

Monthly Market Report

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As indicated last month the China market was displaying signs of speed wobbles. Indeed the wheel nuts have certainly come loose this month with downward pressure on pricing exceeding expectations.

Last month I suggested May CIF settlements in China would be in the order of US\$150 per cubic metre for the market indicator A grade. This followed a peak in March of US\$160. Indeed May settlements have been struggling at US\$145 and some commentators have been suggesting US\$140 will be the new price in June.

In terms of providing some perspectives about this market it is important to remember. 1) The market was significantly over-cooked at US\$160. There was nothing more certain than the market going peer shaped when we reached that level. 2) The price settlements in China are controlled by NZ companies, indeed NZ dominates the volume and pricing mechanisms in the softwood log market in China. 3) The recent price drops are simply a reflection of supply exceeding demand. 4) At the current settlements we are now back to where we were in April/May last year and then we were breaking out the champagne!

In short, the Chinese are not to blame for the recent downward price pressures, rather NZ log suppliers are completely at fault pushing prices far beyond sustainable levels. Indeed the recent price falls will hurt China traders and sawmills much more than NZ. There is 3 months supply of logs sitting on eastern seaboard ports in China meaning all the US\$160 logs now have to be sold at much lower levels to domestic customers.

Over the last few weeks in China, in what is normally their highest usage period, average daily consumption levels have been in the order of 60,000 cubic metres. Actually that isn't too bad for this time of the year. Last year they were running at about 70,000 per day.

Log deliveries from Russia, NZ, Australia, US and Canada have been a little under that meaning overall inventory has fallen very slightly. However we will need to shrink supply significantly if we are to stabilise the current situation. This will be helped in part by additional vessels heading to India in May and June.

Meanwhile in NZ, the best thing that has happened is the deluge of rain that has slowed forest harvest generally. A most frustratingly expensive situation for those like ourselves now involved in trying to extract logs from difficult to access areas. However the lower volumes being shipped nationally are desperately needed in order to give time for the China market to recover.

My spies are suggesting the domestic market is going well. Those selling lumber in to Asia and Australia are complaining bitterly about the exchange rate. Demand centred on Christchurch is certainly going well at least in terms of volume. Trying to get the real oil on what is happening to lumber prices is akin to trying to extra a tooth from the mouth of a hen, not easy. One of our domestic customers conceded things were going better but he reminded me you only have to look at the recent closures of 5 major sawmills in NZ to see things are not all that pretty.

For both Log and Lumber segments some better spot freight market opportunities are emerging. In the case of logs, shipping companies are more prepared to negotiate as they see things unfolding in China. In the case of lumber, the imbalance of freight out, versus that coming in, is seeing some very sharp container rates on offer. Up to 50% discounts have been quoted recently. For this trade much depends on the ports of load and discharge.

A US\$ FOREX rate continuing in the realms of \$0.86+ is very unhealthy and certainly debilitating the bottom line for both log and lumber exports. Even those in the corridors of power have admitted the current high exchange rate is undesirable. We can only hope sometime in the very near future this reality shifts from lip service to something of substance.

Harvest of wind damaged forests, woodlots and shelterbelts in Canterbury continues at pace. Indeed we can now see a small flicker of light at the end of a tunnel which appears to be about September/October. Meanwhile the good news is the trees are holding on well and little loss is being experienced due to deterioration.

Once again 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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