringgit | 3.1620 |
| Peru | New Sol | 2.8312 |
| UK | Pound | 0.6032 |
| South Korea | Won | 1017.56 |

Exchange rate index (Dec 2003=100)

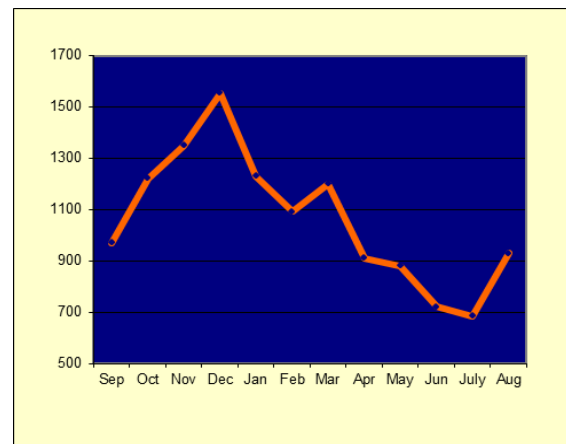


Abbreviations and Equivalences

| | |
|------------|---|
| Arrows | Price has moved up or down |
| BB/CC etc | quality of face and back veneer |
| BF, MBF | Board foot, 1000 board foot |
| Boule | bundled boards from a single log |
| TEU | 20 foot container equivalent |
| CIF, CNF | Cost insurance and freight |
| C&F | Cost and freight |
| cu.m cbm | cubic metre |
| FAS | First and second grade of sawnwood |
| FOB | Free-on board |
| Genban | Sawnwood for structural use in house building |
| GMS | General Market Specification |
| GSP | Guiding Selling Price |
| Hoppus ton | 1.8 cubic metre |
| KD, AD | Kiln dried, air dried |
| Koku | 0.28 cubic metre or 120 BF |
| LM | Loyale Merchant, a grade of log parcel |
| MR, WBP | Moisture resistant, Water and boil proof |
| OSB | Oriented Stand Board |
| PHND | Pin hole no defect |
| QS | Qualite Superieure |
| SQ,SSQ | Sawmill Quality, Select Sawmill Quality |

Ocean Freight Index

Baltic Supramax Index
September 2013 – August 2014



Data source: Open Financial Data Project

The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes. It is based on a 52,454 mt bulk carrier carrying commodities such as timber.

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