

Monthly Market Report

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News out of the market is a little better this month. Domestic sales, consequence on new house and construction starts in Canterbury are adding a volume and value mix rarely seen before. Whilst demand is strong, log prices remain stubbornly stable and for the moment that is a positive outcome.

Log flows through local sawmills has been brisk. Forest owners are more than happy to support this vital life line while log export sales in our key market of China hang in the bottom of what has been a catastrophic trough. Domestic sawmill prices and demand has been steady for many years, thus they have continued to provide a stable and valuable platform to Canterbury forest growers.

News out of the China market suggests the worst is over with discussion about price shifting away from how low it is going to go to when can we expect it to rise. Last month I reported the China market indicator A grade was reaching a bottom point at US\$120 per cubic metre. Indeed sales during July and August have continued to hover in the US\$120 to 125 range.

Other key market contributors like Shipping cost and FOREX have moved to the advantage of NZ wharf gate prices but also add to a forecast of an improved outlook to future sales. Shipping costs are showing signs of weakening to the tune of US\$1 – 2 per cubic metre. A US\$/KIWI\$ movement of 1 cent adds or decreases the value of a log at wharf gate by about NZ\$1.35 per cubic metre. It is great to turn the computer on each morning and see the exchange rate quietly creeping down rather than up as it had in the recent past.

Over the last month inventory levels across the China eastern seaboard have remained stubbornly high as NZ divests itself of gross over production. In the last 2 weeks we have just started to see inventories creep down off a recent high of 4.7million cubic metres as vessel arrivals start to dwindle. Meanwhile usage rates have also started to lift in the last fortnight to an average 60,000 cubic metres per day (7 days a week in China) effectively 2 vessels per day. This is up from 40,000 cubic metres per day in June.

Improved consumption is a sign of a key market factor called confidence returning to the mix. The China Government have announced a revised credit control programme releasing more funds in to key development sectors and the weather has cooled in general terms. This latter factor sees workers returning to construction sites and working longer hours.

Over the last month also, log deliveries from forests to NZ ports have dropped a staggering 30% in volume terms. Whilst this is badly needed to bring the supply/demand balance back, you cannot help but ponder the downstream affect this will be having on NZ Forest Industry families. And as reported previously the frustration I share is that there was really no need for this to ever happen.

In terms of a 2 month forecast for China, I see maybe a US\$5 per cubic metre increase in September and continuing price improvement to Christmas. However I also suspect the market will have learnt its lesson. With plenty of wound licking going on, I do not see a giddy increase anywhere in our near future. Indeed rapid increase in price should be resisted at all cost if we are to avoid the severe price wave effect.

But as I have said before we should not settle in to that easy chair of complacency and continuum. Our total reliance on the construction sector in China is fraught with challenge ahead. The NZ forest industry needs to focus on how we can diversify Radiata pine away from being used to hold up concrete and that is the challenge I have embarked on in developing the direct sales programme to China.

As suggested last month the now even stronger indications are for a relatively short lived down market with higher level positiveness now a strong element to the mood and confidence levels. 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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