

Monthly Market Report

July 2016



Over the last month log prices have weakened slightly for export grades but remained stable to very slightly firm across the domestic segment. The export price softening at wharf gate NZ ports is largely the result of movement in the Kiwi\$/US\$ exchange rate and small increases in shipping costs. Meanwhile settlements in China CIF US\$ per cubic metre basis, have remained slightly weak to flat.

Some domestic sawmills have really struggled for log supply over the last month, particularly in Canterbury where a flat to reduced supply profile has impacted. Some of this appears to be driven by lower harvest levels consequent on the 2013 wind damage event in tandem with some logging crews working in poorer quality woodlots and forests. This has reduced the better framing grade log supply favoured by local mills.

In India, prices on a net at wharf gate NZ basis, have been good to strong reflecting slighter better returns than a China comparative. Based on the number of vessels heading to India at present, we see a significant over supply looming and therefore prices will inevitably take a hit in August.

Meanwhile in our key market of China, earlier predictions of price pressure downward have not come to pass. Consumption levels across the eastern seaboard have remained stronger than expected up to mid July running at around 58,000 cubic metres per day. This is the equivalent of about 1.5 million cubic metres per month.

For the first 2 weeks of July, inventory has been in the order of 3.35 million cubic metres, again, much lower than most were predicting. Of the total softwood inventory, NZ and Australia logs comprise about 2.1 million cubic metres, which reflects a fall of 10,000 cubic metres per week, month to date.

An important thermometer in the China eastern seaboard trade is the domestic price for logs sold from ports to China customers. Month to date in June log prices across the Shangdong and Shanghai regions is in a range RMB790 to 850 per Chinese cubic metre. This is the equivalent of about NZ\$170 to \$190 per cubic metre but also reflects port discharge, log storage and customs clearance costs.

All of this means contrary to our earlier predictions of softening in to August sales, we would now expect

stability at or about price levels US\$115 per JAS cubic metre A grade basis. We also believe key factors remain fragile enough to ensure it would be unwise for either side to push too hard up or down to avoid there being negative impacts for both sides.

The pruned log market in China has experienced the most significant correction seen for some time. CIF prices have come off US\$20 per cubic metre over the last 3 weeks, much to the consternation of NZ forest growers. This correction is due to a range of factors:

- ❖ The furniture industry in China remains weak consequent on domestic and export demand with a corresponding decrease in demand for logs.
- ❖ A new hardwood from Africa has arrived in volume and is being offered at prices below current Radiata pine pruned logs.
- ❖ NZ logs are rife with sap stain from our late summer arrivals with any aged logs being offered at the same prices as A grade to move them.
- ❖ The emerging China softwood furniture market is becoming increasingly discerning toward quality and the negative impacts of sap stain and low clearwood recovery.
- ❖ NZ has been exporting far more pruned logs to China than there was ever a market for, in part due to lack of any real investment in market development.

Hence our reality chickens have now come home to roost and we can anticipate they will stay on the perch for some time. However it is still worth remembering the new prices in the market in July/August are still well ahead of where they were 12 months ago so it is not all bad.

And so it is the commercial plantation industry is enjoying a good run. Prices are stable and at very good levels compared to the 2 year rolling average.

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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