

# Monthly Market Report

March 2016



**W**ood Fibre markets both nationally and internationally appear to be bucking the commodity trend at present. Indeed the log trade has been very settled since late December 2015 also holding at a very reasonable value position for NZ forest growers.

The Domestic log trade is chugging along with supply and demand very broadly in balance. Most sawmills are getting the logs they require and prices are stable at historically good levels.

In our key export market, China, consumption levels are starting to pick up. In the week beginning 8<sup>th</sup> March, softwood log usage across the eastern seaboard was running at 53,400 cubic metres per day, an increase of 16,600 per day on the previous week.

Usage is obviously a function of demand, but is also a confidence determinant. And in China confidence determines mood and therefore the ongoing self fulfilling outcome. Inventory can also be added to the pot of confidence. Again in the week of 8<sup>th</sup> March total softwood log inventory was 3.27 million cubic metres, a level that should see continuing stability.

Hence we can determine that at the current usage, the softwood inventory reflects 2.25 - 2.5 months supply in stock which is just about right for this time of the year. This level also reflects little change since last month.

On the not so good news side of the equation, the China domestic price for lumber fell \$30RMB (China currency) per cubic metre which equates to close to NZ\$7 in the same week. This suggests some weakness in the overall market conditions although early days yet to be seeing any net impact.

At present most commentators are reporting a pretty flat profile in export log settlements. At present, CIF prices are hovering in a US\$105-110

bracket, A grade basis, most agree US\$110 is a good level. There are, as always, exceptions to the rule but it can be a challenge to sort the bull from the bluster sometimes.

As expected, Pacific North West (PNW) supply has been on the decline as their domestic market continues to provide better returns for forest owners. Over the last few weeks we have seen export volumes fall significantly. Some reports have suggested there is 15,000 - 20,000 cubic metres per week less than compared to the same time last year. This equates to about 2 vessels per month which is good news for NZ.

Meanwhile NZ as a whole is starting to lift harvest production to about the same levels as last year. Right now that production is running slightly ahead of usage levels in the market. We can only hope some bad weather and holiday brakes will be applied to curb this back a little. The consequences of this not happen would see the pendulum swing the wrong way log price wise.

Shipping costs for NZ logs heading to China remain at very low levels, ensuring a good bottom line for suppliers to the wharf gate. Recent modest lifts in the US\$/Kiw\$ FOREX rate is not what we wanted to see at present. Nor I suspect would those involved in the business of turning grass, fertiliser and water in to milk want to see this right now.

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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