

Monthly Market Report

July 2015



The current affairs of China are certainly making for some interesting days at present. Across the forestry sector in NZ, all eyes and ears strain to see and hear the latest in factors like daily timber consumption, the cash situation and just what the China Government will do next.

From my phone calls to traders and buyers in China, it is clearly evident they are also very worried. Just like us, the daily grind of business is centred around trade and maintaining good relationships with customers and suppliers. It is time like these when you really appreciate the maintenance of good business and sticking without exception to the principals of honesty, loyalty and commitment. It is very obvious to me the China people I deal with value these elements as much as we do.

For exporters in the NZ timber trades, in the immediate term, we expect the falling exchange rate and reducing shipping costs to off-set the downside of falling CNF settlements for both the log and lumber export sectors. For July sales the market indicator A grade has held a steady price path of around US\$100 per cubic metre. But all indicators in the last week is that we can expect August settlements to ease US\$5.

At the NZ wharf gate it is possible prices could actually increase as FOREX and Shipping impact positively. For suppliers of both log and lumber in to Asia, including the China Eastern Seaboard, over-supply will kill any chance of short to medium term revival. Supplies of Lumber from Russia and Pacific North West have been very strong biting in to the Radiata log market but also at rates that confirm there will be no lifts in prices any time soon.

Current indicators are suggesting China log consumption is running at around 45,000 cubic metres per day, down significantly on May, but not unexpected for this time of year. Meanwhile a reduced log supply has seen volumes, predominantly from NZ and Australia, drop to around 50,000 cubic metres per day. Inventories have therefore continued to build and

domestic prices in RMB (China currency) terms have also started to fall.

Domestically we have seen local sawmills chug along with nothing major to report. A slight under-supply of log is continuing to see some mills struggle for sufficient logs to maintain optimal production. Prices are holding firm and the exchange rate is certainly helping to keep export lumber sales in the black. The Christchurch rebuild seems to be on a rest period and outside of the normal speculations, nobody can tell me why the critical demand profile appears to have flattened.

The falling exchange rate against the green back is certainly helping our sector at present. Reducing Bunker (ships fuel) costs together with a massive slow-down in freight volumes is seeing shipping costs starting to weaken. The container trade is certainly seeing some sharp rates and in my experience this is a forerunner to bulk rates dropping also.

As reported previously, pruned log prices are the big bright light glowing solidly with current prices the highest experienced in many years and only about NZ\$10 per tonne off the highest ever experienced. China appetite for pruned clearwood logs has remained steady and prices have stayed outside the shenanigans of the unpruned segment. Some price pressure has come on in recent weeks but the US\$5 -7 per cubic metre drops have been more than off-set by the dropping Kiwi\$/US\$ exchange rate.

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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