

Monthly Market Report

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Export log markets have broken all the wrong records over the last month. The fastest and most significant decline in CIF prices for logs landed in China ever seen has been the order of the day. I spent a week in China in early June and saw first-hand the impacts of the current situation. Visiting 7 factories, and three ports, the story was pretty much the same everywhere. Too much wood and not enough sales.

Last month I reported A grade logs heading down past US\$130 per cubic metre from an almost all time high of US\$160+ in March/April. Indeed settlements of US\$120 have been common place.

In this report I focus on China because many readers may not be aware of why these peaks and troughs occur. The following is a combination of fact and in part my theories on this key market and basically how NZ really mucks up providing a stable price and volume platform.

Firstly it is important to understand that NZ and NZ based companies dominate the softwood log market in China, I was going to say controls the market, there but control is not something we appear to understand or use to our advantage.

Just before Xmas, the US settlements for Radiata pine went past US\$145 per cubic metre for A grade. Market hype and a jostle for volume positions saw this price reach the US\$160+ mark. The problem was, the usage on the China side was if anything declining. Therefore the inevitable has occurred.

At present, softwood log consumption across the China eastern seaboard is running at about 40,000 cubic metres per day. Not too shabby really. Five years ago we would have marvelled at such a consumption rate. Now we compare it to the 65,000 per day the market was consuming at the same time last year.

Trying to get a handle on what is happening right now in terms of NZ total production is very difficult. This is because logging crews are parking up all over the country and delivery rates to ports are dropping daily. To allow the market to recover quickly we have to get delivery rates to China below the million cubic metre mark or 35,000 per day. This is a drop in national harvest of 400,000+ cubic metres per month.

Late last week (4th June) it appeared a long run of inventory building was starting to slow with an expectation the reported vessel arrivals in June would be way down. Indeed the total inventory crept very close to 5million cubic metres, close to 4 months' supply.

Importantly anything over US\$140 has the US and Canada eyeing up this market also. They have higher costs than NZ and will only get in to their work when they see the higher levels being reached. Hence the combined daily deliveries to China ramped in February/March/April to over 70,000 cubic metres per day, more than 2 million per month.

NZ supplies 60% of the total volume of softwood logs exported to China and NZ based companies 70%, when you add in volume we supply from Australia and the US. Of the NZ companies there are 2 that dominate with the largest volume and another 3 or 4 that influence CIF settlements. Last year NZ produced over 20% of all softwood log volume traded on the planet. Our nearest competitors were US and Russia at about 15% each.

An important part of the China culture of marketing is that you will never get an offer of a price from a China factory owner or trader. The seller offers the price and the buyer accepts or declines and that is never a 5 minute job! Therefore the NZ sellers set the price in China. Often, not so clear mirrors are a feature of the negotiations.

The better news out of this market in the last week has been a significant shift in confidence and continued reasonable consumption levels despite a construction season plagued with hot weather. Also the China Government have announced credit relief measures which are seen as positive. It certainly looks like June will be the trough in the market although I suspect it will be September before we see a reverse swing.

As has been the case since time immemorial and reported by me regularly the good old domestic market just keeps chugging on with good realistic prices and a steady demand for volume. For Canterbury the Christchurch rebuild is certainly adding some volume and suppliers appear eager to supply.

All indications are for a relatively short lived down market and then we shall all rise from the abyss of complacency and self-fulfilling destiny to fight again another day! 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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