

# Monthly Market Report

December 2016



It is more than pleasing to note 2016 ends on a note of continuing stability and excellent log prices, pretty much the same way it started. This is pleasing in the context of many of the human factor issues that arise in a non stable market. Stability also ensures continuing predictable margins and certainty in the profit and financing stakes.

All in all the NZ Forest Industry continues on a very strong front. Judging by the phone and business traffic through my office, it is extremely pleasing to note more investment overall and new entrants looking for forest ownership as part of their portfolio.

Across our domestic segment, prices have remained unchanged since November and sawmills appear to be getting all the logs they required, in some cases just enough. Pruned log demand has ebbed and flowed a little as sawmills search out markets and best price destinations.

Consumption across the China Eastern Sea Board is running at an appreciably good 71,000 cubic metres per day. This reflects a 2,000 cubic metre per day increase on last month and compares very similarly with the same time last year. Indeed current consumption levels are well ahead of earlier forecasts. This is adding a note of positivity to trade with domestic prices in China increasing very slightly over the last 2 weeks.

China inventory is running at 3.3 million cubic metres, up 100,000 on last month. Again this is much lower than forecasts and reflects a steady market. Meanwhile in NZ, weekly export log production is running at about 20,000 cubic metres per week less than at the same time last year. It has been that way for the last 6 weeks reflecting a combination of labour resources and forest age class profile.

A clear example of how important NZ log supply is in China is reflected in the market behaviour following the Kaikoura earthquake. In the two weeks following, China sawmills went in to panic buy mode fearing NZ supply would slow down dramatically. This did not impact log prices because it was a short term knee jerk reaction thus things levelled out very quickly. However it did reflect a small blip in inventory data as the inventory effectively moved from port log yards to sawmills.

To those in the export log trade sector, this example should emphasise the need for high level responsibility around ensuring prices remain competitive and stable. Thus also ensuring all stake holders both in NZ and China can operate in an environment of certainty.

In India things have been more shaky for different reasons. Early December, the India Government forced the 1000 and 500 Rupee notes out of circulation basically overnight in what has been described as an attempt to "push transactions in to a more formal economy". Interestingly, phone based transactions have also been mentioned as part of the opportunity to increase transaction capture rates.

The immediate loss of these denominations, which predominate in "No 2" money transactions, has led to a rush on banks as queues of people attempt to exchange their old currency. This has impacted the sawmill trade severely as it is predominated by small business's who trade a great deal in bag full's of "No 2" money.

Reports this week suggest the initial panic has ebbed and some semblance of order is returning. However we would expect this market to be negatively impacted for a few more weeks with some uncertainty as to how it will all play out. Other commentary is suggesting the longer term should be better as a consequence of this recent shift in ensuring the tax take moves somewhat closer to compliance.

As so it is we can close off another year of solid trade and excellent log prices. I extend to all readers seasons greeting and salutations and the wish you can take time out to relax with family and friends.

A very Merry Xmas and Happy New Year to all and please remember as always it has never been more timely to note the only way forward for climate, country and the planet is to get out there and plant more trees.....!

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