

Monthly Market Report

September 2016



The developing trend of under supply of domestic sawlogs has dominated the round the table discussion over the month. In Canterbury, we are seeing sawmills stopped for extended periods waiting logs.

This is not at all good for the maintenance of a vibrant market place. I have long campaigned the importance of our domestic sawmills in our market opportunity line up. To see them sitting idle is extremely worrying.

The general feedback from other management companies is certainly along the lines of constrained supply. The September 13 wind storm is certainly starting to bite with a reasonable chunk of the mid 20 year old stands lost at that time that would be available now.

In most supply/demand situations we would expect a lack of supply to impact log price. In this case, the local mills compete with larger, very aggressive producers in Nelson and the North Island. They happily flood the Canterbury market to the extent of increasing warehouse stocks. These stocks wait to pounce on any vestige of supply where the need to maintain cashflow often conflicts with the need to make margin.

Meanwhile export prices basically just keep chugging along. India and Korea are currently offering wharf gate price points very marginally better than China but overall prices at wharf gate NZ are stable to very slightly firm.

In the case of the dominant market of China log prices increased US\$3 - 4 per cubic metre in the market for September sales. However this increase was offset by an almost equal and opposite force called the rise and rise of the NZ\$/US\$ exchange rate. Based on the current trend for exchange rate firming, we would need to see continuing lifts in sales prices to avoid price drops at the wharf gate next month.

China eastern seaboard inventory remains relatively stable at 3.51 million cubic metres of which NZ/Australia supplied Radiata pine logs make up about 1.95 million. Daily port off take has lifted very slightly to about 60,000 cubic metres per day, the equivalent of about 1.7 typical log vessels leaving NZ. In China, daily uplift is generally a 7 day a week operation.

I will be in the China market next week so my report next month will be able to report in more detail on the current situation. However the general consensus

is key factors surrounding construction rates in China, coupled with the Governments key infrastructure policies continue to add tinges of nervousness and uncertainty.

Credit lines are also under some scrutiny with central banks being generally more cautious. Companies able to issue Letters of Credit remain much more conservative with the results being higher deposit rates for LC's to be issued. All of this air of uncertainty adds to a pot of business as usual, with warning signs rather than road blocks ensuring the volume and log price traffic should remain at the right speed limit for the time being.

When in China next week I will be speaking at a Supply Chain and Logistics conference in Qingdao. This will be an opportunity to push the NZ inc brand but more importantly to emphasise the need to reflect on the negative factors impacting NZ Forest Growers. I am adamant we should take every opportunity to advise our China partners about the NZ scene.

For example fluctuating prices are a big negative impacting the bottom line, also investment decisions and staff recruitment and retention. This element impacts the China scene just as much as NZ. I believe both sides should aim to behave more collaboratively and use the information tools we have to respond more astutely to clear signals.

Pruned log quality is a big issue with the delays in the time it takes to get logs from the forest in NZ to the factory in China well exceeding the time constraints required to limit sap stain. To my mind the only solution is for China buyers to secure contracts to mill the logs in NZ thus ensuring the lumber arrives in the market both fit for purpose but also in a manner that will help the mouldings and furniture segment to grow for both nations.

And as we cut and thrust our way forward there continues to be no question in my mind the NZ plantation industry will continually increase its role at providing a significant return to NZ growers. 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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