

Monthly Market Report

May 2016



Price and demand have remained strong across all wood fibre segments over the last month. The continuance of a stable and good price for logs is helping maintain an air of business as usual and I think most appreciate the market is almost boringly good at present.

A slightly higher exchange rate and rising shipping costs have subdued what could have been higher lifts at the wharf gate for the export segment in May. Despite CIF (landed in market) prices rising US\$5 to \$7 per cubic metre, prices at the wharf gate are flat to little changed.

There is no doubt the overall picture in our key export markets China, is one of softening. Domestic lumber prices have been falling RMB20 to 30 per cubic metre per week, the equivalent or NZ\$4 to \$8. This is a sure sign softening log prices are just around the corner.

In May there was a wide range in A grade basis settlements in China, some in excess of US\$120 per cubic metre. We consider these levels were very unwise, encouraging more volume out of other countries and at a time where there are clear warning signs of weakness ahead. Thus we are seeing June settlements, whilst for most still being negotiated at time of writing, are likely to round out at slightly weaker levels.

The reasons for the softening include the normal seasonal slowdown in consumption, ample and growing supply of softwood lumber and log out of Russia, extra ships of logs out of the US and a shortage of credit in the money game round in China.

On the domestic scene Auckland, Hamilton and Central Otago have been quoted as the hotbeds of demand, whilst Christchurch has definitely come off the boil. Indeed I have heard several reports of builders shrinking staff and some looking for alternative employment options.

Judging by some of the concrete and steel monstrosities they are putting up in the Christchurch CPD, I would guess there is not the demand for lumber. Yet another opportunity lost and the environment one step closer to non-sustainability. At least it is good to see some token timber in some of the finishing work.

Despite what is being quoted as weakening demand locally, sawmills are very busy quoting some sharper freight rates and good demand internationally for lumber as being the catalyst for sales. Prices remain subdued but the peripheral factors are keeping them in the game.

In China, a furrowed brow probably best describes the mood. Additional volumes from the Pacific North West, Russia, Europe and Chile are adding to the pot of concern. Consumption has also been weakening although pretty much at the levels expected. Usage is running at between 55,000 and 65,000 cubic metres per day, the equivalent of on average 1.5 full vessel load per day.

My spies suggest there are 32 - 36 vessels heading to China this month from PNW, Australia and NZ alone. Add Russia volume in to the mix and unless there is a miracle and someone adds some more days to the month I suspect the current 3.18 mil m3 inventory is about to rise...

Of some concern on my recent visit to China, was a large number of containers of Chile Radiata pine logs being de-vened. We had always believed this was a lumber only supplier with their Government insisting everything had to be processed locally. So this is a concerning sign, more particularly since the log quality was well ahead of the average NZ log.

On the plus side, I also visited a factory which has ramped in 3 years from a focus on construction ply and lumber, to consumption of approximately 250,000 m3 per annum for furniture and components, mouldings and panelling. Planned expansion is expected to take this operation to 500,000 cubic metres per annum. This is an exciting development with a focus on NZ radiata pine markets a significant and exciting step away from the traditional apartment construction sector.

For these markets sap stain is a major issue and one NZ will need to focus on if we want to shift away from the construction sector which up until now has totally dominated the demand profile in China.

And so it is the commercial plantation industry continues to yield some of the highest returns of all land uses in NZ and looks set to continue for some time to come. Prices are stable and at very good levels. Thus it is 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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