

Monthly Market Report

October 2021



The trend we saw last month in the log export sector has continued with shipping costs increasing and sales prices slightly soft. The net impact has been softer wharf gate prices across NZ but for most not hugely significant.

All current trade is dominated by rapidly increasing shipping rates. The bulk Handy Class and container vessels taking wood products to China, Korea, India and 35+ other nations we regularly sell wood products to, are no exceptions.

Interestingly, the log trade to China is currently paying about 3 times the 2020 shipping rates. Talking to a frozen lamb exporter recently and they are being advised refrigerated containers will cost them 5 times last year's rates....and rising.

Good to see the US president come out with guns blazing a couple of weeks ago firing a couple of warning shots over the bows of ship owners suggesting a freeze was on the horizon if they didn't reign it in. I would just like to politely suggest a couple of high explosive rounds in to the wheel house will be needed to get their attention...figuratively speaking of course.

Meanwhile in China, we are continuing to see some dynamic shifts in some macro-economic fundamentals. The construction sector has previously enjoyed a lot of attention from the government with incentives for home owners driving eventually to a highly speculative and housing cost increasing crescendo.

The more recent speak has been on improving environmental outcomes and targeting the technology sector. The collapse of the huge construction company Evergrande, with others destined to follow is adding an air of negativity with resulting recent drops in domestic log and lumber prices.

Off port sales have remained around the 80,000 cubic metres per day after a recent national holiday. This is generally seen as a low number with the eastern seaboard inventory as at mid-October heading north of 5 mil cubic metres.

Discharge issues have eased slightly with an example being one of our largest discharge Ports, Lanshan, reducing slightly from 20 to 15 days demurrage. At US\$35K per day for your standard Handy class vessel that equates to an effective added cost of US\$1 per cubic metre per day.

My abacus says that's well over US\$500,000 in demurrage cost per vessel and there are currently over

30 vessels carrying NZ logs sitting off China ports awaiting discharge. I do not believe you will have to consult with your resident rocket scientist to figure out there could be a little log price softening out there in our midst.

On a more positive note, most commentators are suggesting this current situation is likely to be 2 – 3 month problem. Some important statements have come out of Beijing in the last week recognising the importance of the construction sector to the economy albeit tempered with comment around the need to keep the lid on house prices.

We must also remember the current A grade price sitting at around mid US\$160's is a very good selling price. It is only shipping rate that impacts so negatively at the NZ wharf gate.

Of some importance in this whole equation will be how NZ Forestry Inc slows harvest rates to reduce supply. If we don't, that very blunt instrument called price will ensure we do. With about 60% of our current harvest coming from the private sector, severe price drops will do it. Unfortunately, it will once again be the people who do the work who will bear the heaviest burden.

If NZ production does slow, this will increase ship availability and hopefully a day of reckoning for ship owners. Again, this likely impacts why we think the price problem child will be around for 2 – 3 months only.

As reported last month and as has been the way for most of my 32 years managing harvest and selling logs, the domestic sawmills remain the backbone of stability and price. In fact, current log prices are excellent and good quality blocks of trees are certainly worth still harvesting.

The challenge will be to maintain log supply under a reduced harvest scenario. Challenging times likely lie ahead, although in Canterbury a recent wind storm will ensure reasonable level continuance in the medium term.

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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