

Monthly Market Report

April 2021



The firming in log prices continues across both Domestic sawmill and log export segments. This is the direct consequence of domestic and international demand for NZ logs and lumber which has been running at an all-time high since January.

As a first up this month, I want to quell the media misreporting of a supposed shortage of logs being supplied to domestic sawmills. For those readers not at the coal face of log supply and sawmilling, the reason there are some shortages of timber is for the largest part due to sawmill capacity.

Much of the media hype is ultimately linked to Cater Holt Harvey (CHH) advising customers in February their lumber supply tap was being turned off. The media picked this up as a shortage in logs being supplied to sawmills due the high demand in China, for the most part complete bunkum.

The actual situation lies in the fact in NZ, we have lost about 1 million cubic metres of lumber production capacity from the closure of 3 sawmills over the last 2.5 years. The most significant of these being the CHH Northland mill.

The production loss from 3 sawmill closures has not yet been picked up by others. If we assume about half the 1 mill m³ lumber was domestic bound and half to export, we have a scenario of demand up 30%, sawmill capacity down 10%, and hey presto, the supply demand planets fall out of alignment. No surprises there!

The one truth in all of this is that China demand is high. Daily usage across the eastern seaboard has been running at a staggering 100,000 cubic metres per day. As we move through mid-April, this is trailing off a little as entirely expected, to about 85,000 m³ per day.

Meanwhile, the closely watched overall softwood log inventory fell 100,000 cubic metres in a month, as at mid-April sitting at 4.0mil cubic metres. Whilst NZ supply has increased, supplies from Russia and Europe have continued to wane. On the surface, we can say right now, world demand for wood fibre exceeds the capacity of forests to supply.

The consequence of all of this is some staggering CFR settlements in China for April sales for NZ logs. Most commentators report a range of sales at US\$167 - \$170 per JAS m³ - A grade basis. This is a record in my 28years of involvement in log exports by a reasonable margin.

Unlike prior times when we saw A grade get to levels like US\$160 it was always a 1-month phenomena. This time, it looks like the CFR prices might go even higher in May, if not, I certainly don't seem them going down.

Shipping costs finally look like they have topped the high and now coming off the boil. The combination of the Baltic index – the world shipping market indicator coming off a high, and more Handy class vessels opening on NZ bodes well for even higher at wharf gate prices in May.

In the mix of supply and demand, Pruned Radiata and Douglas fir logs prices are standing out. Douglas fir logs exceeding 30cm diameter are selling at US\$185 per cubic metre and Pruned radiata at close to US\$200 per cubic metre. Both are very close to record levels. Both reflect supply volumes well under demand and a likelihood of further firming in May settlements.

NZ sawlog production is looking like hitting some maximums. We seem to be topping out at about 2.7 million cubic metres of logs produced per month, an annual total cut of about 33 mill m³. That is tipping about NZ\$400 mill per month in earnings in to the NZ economy, our nation's 3rd largest export earner. Not bad when you consider our plantation forests only occupy about 7% of NZ land mass.

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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