Monthly Market Report January 2015

The new year is starting off on a cautionary tone. Whilst our local domestic market just keeps chugging along, the news out of China is very mixed. CIF settlements fell US$2 -3 per cubic metre for January settlements and have the potential to fall a further US$5 in February. Shipping and FOREX movements have helped offset this so far with very little movement in wharf gate prices in NZ to date.

In each of October and November 2014, the total volume of softwood logs shipped to the China Eastern seaboard was 1.4 - 1.5 million cubic metres with 67% of that volume coming from New Zealand and Australia. Logs from the Pacific North West accounted for 28% and Russia, the balance.

Daily consumption figures have been reducing since November. Some of this is as expected for this time of year. Usage levels have been dropping to around 45,000 cubic metres per day or about 1.3 million cubic metres per month. This is about 10,000 cubic metes per day less than the same time last year. With Chinese New Year just around the corner, usage is expected to drop further, but then so will supply out of NZ as the effect of the recent 2-3 week holiday break impacts shipments.

During January and February we would expect to see China inventory climb from the current about 3.2 million cubic metres to closer to 4 million. In most years this would not be an uncomfortable level but this year sentiment and credit conditions add to an unhealthy mix of potential downside particularly for Q1.

Over the next few months we would expect to continue to see PNW volumes decrease as US and Canadian sawmills respond to a buoyant domestic house start profile. We would also expect to see volumes increase from Russia with the Ruble weakening some 47% against the US$ since mid 2014. Despite a plethora of in country "issues", Russian exporters are expected to try to capture the benefit of the exchange rate and Mr Putin reportedly really needs the cash.

For the NZ Forest Grower it is important to realise the construction sector in China accounts for 15% of GDP and is therefore a key economic driver. A combination of factors sees current credit lines squeezed, house prices falling, confidence low and investors heading to the share market rather than saving up for a new house. Despite the Government having removed most of the inflation quelling policy of late 2013 up to mid 2014, house sales remain subdued.

We would therefore expect to see some downward price pressure at least for Q1. On a positive note, the pruned log market remains a solid performing and very positive element. Prices have continued to firm and most commentary suggests there is further build in price to come. My records confirm at the current CIFUS$165 - $170 per cubic metre prices are the highest they have been, by quite a margin, since this market grew to any sort of volume level in early 2010.

On the Domestic sawmill front sawmill owners report markets are just OK. Sales are strong but prices are often a very sore point. Despite significant demand in the rebuild sector, Christchurch mills report supply and demand for lumber are largely in balance. Some of the bigger North Island sawmills have been continuing to flood the city with lumber. Some have been threatening to lift prices. Once again, no one appears to want to lead the charge, no doubt concerned to risk losing customers and volume.

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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