

Monthly Market Report

December 2015



The volatility anticipated in export markets has continued with the expected price softening becoming a reality for the most recent settlements in China and India. Meanwhile my spies in the domestic scene suggest it is very much business as usual, indeed almost boringly so.

It would be really nice to see export markets reach a similar boring status despite this resulting in having little to write about in my monthly market commentary. On the plus side, the domestic sawmills are maintaining log prices in a pretty competitive environment as it relates to framing and new house starts. Consumption levels are good and supply lines generally in balance, despite the earlier predictions of some shortfalls of structural logs this summer.

Given the pressures coming on it, would not be unreasonable to expect some upward pressure in domestic markets. Those pressures include the impacts of CPI really driving in to the bottom lines of all in the chain. But it is also a reflection of some pretty staggering results on the health and safety front. Recent statistics suggest the forest industry has moved from posing as the much maligned by media bad boy to the glowing example of safe work practices.

The NZ Forest Industry Safety Council (FISC) has set an industry target of 0 fatality and 0 serious harm accidents. The industry's focus on this has been a great credit to all with fatalities and serious harm accident rates plunging. Safe work practices are about working smarter and where applied correctly result in improved productivity. However underlying the safe work practices is a real investment in every-day business. The word cost is deliberately avoided here as we don't measure lives saved or lost by some sort of monetary outcome.

On an exciting note, a major new sawmilling operation in the Central North Island is under commissioning. This mill is focussed on squaring logs primarily for the China market thus achieving some value added status. The mill has no conventional saws, rather chippers to square the logs. When in full production the mill will churn out approximately 950,000 cubic metres per annum with a log intake of 1.2 million cubic metres. This is a fantastic new venture led by a very brave bunch of Kiwi investors.

Last month log export settlements in China reached US\$120 per cubic metre A grade basis. This was a massive jump from US\$85 to month before. Late

December vessels are looking to be settled at or about US\$105 and some stability looks to be finally entering the market framework. Meanwhile shipping costs have softened very slightly meaning prices at the wharf gate NZ are remaining in a pretty good space.

Even though the market appears to be settling down, concerns remain over the broader China situation with credit line squeezes and much more conservative money supply lines being the order of the day. Construction numbers have started to weaken as winter conditions impact activity levels, particularly in southern provinces.

NZ ports have suddenly become very busy with volumes picking up from October to the tune of about 25%. However it is also evident there has been some capacity loss with casualties across harvesting and trucking business's during the crash. Daily national port deliveries are still about 7% behind the same time last year. A Christmas break in production will be good for constraining supply for quarter one 2016, but China New Year celebrations will essentially balance the supply v demand books.

Meanwhile India has responded to the China situation with similar price drops. Prices remain slightly above China when all factors are considered. This emerging market is really starting to crank some volume with 4 to 5 vessels per month of Radiata pine logs now being the norm. New ports are opening up in India with some container trade being the forerunner to what most believe will be new ports accepting break bulk cargo in the near future.

And while we battle away on the daily grind, world leaders have contemplated our climatic future via some sort of navel gazing exercise in France. As usual the results seem little more than words of stoic irrelevance except for that glowing example of clear and simple values and judgments to be found in Prince Charles. It is heartening to hear a world leader remind those of confused and uncertain mind, a goodly portion of the reason for climate change is the loss of forest cover.

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. And with those most wholesome of terms, I bid all readers all that is good and safe this festive season and in the New Year.

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