

Monthly Market Report

May 2021



In what can only be described as extraordinary times, May 2021 will be recorded as the month we reached the highest log prices ever paid across the combination of Domestic and export segments in New Zealand.

In May 1992, when Spotted Owl populations in the Pacific North West reportedly reached critically low levels, the market panicked, believing forest harvest would be negatively impacted and world wood supplies were under threat. The market indicator A grade reached NZ\$145 per cubic metre at the wharf gate and we thought the world had gone mad.

In 1992 the price spike lasted a few weeks and it was just that. 4 months later, prices had plummeted to \$65 per cubic metre and we thought the world was going to end. Challenging times indeed.

In 1992, it was eventually realised the Spotted Owl numbers were the direct consequence of how far the average Owl spotter could walk in to the forest from the highway in one smoko break! Later studies by more energetic spotters who took both their lunch and smoko supplies with them, found Spotted Owls were not under threat at all.

In May 29 years later there is a little more substance to the current market prices. What we do know is A grade has reached about \$147 per cubic metre landed at Central South Island ports. This follows export log prices steadily climbing since May 2020.

March was a huge month for the NZ plantation forestry sector. Close to 2 million cubic metres of logs exported to China and close to 1 million cubic metres sold to domestic mills, who are in general terms, getting the logs they require.

I did offend one sawmiller in last months report when I stated sawmills in NZ had all the logs they required when he felt that was not correct. At present I can say that remains so in general terms. As always there are exceptions.

In China, the Eastern seaboard inventory fell to 3.87 million cubic metres, a drop of 100,000 on the previous month. Daily port offtake has kept pace well ahead of predictions at 93,000 per day as at early May. Consumption is going to slacken off shortly as the wet and muggy season starts and construction pace drops off as a consequence.

Of the near future, there appears nothing that is going to change CFR settlements dramatically. The China

Government has signalled a slackening of stimulus packages. This would normally mean a reduction in cash available to home owners and the construction sector. The net impact of this would fall back to log demand.

However, at the same time we are not seeing lifts in log and lumber volumes coming out of Europe, Uruguay, Russia, Chile and Pacific North West, traditional supply sources. Europe in particular was expected to be tipping in large volumes of Spruce log and lumber. This remains the single biggest threat to NZ maintaining its current dominance in the China softwood market.

For European supply, there remain difficulties in the container trade, mainly lack of capacity in supply of both containers and shipping. It is likely we will not see Spruce volumes increasing until June/July. Hence our NZ sawmills and Log exporters are seeing high demand and improved prices. Given the current balance in favour of suppliers, we don't see the current situation changing in the short to medium term.

May settlements in China have been at US\$180+ per cubic metre levels, A grade shorts basis. This is some US\$20 above the highest ever recorded and in my view hitting highly dangerous territory.

At these levels it will not take much to awaken supply from multiple sources, in particular where long cartage to the wharf makes it otherwise unworkable. NZ enjoys a huge advantage in this space. Being such a small country if we get over 200km from the local port we are starting to draw breath backwards on log cartage cost.

Those nations that attempt to compete with us get worried when it is over 2,000km to the port! The relative advantage is only relevant to the CFR price netted back to the wharf gate. I believe those dominant NZ players front footing China need to proceed with absolute caution in terms of trying to push prices further up the infinity scale.

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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