

Monthly Market Report

November 2021



The wheels have fallen off the log export trade this month with wharf gate prices plummeting to a 6-year low. These are certainly challenging and extraordinary times, with COVID impacting the supply chain and ship owners absolutely gouging NZ exporters across all commodities.

The combination of very high shipping costs and falling prices in China has seen the log market indicator A grade fall to mid to late NZ\$70's per cubic metre landed at Canterbury Ports. For many projects with a high percentage export grade, net returns to forest owners have fallen through the floor and operations have quickly ground to a halt.

As a consequence, and in the space of 3 weeks, log deliveries to NZ ports have halved with logging crews and trucking companies forced to take early holidays. Not a good outcome, as we head toward the "festive" season.

The dramatic fall in volumes has had an immediate impact on shipping costs. The dramatic slow-down now sees shipping companies prepared to negotiate. We are seeing daily hire rates falling with some commentators suggesting over US\$30 per cubic metre has come off rates in 2 weeks, absolutely unprecedented.

Unfortunately, this is all too little too late, with few in the forest industry in NZ having any sympathy for ship owners and price falls in China continuing. Whilst the combination should see a significant lift in December net at wharf gate prices, they are unlikely to be at levels that would get the chainsaws going again.

Our local sawmills are also suffering the greed of ship owners. One sawmill owner advised me last week, the hike in container rates has meant with recent consignments, the value of the lumber in the containers was worth just US\$50 per cubic metre more than the freight cost. Not surprisingly, that market outlet just went away.

On a positive note, daily consumption on China has been running at an average 70,000 cubic metres per day. Much lower than last year, but higher than most were expecting.

Eastern seaboard inventory has started to fall off a 6 million cubic metre high, currently sitting at around 5.2 million. This is expected to plummet once the current cargos are unloaded. If NZ owners keep the chainsaws in the shed until after summer holidays, most commentators are suggesting inventory will fall below

3 million cubic metres. That is exactly what we need to see happen for confidence to return.

Of some concern right now is neither sellers or buyers can reach agreement on price. As a consequence, the few shipments there are, are heading to China without Letters of Credit or contracts.

When the market turns like this, no one wants to settle first and until they can see where the bottom is. You would certainly need a very bright torch to look for the bottom in the murky abyss of the market right now.

Last week the China Government made some encouraging changes to the Real Estate sector. I thought the following made for interesting reading.

"Mortgages up, rates down. China banks extended 348.1 billion yuan (US\$54.5 billion) of mortgages, an increase of 101.3 billion yuan or 41% from September, the central bank said. Analysts attributed the jump to a correction from over-implementation of real estate lending policy since late September.

Banks started accepting new mortgage applications in October after a suspension of a few months in compliance with a mechanism introduced in December by the central bank and the China Banking and Insurance Regulatory Commission (CBIRC) to cap banks' outstanding property loans as a proportion of total loans and their ratio of outstanding mortgages to total loans.

Meanwhile, mortgage rates also declined. The average mortgage rate in 90 major cities for first-home purchases was 5.73% in October, and the rate for second-home purchases was 5.99%, both down 1 basis point from last month. A basis point is a hundredth of a percentage point. It was the first monthly drop this year, according to Beike Research Institute".

This is very much what the NZ forest industry wants to hear. But it does highlight our reliance on a single sector market, namely, apartment construction on China. It is certainly time for NZ Forest Inc to start spreading its market wings if we want continuing vibrancy in all sector sales.

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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