

Monthly Market Report

December 2012

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The last quarter of 2012 appears to be ending on a reasonable note with demand improving in domestic markets and prices and demand generally improving in the export segment.

The building programme in Christchurch appears to be finally gaining some momentum with sawmill owners reporting reasonable volume sales and heightened levels of enquiry. At the same time supply of the better quality S grade logs typically used to produce framing lumber appears to be reducing as little.

Lumber from outside the region has continued to flow in to the Christchurch market. Indeed it is quite interesting. A quick walk around some of the Box stores reveals a plethora of lumber supply sources, compared to previous months when the same plastic wrap branding was seen everywhere. This change suggests other sawmills are being tapped to ensure supply which in turn suggests the market is stronger.

The increasing size of the Christchurch market sand pit is good news indeed. It means there is more room for others to play and they are all busy with their own fun meaning they are not trying to kick sand in the face of, or steal the toys from, other players. This better code of behaviour should see the value of the game start to increase!

Settlements in China for December/January deliveries have been up US\$2+ per cubic metre, particularly at the higher quality or larger CA grade log end of the spectrum. The lower grades have remained stable but will eventually be dragged up if the current trend continues.

Most commentators are suggesting there is room for another US\$2 increase in January and February settlements which will take CA grade over USCIF\$135 per cubic metre. CIF means cost landed in China including freight.

At a continuing supply and maintenance of price perspective, we would not want to see the CA grade climb over US\$140. At this level other supply sources would enter the game, harvest cut would increase, substitution would occur and prices would inevitably fall. In the context of current international financial shenanigans, it is

clearly evident it would not be wise to promulgate dramatic price increases at this point in time.

The improved pricing regime is attributable to a consistent demand and consumption profile in China against a back drop of diminishing supply from other sources. As a consequence inventories across most China ports have continued to decline to just on 2 month's supply. This compares with about 3 months supply in June/July. For the moment nobody is panicking over low inventories. The general market speak is for consistency where demand is OK but not great and China New-Year is just around the corner.

Russia has struggled to fill orders or meet price due to harvesting, access and infrastructure issues. Some of the infrastructure issues include roads and bridges. The less obvious but endemic issues include ticket clipping as the logs make their way toward China. I think the politically correct term is "Border Tariffs". The politically incorrect term is AK47 bedecked Border Guard corruption.

Lumber from Canada and Logs from the US have also slowed. Part of this relates to seasonal capabilities as logging crews in Canada await the freeze so they can get back in to the forests. However the biggest component is the increased housing demand in the US which is seeing a big swing of volume back to the higher yielding domestic consumption.

Other markets for our logs including India and Korea have responded to China demand and price generally following the trend upward. Given the cumulative effects of shipping and settlement, Korea currently presents as a better bottom line than China to NZ forest owners.

As I have been saying all year, and I do acknowledge some might say boringly repetitively so, 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.....!

I do extend to all of my readers the hope a very special and safe Christmas period and a very productive and profitable new year.



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

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