

Monthly Market Report

September 2015



As with many NZ commodities which have come to rely on the China economy, the wood trade is languishing in a period of challenge and uncertainty. The challenges relate to how harvesting operations remain active in the face of pretty demoralising returns to Forest Owners. The uncertainties relate to just how long this period of correction will last.

Amidst the turmoil of the export component of the volume harvested from forests being in the can, domestic sawmills are doing a little better on the back of a more favourable exchange rate, in particular those targeting Australia. Prices have held up well and in Canterbury at least demand and supply are variously in balance.

A review of production nationally has suggested at least 120 logging crews at varying stages of being laid off, under production quota or on a forced holiday. Volumes heading to ports are starting to seriously decline. Some reports are suggesting key export ports are expecting volume declines in the order of 25% to 50% in September.

In one sense, this is exactly what is needed to reduce inventory at NZ and China Ports thus bringing demand and supply back in to the normal varying degrees of balance. On the other hand the price and volume drops are so significant, there is a real danger there will be an equal and opposite reaction and prices could spiral back up.

Whilst some might view this as a potentially positive outcome, the reality is high prices are not sustainable in the current corrective modernisation of the China economy. Ultimately in a regime of price volatility, there can be very few winners.

For the record, the market indicator A grade CNF settlements (landed in China in US\$) have dropped from US\$134 per cubic metre in September 2014 to US\$85 in September 2015. In March April 2014 A grade was selling for a near all time high of US\$160 per cubic metre.

Shipping rates have helped NZ growers in what appears to be a massive correction. March 2014 spot shipping rates were in the order of US\$38 per cubic metre, currently US\$22 - 24. The US exchange rate was \$0.84c in March 2014 currently falling through \$0.63.5c.

The harsh reality of all this is, A grade was worth NZ\$111 per cubic metre at the wharf gate in 2014 and currently \$66 - 69 the lowest in over 10 years.

Many NZ sawmills are also supplying industrial grade lumber in to China. As a comparison, cut of log green sawn industrial grade was worth around CNF US\$200 per cubic metre in September 2014, currently US\$120. If the NZ sawmill is paying the typical \$100 per tonne for logs, achieving the average 55% conversion, strapping, packing and delivering the lumber to the port, it would not be difficult to work out this product is very much a loss leader!

The key issues reported last month have not changed. Lack of Letter of Credit issuers, cash in short supply, high volumes of lumber from Canada and Russia, high inventory, tightening environmental policies and adverse exchange rates are all part of the pot of negativity at present.

However, in the last few days our logistics company in China report a mild mood swing has become evident. Buyers are returning to the table suggesting most believe the market has bottomed out and cheap logs are making re-entry attractive. Inventory levels have been steadily declining and there is a very noticeable drop in aged stock volumes at some key ports.

NZ remains the dominant player in the China Eastern Seaboard softwood log space. Therefore all eyes are currently on NZ ports and just how much volume will be shipped in September. By all accounts the current correction is now seeing volumes seriously dropping. Despite the huge impact this has on all involved, it should ensure better times ahead.

Market swings are an unfortunate reality of all commodities and NZ Forest Growers can remain positive that we have otherwise had an extremely good log price profile over the last 2 or 3 years. 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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