

# Monthly Market Report

August 2015



**E**xport market conditions for both log and lumber have continued to be dominated by the China economy, with factors conspiring against any resurgence in the short to medium term. Several new factors are emerging with respect to the NZ Log and Lumber trade. This "hot of the press" report references these factors and attempts to predict how they relate to what we can expect over the next 2 - 3 months.

The NZ domestic market continues to provide a stable and best bottom line position for forest growers. For the most part sawmills are paying the best prices and their supply and demand is broadly in balance. As always there are exceptions.

The last 5 - 6 months has been a very good pricing period for pruned logs. Prices are close to the best ever paid. I am delighted to see forest owners who invested in that act of faith operation, called pruning, 20 - 25 years ago, are being proved to be well justified in their decision.

Across the China eastern seaboard, the all port inventory for softwood logs has dropped to about 4 million cubic metres from a high 4.7 mil in May/June. Daily usage (consumption) has risen to a not too shabby 55,000 cubic metres per day, up 10,000 on last month. Year on year this is still about 10,000 per day less than the norm for this time of year.

The big issues right now are cash, Letters of Credit (LC's) and volumes of lumber arriving from the Pacific North West and Russia. Although China domestic consumption is reasonable, some trade is being conducted on extended terms and fire sales prices to move distressed cargos. A number of LC issuing companies have exited the log trade quoting risk as the reason.

For the first time in a long time, I am hearing of several shipments of distressed lumber from Canada heading to China. There are also at least 3 distressed shipments of logs from NZ, regrettably not a first. Distressed means the cargo includes aged stock and or fresh stock that has been shipped without LC's or contracts confirmed. This means sellers have not been able to conclude sales prior to shipping and will land high risk cargo that will find its own value position, often well below the market.

My spies also report seeing a lot of very old stocks of logs sitting on Ports in China. Some of this situation

is the consequence of difficulties securing LC's and some relates to the cat and mouse game being played out between sellers and buyers. The problem here is sorting out which one is the cat!

Added to the pot of negativity at present, is a rapidly declining RMB/US\$ exchange rate. China exporting manufacturers are able to pick up some sales advantages via exchange rate but are discounting to achieve volume. In the log trade the declining exchange rate is lifting the value of NZ logs with the domestic price (kiwi logs traded from ports to China factories in RMB currency) severely debilitating any trading margins.

The bottom line for all of this is the market indicator A grade settlements for August sales are hovering in a US\$90 to \$95 per cubic metre band. Most commentators are suggesting there will be another US\$5 per cubic metre drop on September.

At a NZ wharf gate basis, a decline in the Kiwi dollar against the US is having a positive bottom line impact. Shipping rates are also under downward pressure. However these two factors will not offset a fundamental need by NZ suppliers to reduce volumes being shipped to China if any sort of recovery is to be realised. In August a total 23 log vessels are confirmed to be destined for China which equates to about 700,000 cubic metres. This is a significant drop of about 10 vessels or 300,000 cubic metres less compared to the same time last year.

It is also pleasing to see a couple of large NZ Forest Owners conceding they will have to slow down production in response to "adverse market factors". This is the first time the large companies having responded to everyone else's reality. If production can drop further, we may all be able to afford to buy some presents for our loved ones for Christmas.

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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