

Monthly Market Report

February 2017



Wood commodities markets have continued the pattern established in 2016 with prices largely stable and at extremely good levels with demand strong and supply just keeping up.

International shipping has been impacted by a major breakdown in equipment in the Iron Ore industry in Western Australia. 10 Handy size vessels that would normally carry logs from NZ have been diverted to take up the slack in Australia. As a consequence, we have experienced a short term blip in shipping rates.

This, combined with a medium term strengthening in the US\$/Kiwi\$ cross rate, has seen wharf gate prices weaken slightly in February impacting both log and bulk lumber cargo's to a modest degree. Most commentators are suggesting these elements will be short lived.

In terms of CIF settlements in Korean, India and China, it is largely business as usual. For China it is still too early days after the New Year Holiday break to determine where this key market is headed. I have heard of one large kiwi exporter in China trying to push prices higher. Based on the cyclical uncertainties surrounding this market, I think this strategy is unwise.

India is continuing a recovery after the last round of mayhem caused by Prime Minister Modi continuing his strategy of dragging the India economy screaming and kicking toward compliance and non avoidance. The latest is a tariff on imported logs which appears to equate to about US\$1.50 per cubic metre.

As per usual such a move is imposed overnight causing a modicum of mayhem and wailing and gnashing of teeth. However a tariff impacts all players similarly and the market appears to have shrugged this off very quickly. India is very much following the China trends in terms of log price and is otherwise impacted by the number of arrivals (shipments) in a month. For the moment inventory is quite low and the market is hungry for volume.

Over the last month, China eastern seaboard inventory has climbed to 4.33 million cubic metres, of which Radiata pine comprises 2.49 million. This is a little concerning with the NZ and Australia Radiata inventory climbing by 560,000 cubic metres over the last month. Whilst not totally unexpected, everyone is eager for the daily uplift to start very soon to avoid a loss in overall confidence.

Although NZ logging contractors are now very much back to work, the daily deliveries to NZ ports continues to be behind the same time last year. Whilst continuing the pre Christmas run of about 20,000 cubic metres per week less, this equates to a total annual production drop of around 900,000 cubic metres if it continues. On the positive side this could be enough to diffuse over supply concerns thus maintaining a level of confidence at the demand end of the business.

On the domestic front, I think the colloquial term is called, "going gangbusters". Across most regions sawmills are screaming for logs, prices are generally firming and the demand cycle does not appear to be letting up.

In talking to a couple of colleagues in the manufacturing end of the business, for example Truss and Frame factories, lumber supply is also very constrained and some may face delays as they await the next load of lumber to arrive. Whilst not ideal from their perspective, it is enabling a much more robust debate around the log price negotiating table.

The North Island appears to be more impacted than the South with a couple of northern log traders suggesting they are getting over \$20 per tonne premiums if they can supply extra volume or logs that are larger and higher quality than the norm.

Pruned log prices have continued a stable pattern now after dropping away badly in mid 2016. Both domestic and export markets are back to paying very good premiums for good quality logs and both segments are prepared to hammer suppliers if the quality is not right. In this case quality very much relates to the timing of pruning and the ability of the sawmillers to recover good percentages of clearwood grades.

As so we have another month of very positive and solid trade and it looks like more of the same over the medium term. This proves once again, the only way forward for climate, country and the planet is to get out there and plant more trees.....!

Allan Laurie MNZIF
Laurie Forestry Ltd

South Canterbury Address
22 Shearman Street, Waimate
7924, New Zealand
Phone +64 3 689 8333

Christchurch Address
Unit 3, 337 Harewood Rd,
Christchurch 8053, New Zealand
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz