

MADISON'S LUMBER REPORTER



Publisher
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Editor
Kéta Kosman

Market Analyst
Zara Heartwood



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www.madisonreport.com
madrep@shawcable.com
604 984-6838

PO Box 2486 Vancouver, BC
V6B 3W7 Canada



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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines recent movement by Mississauga, ON's, Sino-Forest Corporation to grab large share control of three timberland holding companies out of China, one with significant timber rights in Suriname. Glowing 2Q 2010 financial results, including net earnings compared to 2009, are detailed.

Contact us any time for a subscription.

US Real Estate

The number of US homes lost to foreclosure surged in July as lenders took back more properties from homeowners who were in default for months on end. Lenders repossessed 92,858 properties last month, up 9 per cent from June and an increase of 6 per cent from July 2009, foreclosure listing firm RealtyTrac Inc. said Thursday.

Major US banks wrote off approximately US\$8 billion on mortgages in the first three months of this year, on track to repeat – or even surpass - last year's full-year total of US\$31 billion. [READ MORE](#)

More Wildfires

With the hottest weekend of the year approaching in British Columbia, Ministry of Forests and Range staff are reiterating warnings about preventing human-caused forest fires. There is a zero expectation of precipitation for almost the entire province, and temperatures are expected to soar to between 20 and 31 degrees Celsius for significant portions of the Interior, both north and south, and for the mid-coast.

Meanwhile, Heavy downpours cooled Russia's capital after weeks of no rain and unprecedented heat, but dozens of wildfires still rage around Moscow on Friday and a new blaze was spotted near the country's top nuclear research centre. [READ MORE](#)

Japan Housing Starts

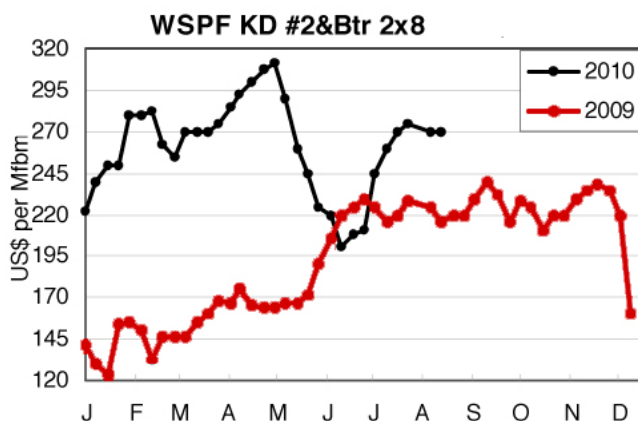
According to Japan's Ministry of Land, Infrastructure, Transport and Tourism report published on July 30, June housing starts in Japan increased after the decline in the previous month to 68,668 units, up 0.6 per cent from the same month a year earlier, according to the *Japan Lumber Journal*.

However, the seasonally-adjusted annual rate fell below the 800,000-unit mark for the third consecutive month, with 750,000 units. [READ MORE](#)

Pulp, and Printing and Writing Paper Shipments

This week pulp prices began their expected drop; most analysts agree pulp will see a downward slide for a year, after a unusual propping-up through 2009 due to new demand out of China. However chips and sawmill residue continue to be scarce, due in large part to continued high pulp production and new demand from biofuel producers globally.

Pulp price tracker FOEX.fi printed Tuesday a US\$1.40 drop in North American NBSK price to US\$977.50 per metric ton, which is still up US\$178.86 since the beginning of this year. Informed pulp market watchers expect continued softening over the next year. [READ MORE](#)



JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jun-10	68,688	27,940	40,748	59
May-10	59,911	24,952	34,959	58
Apr-10	66,568	32,143	34,425	52
Mar-10	65,008	31,061	33,947	52
Feb-10	56,527	24,412	32,115	57
Jan-10	64,951	30,322	34,629	53
Dec-09	69,298	28,643	40,655	59
Nov-09	68,198	27,416	40,782	60
Oct-09	67,120	28,175	38,945	58
Sep-09	61,181	24,771	36,410	60
Aug-09	59,749	24,992	34,757	58
Jul-09	65,974	28,243	37,731	57

Source: Japan Wood-Products Information and Research Center

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	211	218	-7	218	-7	205	+6
WSPF KD R/L 2x6	224	224	0	210	+14	201	+23
WSPF KD R/L 2x8	270	270	0	260	+10	228	+42
WSPF KD R/L 2x10	312	313	-1	290	+22	317	-5
WSPF KD PET 2x4 Stud	220	215	+5	220	0	210	+10
Douglas Fir Green R/L 2x4	180	170	+10	195	-15	170	+10
Douglas Fir Green R/L 2x10	285	290	-5	290	-5	260	+25
ESPF KD 2x4 8ft Stud	285	290	-5	290	-5	285	0
OSB Ontario 7/16" (CDN\$)	225	225	0	230	-5	220	+5

Weekly News

Home Sales, US

CONTINUED Among states, Nevada posted the highest foreclosure rate in July, with one in every 82 households receiving a foreclosure notice. The number of properties in Nevada receiving a foreclosure warning last month rose nearly 7 per cent from June, but fell nearly 30 per cent from the same month last year.

Meanwhile, Housing prices firmed in 2Q 2010 – mostly due to the extension of the first time home buyer credit and low mortgage rates, according to a survey released Wednesday by the National Association of Realtors.

The NAR said 100 out of 155 metro areas saw higher median home prices compared to a year ago, and distressed sales were down four per cent from last year.

“Prices in some areas remain below replacement construction costs, so even with an elevated supply of existing homes on the market we don’t expect any consequential movement in home prices for the foreseeable future,” NAR Chief Economist Lawrence Yun said.

Wildfires Globally

CONTINUED Russia’s Emergency Situations Ministry said its teams have managed to reduce the area covered by wildfires, but more than 500 are continuing to burn across the country, including 29 around Moscow. About 14,000 firefighters are battling blazes around the Russian capital.

Russia was receiving help from the United States, which on Friday began deliveries of firefighting equipment valued at US\$2.5 million, the US Embassy said. The state of California also has contributed fire-protective clothing.

A new wildfire also started east of the nuclear research facility in Sarov, 300 miles east of Moscow. The blaze spread quickly, prompting firefighters in the region to call in reinforcements from neighboring areas.

Two firefighters have been killed battling forest fires in Spain that officials suspect were started deliberately. The blazes broke out on Thursday night near a village in the Pontevedra province, in the Galicia region, and had been fanned by shifting gusts of wind.

They have now been brought under control but over 250 acres of forest has been left burnt and blackened.

Authorities in Portugal struggled Thursday to contain wildfires sweeping across northern parts of the country.

The Civil Protection Service said it was fighting 29 wildfires in forests parched by weeks of hot, dry weather, including the hottest July in almost 80 years.

More than 600 firefighters, more than 200 vehicles and nine aircraft were deployed, the Civil Protection Service said on its website. Army bulldozers were cut-

ting firebreaks in the northern Peneda-Geres protected nature reserve where they helped extinguish one of two wildfires.

Housing Starts, Japan

CONTINUED By construction method, prefabricated houses increased 8.3 per cent in the wake of the previous month to 11,417 units. Two by four houses marked the fifth consecutive month of year-to-year increase, of 6.3 per cent, with 8,842 units. Wooden houses increased for the sixth consecutive month, by 1.7 per cent, to 40,748 units, according to the *Reports*.

Consequently, the share of wooden houses is 59.3 per cent, which is nearly five points higher than the rate for June 2009, which was 54.6 per cent.

Global Trade in Softwood Logs

Higher worldwide demand for forest products has increased global shipments of softwood logs by 20 per cent in 2010, reports the *Wood Resource Quarterly*. This year may be a turning point for global log trade, which had fallen 30 per cent between 2007 and 2009.

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A Look at Paper Printing and Writing Paper Shipments

In Europe the drop in pulp price this week is even more pronounced, by US\$8.19, to settle at US\$1011 per metric ton, which is US\$181 above the beginning of 2010.

by Kéta Kosman

The fact that pulp prices in Europe surpassed US\$1000 per metric ton recently is a bit surprising. Even the most bullish analyst did not expect that. Significant softening of pulp prices in Europe over the next year will doubtless occur.

Madison's usually reserves examination of pulp and paper industry developments for intermittent issues of the bi-weekly *Madison's Timber Preview*, however recently released inventory figures seem fitting this week as content for the *Lumber Reporter*.

The paper grades, both in Europe and North America, have begun to recover nicely from the downturn of the past two years.

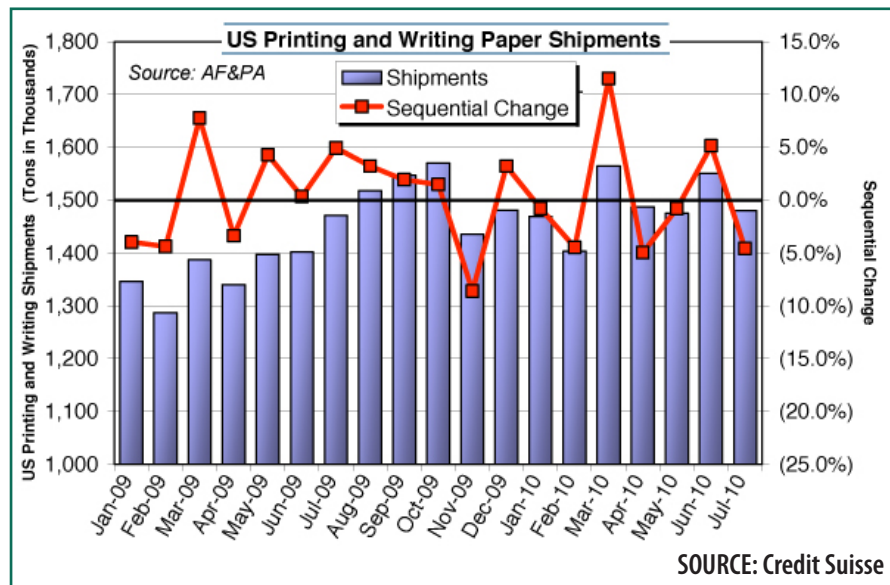
"Although the shipments of newsprint to the US market are still down against the weak 2009, the rate of decline has turned flatter and flatter," proclaims FOEX. "[. . .] Utilization rates are recorded as high as 101 per cent."

Disciplined curtailments and an increase in US demand have driven the price of benchmark 30 lb newsprint up US\$1.60 this week to US\$602.30, up US\$83.20 from the beginning of 2010. Madison's Reporter subscribers are invited to request the July 30, 2010, issue of *Madison's Timber Preview*, which details recent movements in the major paper grades both in Europe and North America.

Building on improvement already underway in early 2010, containerboard prices continue to firm. A leading indicator of boxed shipments, therefore factory sales and consumer demand, European containerboard prices rose €4.50 this week to €530.36 per metric ton, a €114.32 increase on the beginning of the year.

"In Europe, [. . .] the 40 per cent plus growth in printing and writing paper demand added over 1.3 million tons of paper. In the US, paper production is estimated to have grown by more than 1 million tons, or 8 per cent, during the first six months of 2010, and in paperboard the gain was about 2 million tons, or 11 per cent," explains FOEX.

According to the American Forest & Paper Association's *June 2010 US Paperboard Report* released July 19, total boxboard production increased by 3 per cent



compared to June 2009, but 2 per cent from last month. Year-to-date production was up 4 per cent over 2009. Total US industry consumption of recovered paper, meanwhile, was 2.6 million tons, an increase from June 2009 of 6 per cent, and relatively flat from May 2010. The US consumed 8.2 per cent more recovered paper in the first 6 months of 2010 than during the same period last year, according to the *June 2010 Recovered Paper Monthly Report* published July 22 by the AF&PA.

Preliminary printing and writing paper shipment figures for July were released August 12 by the AF&PA, showing continued growth but at a slower rate.

"This was the ninth straight month that US printing and writing papers were positive after declining the prior 21 months in a row. However, after five straight months of double-digit year-over-year shipments growth, July's rate was barely positive compared to June," said Chip Dillon, research analyst for Credit Suisse, in his August 12 letter. "The AF&PA reported preliminary printing and writing paper shipments from the US mills of 1.48 million tons in July, up 0.9 per cent from July 2009's total shipments of 1.47 million tons."

"Lightweight coated paper shipments increased by 11 per cent compared to July 2009 and 21 per cent since the beginning of 2010 and coated free sheet shipments increased by 7 per cent year-over-year and 24 per cent since January 2010. A good portion of the improvement in coated papers is due to 'lapping' of extremely weak numbers in 2009," detailed Mark Wilde, research analyst at Duetsche Bank, in his letter also on August 12.

"Even though pulp prices are correcting - we see a total of US\$100-\$200 per tonne by year end - coated paper prices are just starting to rise and we see this trend continuing," concludes Dillon.

In its 2Q 2010 results released August 11, Verso Paper, out of Memphis, TN, reported coated paper volumes up 39 per cent since the beginning of 2010. Based on higher volumes, significantly lower inventories, and declining imports, analysts expect coated groundwood prices to increase into 3Q and 4Q 2010 by US\$50 and US\$90 respectively, to US\$915 per ton in 3Q and US\$953 per ton in 4Q.

"Verso's coated groundwood inventories are only half the level seen a year ago. Should demand for catalogues be stronger than currently anticipated, there is the potential for a growing shortage of coated paper in the US. However, given the sluggish nature of the economic recovery, we currently do not see such a scenario," concludes Wilde.

Smurfit Kappa Group's operations earned profits of €206 million in the first six months of the year, according to company financial statements released August 12. The Ireland-based company reported that sales in the first half of 2010 grew 7 per cent to €3.2 billion, from €3 billion during the same period last year. Strong prices for its paper and packaging products helped boost operating profits in the first six months of 2010 by 22 per cent to €206 million, from €170 million during the first half of 2009.

Packaging and paper products company Cascades, out of Kingsey Falls, QC, posted a better-than-expected 2Q 2010 profit on higher demand and selling prices, and forecast a sequential rise in profit, according to an August 11 company press release. Q2 shipments were up 9 per cent compared to 1Q 2010, and total sales rose 2 per cent to C\$998 million for the same time period.

After an abysmal 2008 and an even worse 2009, such recovery in the paper sector bodes well for increased demand for sawmill residue, specifically chips.