

# Monthly Market Report

September 2017



**S**eptember wharf gate log export sales prices have improved on the back of an exchange rate movement downwards over the last month from mid US\$/Kiwi \$0.74c, to a mid \$0.72c. At current sales levels in US\$ terms in the market in China, a 1 cent movement in exchange rate adds about NZ\$2 per JAS cubic metre to the NZ wharf gate price. Hence an overall increase of NZ\$4 per cubic metre on September wharf gate sales.

The NZ average daily plantation forest cut is about the 125,000 cubic metres. That means on an average work day, about 125,000 trees are being felled erstwhile earning income directly for about 20,000 of our citizens and adding to the income of about 100,000 others. And the other 3.7 something odd million people get to live in homes which are made from timber due to the foresight of some pioneers about 100 years ago.

Staggering really when you consider our sustainable plantation forests occupy about 7% of our land mass, earn in excess of NZ\$4 billion a year in export earnings (3rd largest of all exports) and all of that on land farmers didn't want at the time.

A couple of shaky aspects to the market this month with some continuing softening in the retail lumber segment in the key Shangdong province in China furrowing the brow of some. Although only a RMB10 per sawn cubic metre decrease over the last week, this is on the back of some earlier similar declines. Whilst consumption across the eastern seaboard has lifted to about the 68,000 cubic metres per day mark, retail softening is suggesting some segments are becoming saturated.

Shipping has made a very nasty turn for the worst for exporters with a 10% increase in daily hire rates in the Handy class (bulk log carrier) segment over a 2 week period. As NZ production lifts slightly and the northern hemisphere continues at pretty good volume levels, the old story capacity shortage becomes the order of the day. And so it is settlements turns to a consistency of yellowish goo and nobody in this space likes each other anymore...at least for the moment.

Meanwhile on the domestic scene whilst some cities have clearly come off the boil in new house starts, particularly Christchurch, sawmills are struggling for supply and nationally, mill stoppages waiting logs have been common place. Not good for these very important players in the overall market.

I couldn't help myself responding to some clear lack of knowledge displayed by politicians at the recent NZ

Institute of Forestry Conference in Rotorua. Of the 5 parties represented, it was clearly evident most had little understanding of what makes the NZ plantation industry tick. The one that really gets up the gander is the normal have a slag at getting more on shore processing and "adding value" to NZ wood commodities.

Let me put the record straight here. Of the 125,000 odd cubic metres per day harvested, a little under half is consumed domestically and little over half exported as logs. NZ producers mostly target the better grades destined to produce construction lumber and others target the top of the tree to be used for the likes of MDF and Pulp. Export logs are mostly the lower grades from the middle of the trees targeted at often lower quality end uses.

China comprises 75% of the log volume exported and roughly 70% of those logs are milled in to plywood and lumber for apartment construction, essentially to hold up concrete until it dries.

This means on average every day we cut down about 36,000 highly profitable trees in NZ to be shipped to China to be milled to hold up concrete. The average cost of milling in China is about NZ\$6 - 8 per cubic metre against \$38 - 40 (on average) in NZ. Unlike some of our politicians, who should really know and understand this stuff, it will be then abundantly clear NZ sawmillers cannot compete in a space currently occupied by close to 30% of all trees we harvest.

Another important point here is it would cost about \$200,000 to go through a resource consent process in NZ for a significant new sawmill operation. For about the same money you could set up 5 sawmills in China capable of milling 250 cubic metres of logs per day with the land and buildings provided by the Government!

For those politicians who would wish to achieve their misguided lofty vote winning ideals via a range of mechanisms including log export tariffs together with trade and production barriers I say no. Any such mechanism would strip value from our forests and deny key strategic customers wood fibre supply. Always important to remember of course, if you have lofty ideals, don't forget to take a parachute! proves once again, the only way forward for climate, country and the planet is to get out there and plant more trees.....despite politics!

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