

# Monthly Market Report

June 2014

Allan Laurie MNZIF Laurie Forestry

The downward pressure on export log price settlements, have been chaotic for all the wrong reasons over the last month. Last month I indicated we would reach US\$140 per cubic metre on a sliding scale downward for June settlements with the focus on the China market. This level refers to the benchmark indicator A grade log. Indeed that would have been looking pretty good right now with US\$130 becoming the standard.

From what I can see, the current situation is somewhat of a knee jerk reaction to a gross over supply of volume. Actually, consumption levels across many eastern seaboard ports in China, hasn't been too bad. This is despite a construction season that has been fraught with bad weather and Government Credit constraining policies.

Zhang Zhou port is a southern port where the primary end users are plywood mills and an extremely import market for NZ. A run of bad weather has seen big delays in getting plywood dry as all ply is air dried. Thus the port is currently full of logs with few trucks carting logs away. For this very localised situation, it looks like demand is weak but some have suggested sales are simply deferred rather than cancelled.

Inventory across the eastern seaboard ports is dropping albeit very slowly. At present it has fallen below 3.5 million cubic metres and is expected to go below 3 million by mid July. It looks like it will take that sort of number before the market shifts out of a mood of total disinterest in offering better prices.

Daily consumption has been continuing to run at 55,000+ cubic metres per day. However NZ suppliers mostly, have been sending 65,000 cubic metres per day although this is now starting to reduce. The current prices together with an

awful run of weather in NZ, are combining to result in significant production drops.

Meanwhile the Canterbury domestic market comprised of a range of sawmills generally focussed on the production of framing grade lumber, have just kept chugging along. Prices have remained stable to slightly firm and many are reporting a steady order book. Once again these local mills have proven they are the sustainable backbone to our industry.

Some local mills have also focussed on the Australia market for their sales. Their enthusiasm is waning in the face of an anti export foreign exchange rate and a market constrained on volume and price. The Aussie market is very important to us and will be for a long time to come. However this market is also facing some domestic challenges with new house starts, generally on a decline and competition for volume and price often fierce.

It is certainly good to finally see mild weakness in both the Aust\$ and US\$ exchange rates. Our trading Banks seem pretty confident this current weakness is a small blip in what can otherwise be expected to be a firm faze until Christmas. However I note the recent low points for the US\$ (low 0.84c) are below where most have been forecasting. We can only assume they have under estimated the impacts of a declining diary payout or simply remain devilishly bullish for reasons of pecuniary interest.

In a market that has suddenly presented some interesting challenges it is worthwhile reflecting on a period of very good prices overall. All indications are for a relatively short lived down market. 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

**South Canterbury Address** - 22 Shearman Street, Waimate 7924, New Zealand – Phone +64 3 689 8333

**Christchurch Address** - Unit 3, 337 Harewood Rd, Christchurch 8053, New Zealand - Ph +64 3 359 5000

**Email** – admin@lauieforestry.co.nz