

# Monthly Market Report

February 2021



Quite is mixed bag of markets to report this month. On the surface, the continuing increases in Export log prices is positive with levels climbing toward the top 95 percentile of the market of the last 5 years.

But every silver lining has a cloud in the international context. In this case, at the current elevated CFR levels (the costs of logs in US\$/m<sup>3</sup> landed in China) is already starting to see increased supply from other sources. Some commentators are suggesting at the current US\$150/m<sup>3</sup> A grade basis we are close to a tipping point.

COVID is also highly disrupting supply chains. Nervousness and uncertainty prevail with a continuing focus on China and how that economy will continue its recovery. As at mid-February we are in the middle of Chinese New Year holidays. Whilst most people will take about a two-week vacation, but the effective holiday and wind back up period is about a month.

It will be mid-March before we will be able to assess the full impacts of supply and demand in this critical market. As at mid-February daily log consumption is still chugging along at 7,000 to 10,000 cubic metres per day, not bad for a country supposedly on holiday.

Inventory is sitting at 3.7 million cubic metres across the eastern seaboard, up over 1 million cubic metres in a month. Commentators are variously suggesting we will get to about 4.5 million cubic metres after CNY. This is still historically quite low. But it will take China some time to crank up as they experience one of their coldest winters on record.

COVID continues to rattle supply chains internationally. In some countries, demand for finished products is highly elevated but distribution difficult. This is seeing some significant increases in sawn timber prices, in fact in Europe and Asia, for example highly elevated prices.

In general terms, NZ timber exporters should be seeing some very good prices. But their problem is distribution, with thousands of containers sitting on wharfs waiting a vessel that is not already well over allocated. This is certainly straining the cashflows for some.

Across the log sector we have continued to see shipping rates increase. The Handy class segment is in short supply as new coal suppliers to China move to

replace the Australian supply. These new supply sources are in ports that cannot handle the big Supra-max vessels. Thus, the earlier predictions that we might see rates soften during CNY have not come to pass.

For the moment sellers in China have been able to achieve increases in log prices to cover both our elevated exchange rate and higher shipping costs. My predictions are we will see further at wharf gate increases in NZ in March as a consequence of the current push and pull. But April and May could be our tipping point, so much depends on COVID and the rates at which nations will achieve vaccination rates and economic recovery.

Whilst there is a general sense we are over the peak of infection and death rates from COVID, there is a lot of foreboding about variants and populous unrest. But there are also some commentators who are suggesting the UK and US economies, as examples, will come flying out of the abyss with having had an inability to spend suddenly unleashed.

The consumers flush bank accounts together with the likes of UK and US getting their money printing presses running extra hours on austerity measures could yet see some of the strongest demand for commodities ever experienced on the planet.

Meanwhile in good old NZ we may well rightfully roll in the pool of admiration of others. We are good as gold thanks with demand rampant and the big banks starting to signal interest rate rises. New house start numbers continue to beat all previous records. Our domestic sawmills continue to experience high demand and we are finally starting to see some increases in lumber prices.

There are increasing reports domestic log prices are on the move upward. Some would say this in long overdue. But as usual the local sawmills have been our backbone, offering stability and good price levels. Thus, we should be careful not to bite the hand....

As always People, please remember the thoroughly important message, "It remains, as always, fundamentally important, the only way forward for climate, country and the planet, is to get out there and plant more trees"!

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