

# Market Report

September 2012

Allan Laurie MNZIF Laurie Forestry

Despite other commodities softening in price and demand in recent months, log and lumber prices have continued to hold or firm slightly with demand also holding at reasonable levels in our key markets.

The key player continues to be China. Consumption levels for Pacific Rim softwoods are continuing at a reasonable pace. One good example is Lanshan Port in Shandong province north of Shanghai where Laurie Forestry export logs to amongst others. Current inventory levels are around 450,000 cubic metres with consumption running at 12,000 cubic metres per day.

At 38 days inventory and holding at just under 2 month's supply of logs, a good comfort level is maintained and should ensure prices remain stable to very slight firming which is exactly what is needed at the moment. Across the total China market for September and October, we are expecting a small lift of US\$2 – 3 per JAS. This should see the steady supply situation continue.

Production at the forest level in NZ has been impacted somewhat by a very wet period more or less throughout the country. Some commentators have suggested the monthly production numbers nationally will be 20% back on normal. This will impact equally on NZ domestic sawmills and export destinations with the current supply levels being very approximately 50/50 to each.

In terms of pricing at the wharf gate, Shipping is the big unknown. All indicators are suggesting shipping costs should be softening but if anything we are seeing a small firming (US\$1 – 2 per JAS). Shipping companies are preferring to hang closer to the more lucrative northern hemisphere routes thus sending a "sorry, not today" message to their southern customers. This then helps to maintain a better price position. The current term used to describe this practice is call "shorting" the market.

Domestically, sales of S grade logs targeted for the house frame market are continuing at good pace. The market continues to hold in this seemingly endless limbo state waiting some sort of sales impetus from the Christchurch rebuild. Some are trying to build stock at present which will not be making the bank managers happy but will ensure sawmills have the product when the phone starts to ring.

One sawmilling commentator described the likely effect of a rapid change in demand versus supply as being something akin to a nuclear explosion suggesting it will be chaotic, out of control and leave a trail of price blood behind it when it finally happens. One can only hope it will be much more controlled and civilised than that.

Despite those of a more gloomy ilk, the demand does appear to be picking up albeit modestly and I have noted inventories in Lumber yards do not thus far appear to be anything akin to a mountain. Framing lumber is the main staple diet and as luck would have it, Canterbury forests are pretty good at producing framing grade logs. ( I bet there will be one or two who would like to argue the toss over that one!)

I have noted the wailing and gnashing of teeth over the US\$/NZ\$ exchange rate has lifted in intensity over the last month no doubt exacerbated by commodities coming under selling price pressure. A shift downward of 1c over the last month is hardly likely to win the Reserve Bank Governor any gongs but there is a few of us who would nominate him for national hero status if he could just encourage the exchange rate back below 0.70c.

Overall we are continuing to say this year will remain stable in price and demand terms internationally. Thus it is has never been more timely to remember the only way forward for climate, country and the planet is to get out there and plant more trees ..... please.....!

Laurie Forestry Ltd – Offering ongoing, sensible and achievable solutions for Forest Growers

South Canterbury Address - 22 Shearman Street, Waimate 7924, New Zealand – Phone +64 3 689 8333

Christchurch Address - Unit 3, 337 Harewood Rd, Christchurch 8053, New Zealand - Ph +64 3 359 5000

Email – admin@lauieforestry.co.nz