

Monthly Market Report

July 2021



There has been quite a significant turn in export sales prices over the last three weeks. In prior reports, I have been indicating China domestic Lumber and log prices declining. The net impacts are a turn in sentiment at the retail level at the wharf gate China.

It is apparent the bottom-line consumption across the China Eastern Seaboard had turned down. Some of the reasons for this relate to normal seasonality change. But there is also a lot going on with macro and micro economic changes which I cover below.

Negotiations for July log sales between NZ sellers and China buyers have become very difficult. This situation is best described as a market fundamental commonly referred to a supply/demand 101. Where supply exceeds demand, price will be the blunt instrument that restores the balance.

If we take the last 3 months behaviour of the NZ based big players in this space, then it would not be hard to be critical. Whilst China domestic prices were falling back as far as April, NZ's finest were in the market continuing to push CFR log prices up. This increased the loss's China Traders were making between the cost of raw material and the value of the resulting lumber. I gave a foreboding of this last month, it is not rocket science.

So, when CFR prices were US\$195 per cubic metre and the effect breakeven point for traders was US\$165, eventually the market folded its arms and said to NZ "sorry fella's, no more LC's until log prices drop. Some would have used less kind words.

This has now reached standoff status. As at mid-July, there are many ships on their way to China, no LC's and no understanding of what the prices will be when they get there. In this salutary tale of history repeating, one is left to shake one's head and contemplate words of unpleasant disposition.

A recent stimulus programme announced by the China Government, sends some clear signals which I believe are worthy of note. To quote - "The People's Bank of China is set to cut the reserve requirement ratio by 50 basis points for all banks, a move that will release around 1 trillion yuan (US\$154 billion) in long-term liquidity into the economy".

The same report goes on further to say and again I quote, - "In the short term, the move will boost

liquidity-sensitive sectors, such as aerospace and defence, electronics, IT and media, according to UBS".

This report and others should send the shivers down the spine of those involved in construction in China – for example NZ Forest Growers. There is a clear signal here stimulus is focussed on technology growth, not construction as it has in the past. Not an immediate concern, but certainly a longer-term concern in terms of pure demand profiling.

This would also be a clear signal for NZ Forestry Inc to get itself in to a small room, lock the door, with no one allowed out until some sensible futuristic market development strategy is sorted out. Alas, I strongly suggest we continue to draw breath in the meantime.

At the NZ wharf gate sales level, we have seen some unsurpassed wide pricing scenarios. For those who ignored the signals and set wharf gate prices based on June settlements, I am assuming now will be having some very unpleasant conversations with their bank managers.

For those like ourselves, who saw the writing on the wall, prices have been set at where the approximate breakeven point for China wholesalers would be. In reality this brings prices down NZ\$12 – 14 per cubic metre at the wharf gate which still leaves us in the top 95 percentile of the market of the last 2 years.

Our domestic sawmillers are once again the shinning beckon on the sea of uncertainty. Prices and demand are both strong. Lumber shortages to the NZ construction sector are widening with no slow down on the horizon at time of writing.

My very big concern here is if NZ Forestry Inc does not get the export log prices matter sorted, I can foresee logging crews parking up in August and that will not be good for NZ sawmills

As always People, please remember the thoroughly important message, "It remains, as always, fundamentally important, no matter the challenges, the only way forward for climate, country and the planet, is to get out there and plant more trees !

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