Monthly Market Report February 2015

Market is currently stable with China heading toward a state of flux

There is a mixed bag of news in this month's report. Domestic prices from local Sawmill owners are maintaining the usual stable platform for the regions Forest Growers. Meanwhile export markets offer up some gains amidst a market segment displaying all the hallmarks of having the speed wobbles.

Last month I suggested CIF settlements in China would soften US$5 per cubic metre and, unfortunately, I was right. However, the price drop has been more than matched with shipping cost reductions and a weakening Kiwi dollar against the Green Back. The bottom line "at wharf gate NZ" has been a net increase in wharf gate prices in February.

The cloud on this otherwise superficially glowing horizon, is the potential for further CIF settlement declines. Some commentators are suggesting there could be a further US$5 to $10 per cubic metre drop in March and April settlements with the market indicator A grade at US$115 - $120 per cubic metre being the talk of the town. This is against February settlements at around US$125.

At the reduced levels and an expected firming in shipping costs, March prices at wharf gate NZ would not be what we wanted to hear. The big question mark is will the declining interest in the NZ dollar and a resurgent interest in the US dollar off set some otherwise sobering news. Time will tell.

In China the cause of our focus on prices is an economy which continues to maintain a negative sentiment even in the face of central Government policies which have relaxed credit conditions for new home buyers. In China a new home is a 60 to 300 square metre Apartment depending on where you sit in the wealth stakes. Apartment construction is very much at the forefront of the key drivers in the Chinese economy.

Across most Chinese cities the 15 to 30 story apartment block has a 60% chance of having been built with concrete that has been held in place until it dried with NZ Radiata pine in the form of boxing lumber or Plywood. In short the NZ Forest Grower very much relies on a Chinese consumer agreeing to the purchase of a new apartment, and at present they are doing so in much less numbers than is good for them or us.

Constrained credit lines are a factor but it is more likely an exit of the capital gains seen in recent years has removed the speculation element from the market. House prices are continuing to fall although recent comment suggests this is likely to be in a bottoming out phase at present.

The mood then is one of overall negative sentiment. In recent months there has been a significant increase in volumes of Log and Lumber being imported from Russia. A resurgent volume of Lumber out of Chile and utilisation of what was a huge stock pile of Douglas fir and Hemlock logs out of PNW add to the mix of competition for NZ Radiata pine logs.

Add to the mix a cessation of practically all construction activity for Chinese New year (a two week holiday starting 18 February) and we have a recipe for all that may not be good in April and May.

On a more positive note, pruned log prices are holding or firming across both export and domestic segments. Indeed prices for pruned export logs have rarely been higher than at present. A recent ring around my spies in both Islands suggests pruned logs are also selling well domestically with prices in a firming mode. The demand and price is the result of lumber heading off shore, primarily to the buoyant US market.

It continues to be 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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