

Monthly Market Report

January 2016



The regions sawmills are reporting market conditions to be reasonably favourable but certainly not breaking any records one way or the other. The big issue for them right now is log supply with a shortage evident as logging crews get back in to the swing after a well deserved break.

The log export market focussed on China has settled down with pricing remaining largely flat for January settlements. In this case flat means stable at pretty reasonable levels and that is good for both the China and NZ sides of the equation.

Even more heartening is the current suggestion prices should hold at current levels through February. Right at present (14 January) daily consumption across the Eastern seaboard is running at about 60,000 per day. This is well ahead of earlier predictions reflecting a combination of positive elements in the apartment construction sector.

As the Chinese New Year approaches, consumption levels will drop off dramatically. We can effectively expect 2 weeks of February to comprise the celebration and holiday period which is also the time when many vessels of NZ logs can be expected to arrive. All eyes will be on just how many vessels do arrive and how this will impact inventory levels.

Current inventory levels are around 2.7 million cubic metres reflecting less than 2 months supply. This is the lowest level in a long time but no one is panicking. That is because both sides realise additional supply is heading to China. With the impact of the volume on its way versus current and near term consumption expectations, inventories should remain under 3.5 million which most should perceive as comfortable.

Post CNY, we can expect to see consumption spike as the market shakes off the winter and holiday blues and prepares for the spring construction season. If previous years are anything to go by, Q2 can be expected to be more volatile and prices are currently predicted to drop.

At a NZ wharf gate supply level, we are currently 6-8% behind in volume deliveries compared to last year

despite prices being at pretty good levels. Some have suggested this is the consequence of a loss in logging contractor capability. Last year's rapid and unprecedented drop in prices in Q4 has been a major one with some logging companies having thrown in the towel and others have shrunk their business to reduce risk.

And so it is we can be pretty critical of NZ's log traders continuing failure to react appropriately to clear market signals with the consequent massive shifts in NZ log export prices in 2015. History clearly shows prices are often driven up when the clear market signals suggest otherwise. And then they tumble when the full extent of everything we already knew becomes a reality.

Importantly NZ is not a minnow the Pacific Rim softwood log trade, in fact very much the opposite. The modern computer allows us to track daily, weekly and monthly log movements and determine shifts in dynamics. Really there is no excuse for a failure to act appropriately suggesting ego and some sort of unachievable desire for dominance are the key game plays.

On the fringes of this often uncontrolled play in an often boisterous sandpit, one can observe the kids with the most toys playing a game of jostling for the opportunity to take more toys off the others and thus try and dominate the play. Regrettably, the game always ends the same way, with no winners and lots of tears. Thus history keeps repeating despite what we should have learnt in the previous play.

One much more positive note the declining exchange rate against the US dollar is most heartening. This, as markets react to the NZ drop in interest rates, the Federal Reserve increase in interest rates, together with weakening in global Dairy and Oil prices. This movement is certainly helping the wharf gate position in NZ when topped off with some of the lowest shipping rates in many years. Long may it continue.

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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