Monthly Market Report June 2016

The plantation forestry sector has continued to provide stable and strong returns since late 2015 with log prices high compared to the 36 month average. In valuing forests or woodlots, we would normally use a 24 month or 36 month average price index. In our most recent valuations, a long term average gain in prices is certainly adding to values in real terms.

Of those medium to large harvest projects we have recently analysed, per hectare return yields are in excess of a 7% return on investment, well ahead of most other land use industries in NZ. This means average per hectare returns for a 28 - 30 year old Radiata pine block have been in a range $20,000 to $30,000 per hectare. Of course there are always exceptions to the rule, both higher and lower, if the forest or woodlot falls outside the "average".

The period of good pricing is the consequence of a combination of key factors:

- Domestic markets has been booming with demand exceeding supply in many regions
- FOREX has been lower in the high 0.60's (US$v Kiwi$ refers)
- Shipping rates have been much lower due the low fuel cost and poor demand
- China and India prices have been good although certainly not high in CFR terms

Across the domestic front this month, sales are buoyant with new house starts and a strong industrial construction sector adding to the pot of positivity. Sawmills are variously getting the supplies they require although at times watching the entrance gate anxiously waiting for the next load to arrive.

Across the Export sector, prices at wharf gate softened marginally for June sales as a consequence of slight drops in CFR prices and the strengthening Kiwi$. The net result is prices have remained much more stable than we were predicting for Q2.

Shipping a been a veritable pain in the proverbial this month with significantly less vessels opening for NZ charter and most playing hard ball on price. There are fewer shipments of grain, fertiliser and PKE coming to NZ so shipping companies have had to ballast down to pick up logs. The normal game of cat and mouse has prevailed with the cat (the shipping co) playing a game of feigning disinterest even though everyone knows the food has been scared lately.

Across the China eastern seaboard consumption has actually been somewhat higher than expected. Early June daily usage was continuing to be around 55,000 to 65,000 cubic metres per day but is expected to trail off now as workers return to the homelands to help with the family harvest. At the same time NZ and Australia suppliers have been increasing shipments which together with volumes from Russia and the US will see inventory start to build

As predicted last month, inventory has lifted but again not so much as most commentators had earlier predicted. Last week inventory was heading through 3.3 million, up about 200,000 cubic metres on May levels. This certainly does not suggest an out of kilter over-supply and as a consequence we would not expect prices to change a great deal.

For May settlements CFR for A grade basis most players in the game appear to have settled around US$115 CFR A grade basis. Some have tried to talk the market up suggesting contracts at higher levels. However as is often the case, it is about smoking mirrors and egos with the final LC reflecting market reality.

Some commentators have suggested levels at $112 - 114 for July settlements with similar drops in August. All of that is too far away to be confident it is more about talk rather than what will be our reality. Either way, continuing stability is likely to be the reality, and that is the best outcome for the China customer and the NZ forest grower.

India has continued strongly over Q2 with sales generally ahead year on year basis. Prices are holding firm even in the face of good supply and slightly higher than preferred inventory. Right at present prices net at wharf gate NZ are slightly above China comparatives but that can all change in a heart-beat. In this case a heart beat means an extra vessel more than expected arriving in Khandla and Mundra.

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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