

# Monthly Market Report

June 2021



**L**og prices have lifted NZ\$3 to \$5 per tonne in June across both Domestic and Export log segments of the New Zealand's plantation softwood industry.

Like so many other commodities, these are exciting and memorable times indeed, with the bottom line returns to forest growers encouraging both replanting and new planting.

Our sawmill customers report strong sales and finally some small rises in lumber prices adding some better bottom line than has been a feature of their recent past. Regrettably some of the big box stores are adding their margin with gusto with there being much banter about rapidly increasing raw material costs. This is an untruth of the first order but given demand not surprising.

Meanwhile, on the Eastern seaboard of China, we are starting to see some speed wobbles. Off-port sales have dropped to 75,000 cubic metres per day. Not an unexpected seasonal change.

But due to fewer total log volumes being delivered, the total inventory has continued to also fall, as at mid-June sitting at 3.7million cubic metres. This represents a drop of 170,000 cubic metres over the last month.

Whilst 3.7 million m<sup>3</sup> might sound like a lot of volume, it represents less than 7 weeks in the supply chain. Thus, we would not expect log sales prices at ports to change downward, at least in the immediate future.

Contrary to what should be a signal of increasing log prices, of some concern is a trend line heading down in terms of the wholesale price of logs being traded off ports China. The bigger concern is raw material input cost for logs having reached levels which see traders losing any margin between the cost of logs in and the value of lumber or plywood out. I have seen this many times in China. In normally heralds a correction looming.

We are also seeing steel shutters replacing plywood as a lower cost and re-usable alternative in high rise apartment construction. Collectively, there is an apparent loss of heat in sales with most commentators suggesting the softwood market has plateaued or at least close to it.

Like so many countries, China appears to be suffering labour shortages in tandem with strong imports volumes across their port operations. The combination is leading to massive port congestion.

Across the eastern seaboard, as at mid-June there are 20 log vessels carrying an estimated 700,000 cubic metres of NZ logs waiting discharge. At an average 7 day wait time and Handy Class vessels sitting at around US\$27,000 per day, demurrage costs are reaching eye watering levels. This is certainly not a game for the faint of heart.

Meanwhile back in good old NZ I am supporting the industry in a consultation round on the Legal Harvest Assurance Amendment Bill. If implemented, this Bills seeks to ensure NZ's continued ability to prove our NZ plantation forests and both sustainably managed and the logs produced are sourced from legal harvest.

A contrary view as why is NZ even bothering when all of our harvest occurs in plantations and woodlots, is countered by what is becoming clearly evident in the international context. And that is the growing disquiet and condemnation over illegal harvest in countries where there is continuing harvest of natural forests, often illegally.

Our (NZ) ability to ensure the planet understands our sustainable and legal harvest practices via credible Government driven policy and structure will give us continued surety of access to world markets. Indeed, it is our opportunity to shine above the others.

My emphasis in the current consultation round is to ensure to current importations of lumber from illegally sourced harvest, contrary to what the box stores tell you, receives the same attention. I am also driven to ensure the cost of implementation and compliance is contained as well as ensuring we don't have a complicated construct that results in a disincentive to engage and comply.

Erstwhile in the log trade and international context, we are still not seeing high volumes of logs heading to China from other sources. European spruce continues on a go slow, Russian volumes are declining and US/Canada are basically out of the picture due to domestic demand. For the moment NZ supply of both log and lumber is both assured and at traditionally high prices.

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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