

# Monthly Market Report

October 2015



**T**his has been a pretty volatile period with export prices pitching down to the lowest levels in a long time. In the last 2 or 3 weeks there has been a remarkable turnaround with somewhat of a price recovery in process.

However the fundamentals of many key markets remain volatile with the only reason seemingly for a recovery, is a belief timber is in short supply. This premise appears based solely on the deliveries to NZ ports. These have been down, but only in so much as some of the bigger owners have decided to reign production in for the short term.

The current resurgence in price will soon get production back up and the likelihood is we could be in for a pretty short term good price position.

A canvas around domestic markets suggests it is pretty much business as usual. If anything there is an abundance of logs and local sawmills have been able to keep log stocks at good levels. In fact some are bulging at the seams as forest owners have been targeting higher quality stands. These typically comprise higher volumes of domestic grade logs thus avoiding the lower value export segment.

Local trade over the last few weeks has been brisker with most mills reporting sales at good levels albeit constrained on prices. Once again out-doors type lumber demand in bouncing back up suggesting fencing projects are getting in to the summer swing.

On the export log side, last month I reported the market indicator A grade log selling in China at around US\$85 per cubic metre reflecting some of the lowest prices experienced in the last 5 years. In the last 3 weeks, there has been a significant bounce back to around \$105 per cubic metre. A rising US\$ exchange rate has softened the wharf gate prices but shipping has also come off. The net impact of all this is a lift exceeding NZ\$25 per cubic metre for A grade at the port.

I have just spent a week in China visiting customers and prospective customers. Some of the elements I see impacting this market include the fall in exchange rate between the RMB and US\$ has increased log costs,

but added to export revenues. This has assisted the packaging and container floor sectors as they relate to wood fibre.

The autumn construction season is seeing higher usage levels than most were predicting. Current consumption is running at close to 70,000 cubic metres per day. (2 million m3 per month).

House prices (mostly apartments in China) have started to increase in Tier one cities, stabilise in Tier 2 cities and remain bearish in Tier 3 cities. Most have commented they believe the property market is in a positive re-correction phase generally.

There is a noticeable continuing decline of aged stock in log yards. Traders have returned to the negotiating table clearly indicating they believe the log price has bottomed out and they are in the market for bargains.

The China Government recently announce enhanced austerity measures including providing house purchase incentives, interest rates cuts to some sectors and increased infrastructure expenditure. They have also announced all state run domestic forest harvest will stop by the end of 2016 and all other domestic harvest will stop by the end of 2017. The current annual domestic harvest is 30 to 40 million log tonnes and is mostly undertaken in the northern provinces. This has changed the forward demand projections significantly.

Caution remains the name of the game in the meantime with the overriding impression, if we lift production significantly and build inventory, pricing will certainly come under downward pressure.

However it is great to see wood fibre commodities bouncing back with gusto mostly in contrast to many other sectors. 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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