

Monthly Market Report

February 2016



The log supply shortages for local sawmills has continued this month with some reporting downtime from running out of logs. This situation is almost unprecedented in the Canterbury region. Whilst we have seen short term supply constraints of the past, this period has been extended and significant

The significance impacts in 2 ways. Running out of logs sees people being paid to do less productive, non revenue earning tasks whilst they wait supply. The other impact relates to the sawmill not being able mill consistently similar sized logs of the same grade. This reduces throughput efficiency and therefore profitability.

On the plus side mills are being forced to look at other grade supply options thus spreading the diet of supply and market. Inevitably this leads to compromise and is not likely to be solution long term unless the trade winds change direction significantly.

Local lumber sales appear to be good with prices holding and in some cases small increases are being reported. Local sales have a very strong out-door flavour with fencing, pergolaís, outdoor furniture and decking featuring.

Log exports remain stable in terms of price and supply. Wharf gate prices are good and likely to remain that way until at least end of March. The export sector remains focussed on China where pre Chinese New Year sales were stronger than expected and log supply from all sources remained subdued.

Inventory level and usage reports are less reliable at present as everyone gets back to work and in to the swing. Inventory level reports suggest a total eastern sea board softwood volume of about 3.2 million reflecting about 2.5 months supply. This is a very comfortable level for most and should not excite the trade one way or the other. But the next 6 weeks will be critical in determining the levels of consumption as compared to the level of delivery and how this impacts the market beyond April.

At this stage the delivery of logs to NZ ports remain slightly behind last year and well behind 2013/14. This appears to be the consequence of volumes available from forests and a continuing loss of logger capacity after the big price plunge Q4 2015. There are regional

variations of course, but it is the national figures that are important in terms of their impact on the China eastern seaboard trade.

The market indicator A grade prices appear to be stable in a range around US\$110 CIF (landed at the China port) per cubic metre. Whilst historically quite a low level, very low shipping rates and favourable foreign exchange rates are ensuring historically, prices at the wharf gate NZ, remain in the top 90 percentile of the market of the last 10 years. Indeed shipping rates are currently the lowest I have seen them in the 20 odd years I have been involved on log exports.

Much more importantly, at these sales levels in China, Radiata pine logs are very competitive compared to the likes of Douglas fir and Western Hemlock from the Pacific Northwest. As reported previously, the biggest portion of softwood logs end up as plywood or lumber holding up concrete until it dries in multi story buildings.

Radiata pine has the distinct added advantage of being able to be peeled for plywood which a big proportion of construction sector requirements. PNW logs are not favoured for peeling. However in terms of long term strategic advantage, it rarely matters to the China buyer whether the tree took 28 years to grow it in NZ or much much longer in PNW it all goes down the same throat!

In terms of firing a couple of warning shots over the bow, I do see some weakness in pruned log prices ahead. We have seen some wonderful price point for large pruned logs. At the cheaper of the NZ ports, prices well in excess of NZ\$200 per cubic metre have been common for some time. My spies in China report the market becoming much more critical, wanting consistent quality logs well within agreed specifications, are sure sign volume and price weakness is around the corner.

And so it is, wood fibre as a commodity continues to buck the trend, prices are stable and very good and we are currently at peace with the world! 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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