

# Monthly Market Report

March 2015



**L**og prices have remained mostly stable this month. Domestic prices are unchanged and export prices have dropped only NZ\$2 - \$3 per cubic metre at the wharf gate. Meanwhile the NZ domestic market has very much swung to demand exceeding supply and in the export segment, very much the reverse.

Export prices have been impacted by what has been a softening phase centred on a less than buoyant China demand profile. As reported last month, the situation in China is less than desirable with lack of credit and cash together with low numbers of new construction starts being the order of the day.

On the positive side in tier 1 cities in China, house prices appear to have bottomed out and in a few cases started to lift again. Overall, the majority of comment suggests expectations and sentiment are now less negative than pre Chinese new-year. However, in this key market for NZ Forest growers it is looking like it is not going to print anything other than average to mediocre for at least Q2 and Q3 in 2015.

Once again we see local sawmills offering price points that at least match and if not exceed those available at the wharf gate. However it is also important to note the local sawmills prefer the best logs in the forest or woodlot. This reflects the local focus on producing lumber for the Christchurch house framing market.

Because the cartage distance is generally less to the local sawmill than the port, the Forest owner can expect the best prices for this target market. Of some concern is to see the local mills almost starving for logs with some having to manage usage and supply on a day to day basis. This disturbing situation is related to forest and woodlots of lower quality being harvested and therefore a lesser percentage of higher grade logs. It is also related to a reducing forest cut, as the wind damage recovery programme draws to a conclusion.

Local sawmill prices for framing grade logs are continuing to hold in the \$100+ per tonne mark. Meanwhile on the export front, CIF (landed in China) settlements have following the earlier predicted path. In February the indicator A grade settlements were mostly US\$2 either side of US\$125 per cubic metre, whilst March prices have been hovering between US\$120 and \$117.

This drop reflects prices now in a 10 year low on a CIF (landed in China in US\$) basis. The NZ wharf gate situation has been much less pronounced with now some of the lowest shipping costs in 15 years and a declining US\$/Kiwi\$ exchange rate ensuring prices on a NZ\$ basis have remained in a \$5 per cubic metre band.

The situation in China is as critical to the NZ sawmiller as it is to the log exporter. If China prices continue to drop then the harvest volumes can also be expected to decline as forest owners close their gates. This will inevitably starve the local sawmills of logs unless they can find a way to compete in the lower quality export log segment.

This situation is mirrored in China, where current domestic log supply will falter if NZ and Australia log prices drop to the US\$110 mark. Harvest of forests in China is a significant proportion of the total cut and China has very large costs for domestic logs including often carting them over long distances. It is for this reason we believe the current situation is nearing the bottom of the current cycle.

The big issue for both sides at present is that the current situation in China is not log price but demand. For a China sawmill owner the majority of cutting is done to order in a factory style basis. At present post CNY orders have started to come in but they are often small and short term. In this context, if the sawmill does not have any orders, then they will not want logs at any price. It is therefore a major turnaround in demand, that everyone is looking out for. I will be in the China market late March so will be able to report more in next month's report.

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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