

Monthly Market Report

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The impacts of the 10 September major wind event are now being felt across the region, some positive, some not so positive. Viewing the glass nearly full is to see the expanding prices being experienced for the export log segment. Viewing the glass half full is to see supplies to local sawmills start to shrink as logs in forest deteriorate for this important segment.

At a forest gate level there are no negatives with larger export logs, even with signs of deterioration, achieving prices comparable to, if not slightly ahead of domestic prices. As I have said many times before, the domestic sawmills are of major importance to the regions forest owners. These mills can be expected to keep chugging away whilst export markets have tended to provide fluctuating bottom lines. Erstwhile the local sawmill is also providing good consistent returns to growers while keeping the pay packets circulating around the local economy.

February settlements in China have seen a continuing firming in prices at wharf gate NZ. Last month I reported the market indicator A grade reaching over USCIF\$150 per cubic metre (the price landed in China). February settlements been in the order of US\$155- \$156 with some commentators suggesting the magic \$160 is now a lot more than a brightening light at the end of the tunnel.

In most previous encounters with a US\$160 level the market has reacted like a tipping point. Buyers have bolted leaving NZ suppliers high and dry and prices tumbling with other nations moving quickly to capture very good returns and flooding the market. However, this time the circumstances are somewhat different.

Demand has continued unabated during the winter and is increasing. Further lifts in demand can be expected as China shakes off the CNY holiday recovery mode and heads toward a busy spring construction period. As a consequence inventories across nearly all major eastern seaboard Ports are at 5 to 6 week supply levels. This is somewhat lower than is the norm for this time of year.

Indeed previously the market would start to panic if inventory levels dropped below 2 months supply. However, any China log market participant can easily scan the internet to find a plethora of reports that tell them about production levels in Australia and NZ. They can see we are chugging away generally increasing our annual cut and maintaining a good supply volume. They can also see there is plenty more to come.

As always, the tempering of our views about this market should include the realisation that close to 1 million tonnes of logs heads of the China every month to be sawn and peeled for timber and plywood to hold up concrete. Whilst we are doing this Canada is also exporting lumber in slightly greater roundwood equivalent volume to be used similarly. Nobody wants this wonderful thing called the China apartment construction market to end, but.....

Unquestionably the Christchurch rebuild is starting to bite with demand for lumber products never better for some years. Prices for lumber continue to remain stubbornly stable with North Island and Northern South Island sawmills spying the main chance and sending truckloads of lumber south. For the moment there seems to be little supply constraint and builders generally getting all they need.

The next 3 months could get very interesting as demand across all segments heats up and the forest cut move increasingly toward smaller younger trees felled on September 10th. Blue stain in logs is likely to become the order of the day ruling out significant volume increases for local mills.

On another positive note we are seeing heightened levels of interest in planting and investment in forestry. Great news indeed proving there are still some astute people out there who have done their research and recognised forestry has been one of the highest yielding land based commodity segments for a long time.

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

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

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