# Monthly Market Report October 2014


September heralded further firming in prices in both the log export and domestic segments. Neither would justify getting out a case of champagne but improve they did.  Domestic sales have been strong with local sawmills continuing to struggle to keep an adequate log bank in front of them.

Domestic prices have improved very slightly with local sales strong and some spot lumber opportunities in export markets also adding to a better mood of optimism.  There is no question the lowering US$/KIWI$ exchange rate is adding a spring to the step of exporters. Given the skinny margins available in the lumber segment in recent years, this might be a time to suggest profit is not a dirty word.  I suspect there will be a few bank managers who will agree.

Demand for framing grade logs by Canterbury sawmills is good and expected to remain that way for some time.  The big surge in demand consequent on earthquake recovery is not happening and most seem to believe it never will.  At least not to the extent it would create a supply demand imbalance in favour of forest owners.

However demand is steady and local sawmill owners appear positive.  Some negative commentary continues with regard to the larger Nelson and North Island sawmills continually hammering the city box stores and big retailers.  Some of the sillier ones are continuing to offer discounts in order to move volume.  So for local forest owners the road to the local sawmills may not be paved with gold, but it is paved when it could be a rough old dirt track if it were not for the tenacious "locals".

As indicated last month in the log export segment we have seen CIF settlements in China stabilise at around the US$132 - $134 mark.  Most commentators are suggesting a very strong note of caution regarding China.  Log inventories across the eastern seaboard have fallen below 4 million cubic metres, but remain much higher than was predicted.

The first 7 days in October in China is Golden week and a national holiday.  This effectively means reduced consumption of about 400,000 cubic metres for October.  Whilst we are seeing a slow-down in log and lumber volumes arriving from US and Canada, the continuation of vessels from NZ and to a lesser degree Australia, will likely see inventory start to build again. And that is exactly what the market does not need right now.

Consumption throughout the construction sector in China remains subdued as a consequence of China Government interventionist policies focussed on keeping the lid on growth.  Letters of Credit (LC's) are problematic with the number of companies prepared to open LC's reducing as their umbilical cords to the banks face flow issues.

Overall we anticipate the current settlements will be the top of the market for the next few months and some commentators are suggesting we could see US$2 or $3 per cubic metre declines in November.

The good news for the longer term is the erosion of the shadow banking players in the China wood commodities sector.  These players operate under a set of rules totally focussed on margin and volume. A sort of rob both Peter and Paul without any skin in the game operation.  Their demise under a constrained credit line regime is not all bad for those of us wanting to establish long term and sustainable sales structures.

Despite some the negative elements, back in good old NZ the election is over, thank goodness, and, the RBG's and PM's focus and rhetoric surrounding the wildly too high exchange rate is music to our ears.  For the next few months we don't see great change ahead at the wharf gate for export sales as long as the KIWI$ value does not pitch down to seriously.  This would potentially add price and volume to a market which is not in overly good shape and prices could start to head south.

Thus, it 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!

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