

Monthly Market Report

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The China market has become a focus over the last few weeks as worrying signs start to appear. It is looking like we have hit the high point in terms of price after a wonderful "bull run" over the last year.

Following Chinese new-year the general expectation was factories would kick in to gear, construction projects would get under way, and overall activity would increase in anticipation of spring. However there has been much less spring in the market than expected, indeed more of a solid thump.

The Chinese Government have continued to adopt economy cooling measures as they try to stem the tide a rapid inflation. The construction sector tends to be the target with constrained credit lines hampering new project starts. Consumption levels have been low since CNY whilst NZ and Australia particularly, have continued to pump the logs in. As a consequence log inventory levels have lifted rapidly, hitting an all time high approaching 5 million cubic metres, more that 4 months supply.

At these levels buyers have closed up shop, LC's are becoming harder to confirm and all in all it has become a little ugly. As one might expect, prices are very much under downward pressure but not nearly to a level the inventory suggests they should be.

As reported last month the market indicator A grade hit a high of US\$160 per cubic metre. April settlements have been in the order of US\$155 - \$158. General sentiment is suggesting US\$150 might be reached in May. At present this levels appears to be the market bottom line with most commentary suggesting a US\$10 reduction will be enough to bring balance. Importantly also buyers in China cannot afford to let the price go too low or they will be left holding high cost stock and eroded margins. In fact negative margins and reduced sales together a very squirmy bank manager would be the order of the day.

Importantly also it was only 5 months ago when we reached US\$150 on the way up and we thought all our Christmas's had come at once. So, you can leave the gun in the cupboard, it is certainly not time to be contemplating ending it all now.....

Shipping costs have been ramping uncomfortably so but again we appear to have reached the peak for the moment. As soon as shipping companies see prices dropping this will also be a catalyst for change or at least some more fervent negotiations. For the moment we are securing charters in the US\$38 - \$40 per cubic metre bracket although we have heard some have had to settle at up to US\$42.

A FOREX rate against the US of \$0.86+ is reaching in to the realms of the ridiculous and is certainly eroding wharf gate prices in NZ. Every cent erodes about \$1.55 per cubic metre off the wharf gate price at the current sales levels. All indicators are for a continuance of this most unhealthy situation for exporters.

The Christchurch market is certainly chugging along now. The big issue for sawmills is supply with forest harvest focussing on wind damage recovery and that does not always mean logs suitable for the domestic sawmills focussed on house framing.

Indeed the combined effect of generally younger age classes being recovered and therefore smaller trees, together with a lot of logs now being sap stained, and mills are really struggling for supply. There is certainly a lot of price pressure out there but sawmills are also struggling with any lumber price increases. Large volumes of Northern South Island and North Island lumber are flooding in to Christchurch. This leaves the market well sated for supply with little appetite for price lifts.

More recent news out of the Nelson and Rotorua areas is suggesting some constrained log supply also, I suspect as forest owners, chase the more lucrative export log market. Perhaps some domestic "correction" is not in the too distant future.

All in all a more subdued and negative tone this month, but on the back of some very good times in the market indeed. 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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