

Monthly Market Report

December 2014



The log trade has been a rather tumultuous one for Canterbury with export log prices lifting and dipping faster than a slow bullet and wind damage recovery clean up stretching all resources to their max. By year's end, we are now in pretty good shape. Domestic sales are moderate to strong with prices firm to flat. The regions saw miller owners appear ambivalent with comment hovering between the positiveness of good sales volumes but tempered by margins under continuous challenge. Export sales have levelled after climbing back and look destined to remain that way through in to Q1 2015.

On the domestic sawmill front it is important to record the recent untimely death of Gary McVicar a person very widely known in timber circles. The McVicar enterprises in the Canterbury region are significant and of huge importance within the timber and related industries. Gary built on an enterprise from the foundations laid by his late father Neil.

Gary has been a sound industry advocate, often leading the charge on behalf of industry. He had many roles and interests touching timber and forests spanning in excess of 50 years. He was forthright, hard working and of unquestionable business acumen. His contribution to our industry must therefore be acknowledged and in so doing we also extend sympathy and condolences to the McVicar family.

In December we expect CIF settlements in China to remain flat with most commentators suggesting A grade will remain at US\$130 per cubic metre. FOREX has remained reasonably stable with the US\$/KIWI\$ rate staying within a 1.5 cent range over the last month. Shipping costs have definitely softened with the northern Hemisphere winter starting to impact trade and more vessels prepared to head south for cargo.

Overall we are seeing shipping rates coming off US\$2 - 3 per cubic metre which on balance is adding about the same to wharf gate prices in NZ\$ terms. However, this China market is continuing to carry credit risk factors. With 2 very large Letter of Credit providers having left timber and log segment, some customers are struggling to confirm sales.

Credit is under pressure with payment time terms reduced and deposit percentages increased. On the one hand, the China business code suggests it is quite wise to pay up on time but on the other I have noted default and bankruptcy remains prevalent. Whilst this air of constraint pervades and overall nervousness continues,

we would expect conditions to remain flat in to next year.

On a more positive note, overall inventory levels are continuing to fall now below 3.5 million cubic metres and continuing to decline. Sales across the eastern sea-board are continuing at 50,000 to 55,000 per day which is not too shabby.

One other bright light for the NZ side, is the significant reduction in supply of log and lumber from the Pacific North West (PNW). The US domestic market now pays US\$30 - \$35 per cubic metre equivalent more for logs than can be achieved in export sales at the wharf gate. Sellers are heading in droves to their local mills. US sales are strong and sawmills are flat out.

At a US/NZ cross rate situation, in the past, we have typically seen US Douglas fir and Hemlock logs sell at a US\$20 to \$25 per cubic metre premium above Radiata pine. This margin is shrinking significantly with margins now in the order of US\$10 only. This is certainly not music to the ears of NZ Douglas fir forest owners and log sellers and we do not expect their news to improve any time soon.

On another note of sadness we also must record the recent untimely demise of forest management practitioner, Andy McCord. Andy has been a significant contributor to the Forest Industry primary in Canterbury but his knowledge tentacles spread far and wide. He was a passionate advocate for sound forest establishment practices, and an out of the square thinker on options and alternatives. He was a man of enviable humour, great company and a good friend to many in the industry. He was of course, well known as a writer for many years to "Canterbury Farming". He will be sorely missed and our sympathies go to Sammie and family.

And so it is we must end a year having recorded some wonderful highs and some not so great lows. Whatever your experience I extend seasons greeting and all wishing all the very best of everything good in 2015. Of course it is thoroughly important to remember the trees keep growing regardless and peoples of the world continue to need wood for wide ranging reasons. 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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