

Monthly Market Report

September 2014



This month it is good to see the overall market move back in to positive territory with export prices rebounding off a 3 year low. Indeed the down side appears to be short lived with a lift of US\$3 - 6 per cubic metre for settlements in China being the order of the day.

Meanwhile domestic sawmills in Canterbury have been chugging along. Supply of framing grade logs has been constrained with a combination of factors seeing some mills very close to stopping whilst they wait for the next load of logs. This situation is the consequence of a lower harvest rate as forest owners elect to slow down whilst export sales conditions are poor. Also many logging crews are completing out wind damaged blocks which generally contain a low percentage of domestic logs.

Last month I reported export prices starting to turn with the market indicator A grade settlements in China hovering around the \$US120 to \$125 range. During the later part of August and early September there has been a veritable stampede of NZ sellers in to this market trying to commit volumes and forcing prices up. At this stage US\$130 has been commonplace but some are trying for US\$132 - \$134, I would suggest very unwisely.

The China market remains quite fragile. It is very important to understand this fragility, least we step on to the price ice that is marginally too thin to support any sort of weight. On the surface the current eastern seaboard consumption levels at 60,000 to 63,000 cubic metres per day are good. Not quite as good as last year but then that was a record breaker.

Inventory levels for softwood logs across the China eastern seaboard remain stubbornly high, currently running at 4.3 million cubic metres, about 2.5 months supply. On the China side this inventory was expected to drop more quickly but supply from NZ particularly, has also been much more than expected. Currently delivery rates remain at over 50,000 cubic metres per day from all sources. Thus, inventory will continue to drop very slowly and it will only take a small blip for it all to turn to the consistency of a sweet yellow desert.

As China heads in to the Autumn months we would normally expect consumption to lift as the construction season hits a peak. However most China commentators are suggesting construction is hitting increasingly harder times. This situation is the direct consequence of

constrained credit lines as Banks continue to move to suppress an over cooked housing market.

Following directives from Central Government, Banks are also adopting policy which targets constraints on the shadow banking industry. This financing segment refers to trading companies and other entities that rely on cash flow to generate revenue via skinny margins where commodities are used as the conduit. Hence volume becomes the critical driver rather than value.

Unfortunately these shadow banking players are endemic in the log and lumber industries. These players rely on continuing log sales to generate sufficient cash to keep the money clock ticking. When central financing policy constrains the segments ability to trade, sales terms are extended often beyond 90 days, interest debt grows significantly, default becomes commonplace and nervousness pervades.

To add to the negative indicators in China in recent weeks we have seen some of the large companies who provide the Letter of Credit (LC) arrangements to enable sawmills to trade, start to reign in including refusing to issue more LCs. As a consequence some orders have been cancelled and negotiations have become protracted. This is a very worrying trend and one that clearly results from a combination of over exposure, restrained credit lines with Banks and a Central Government cooling regime.

With the recent CNF lift in prices in tandem with a lower FOREX rate, and generally lower shipping rates, wharf gate prices should see A grade moving back in to the late NZ\$80 to early \$90s per cubic metre at the wharf gate in October, so it is not all bad.

All in all it looks like the last slump has been short lived. It is certainly not time to be breaking out the Champagne but as long as the cross rate with the US\$ remains subdued the wharf gate position for Forest Owners should resume providing very acceptable returns. 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!

Allan Laurie MNZIF Laurie Forestry

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
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz