Monthly Market Report November 2014

A cautionary tone pervades the log export segment with most commentators suggesting November settlements in China are coming off US$3 to $4 per cubic metre. Meanwhile the NZ domestic market oozes business as usual with, if anything, a slightly firming tone in demand and prices.

Domestic log sales are generally in a supply demand balance but the overwhelming commentary from the "locals" centres on sales being at an OK level, but certainly not record beating. Most saw millers spoken to recently have indicated sales are better than at the same time last year but lumber from outside the region is hitting the Christchurch market in volume. This appears to be keeping a lid on any significant price movements.

In our key export market of China, the big issue at present is credit. Whilst many Provincial Governments have announced loosening housing lending policies, many traders and sawmills are still reeling from the recent 30% price drop in log prices.

Despite what appears to be a huge market, it is important to realise much of the softwood log trade in China is underwritten by very few companies. These are often very large wholly or majority Government owned companies who operate within very strict profit and margin parameters. They are also the ones who can issue Letters of Credit (LC's) to traders and factory owners.

Many of these companies lost huge money recently, one company reportedly in excess of US$1 billion. Sawmill owners (often called factories in China) will typically be required to pay a 20 to 25% deposit to open an LC. Large losses by both LC opener and Sawmill owner occur when buyers walk away from a sale. When the market drops suddenly, as it did recently, a buyer will walk away from the deposit rather than loose even more on the log order, leaving the LC issuer "holding the baby".

Recently two substantial players in the LC space announced an exit from the log trade quoting substantial losses, price volatility and uncertainty. This has sent shivers down the spine of the market with some vessels leaving NZ known not to have LC's confirmed at time of sailing. All of this makes for a jittery trade, high levels of uncertainty and all players scrambling for more margin.

Consumption across the China Eastern Seaboard has remained at about 55,000 cubic metres per day (7 days per week), off by about 10,000 per day compared to the same time last year. However inventory levels are falling stubbornly, now just on 3.7million cubic metres, representing 2 month's supply. Log supply from US and Canada is falling dramatically indeed by less than half compared to October 2013. For the most part, everyone expects the log inventory level to keep falling but all are eying the NZ and Australia supply side.

As indicated last month we saw CIF settlements in China stabilise at around the US$132 - $134 mark with a suggestion we could see US$2 or $3 per cubic metre declines in November settlements. Indeed this prophecy is being realised at time of writing with most suggesting November settlements will be US$128 - $130.

Price negotiations in our other key markets of India and Korea are pretty much following the China lead. India is continuing to show great promise for much larger volumes ahead and prices at wharf gate generally just slightly ahead of China at present. New ports are being reviewed for the log trade in India with congestion and discharging cargo amongst some of the biggest challenges. Certainly the emails from potential India buyers are a veritable flood, suggesting continued and new interest in developing this trade further.

Shipping costs are softening ever so slightly and is also great to see some downward movement in the KIWI$ against the US$. Therefore overall we would not expect to see great change in wharf gate prices this month and December looks like more of the same.

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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