

# Monthly Market Report

June 2015



**T**he fortunes of the forest industry look to be returning to some semblance of normality after what can only be described as a price free fall in the export segment during April, May and early June. We saw the market indicator A grade drop, in US dollar landed in China terms, from US\$130 per cubic metre in November 2014 to US\$95 in May 2015. Recent settlements have rebounded to \$100 and \$105 is expected in July.

NZ Forest growers were somewhat cushioned by the earlier declines as shipping costs and the exchange rate also softened. However, the market reality chickens eventually came home to roost with quarter 2 settlements reflecting a China market grossly over supplied and inventory levels heading towards an extremely giddy 5 million cubic metres.

The big white gloved stop hand came out firmly in April as the very blunt market correction instrument called price, kicked in. The log traffic started to build up at NZ ports as suppliers delayed vessels in the hope a recovery would happen sooner than later. Their hopes were of course ill founded and many vessels sailed from NZ without sales, without letters of credit and without a firm idea on where prices would actually finish up.

The short term impacts on industry are significant when the supply and demand planets fall out of alignment as they have here. Machinery sales have stopped, it has become a buyers market for forestry equipment and many good people have exited the industry. Some will undoubtedly not return.

Over the first 2 weeks of June the market had bottomed out with the price freefall halting and consumption levels across the China eastern seaboard maintain good levels. Inventories have started to decline and domestic prices for lumber and log in China have stabilised or improved in some cities.

Whilst some believe the worst is over, it cannot be emphasised enough, the China market remains very fragile. Consumption levels can be expected to drop as hot summer conditions impact on construction activity. Credit remains an issue and those supplying Letters of

Credit are maintaining a very risk averse profile. This means there is less cash and buyers are struggling to fund shipments.

As was reported last month, pruned log prices have maintained a very good position, indeed hardly affected by the lower quality log grade segment. Pruned log prices are excellent at present and the demand, judging by the many buyer enquiries, looks to remain for some time to come.

Meanwhile our solid and reliable domestic sawmillers have gone from a flood of log as export prices softened, to a very much depleted supply now. As forest harvest has slowed, so has the supply of good framing logs to local mills with some running hand to mouth, basically taking logs straight on to the production line as they arrive.

Domestic log prices have remained stable as ample supply from the big North Island sawmills in to Christchurch continues to keep a price cap on. A recent announcement of a 5% drop in lumber prices by a large North Island lumber producer will not be music to a Canterbury forest owners ears. Given the generally good demand profile this is unlikely to impact log prices but it will squeeze production margins

And so it is for the next 2 or 3 months we should continue to see very modest recovery but the US/Kiwi exchange rate will have a big role to play. If it continues to decline then we can expect moderately better times ahead. Not a time for wild and uninhibited celebration, rather a subdued contemplative reflection of something better ahead would be the order of the day.

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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