

# Monthly Market Report

January 2017



**L**og prices have continued to trend upward with both the domestic export segments benefiting from a lower exchange rate and log supply being slightly below demand. Around NZ domestic demand has never been better with new house starts featuring in structural timber sales.

Log export ports were cleaned out from before Christmas resulting in inventory levels at some of the lowest seen for many years, particularly in the larger ports. This confirms a vibrant market with demand being strong in China, Korea and India.

The current supply/demand imbalance will turn around quickly with Chinese New year looming late January. Construction sites are already starting to close down and sawmills stop in China as staff start to move back to their homelands to celebrate Chinese New Year and Spring Festival. For factory workers, as in sawmills, the holiday period extends to about 2 weeks and for office staff, particularly in Government owned companies, about 1 week.

Meanwhile harvesting contractors in NZ are ramping production after their summer holiday and this volume will start arriving in China mid February, about the same time China consumption will start to ramp again.

The likely outcomes from all of this is a continuing steady market with prices holding to firm and basically most players in the game at piece with the world.

NZ softwood production continues to be running at 7,000 to 10,000 per week less than the same time last year. Age class distribution and contractor availability continue to contribute to this and we would not expect a supply increase in the foreseeable future.

Two weeks ago the inventory level across the China eastern seaboard was running at about 3.42 million cubic metres of which Radiata pine from NZ and Australia made up about 1.87 million cubic metres. The inventory has been increasing very slightly by about 20,000 cubic metres per week which is not significant for this time of year.

Daily consumption of softwood logs was running at a very credible 58,000 cubic metres per day 2 weeks

ago and at present is slowing to about 47,000 per day. Again this was the expected trend with stability continuing to feature. This is good news and emphasised by the domestic price in China for Lumber which is also currently very stable.

Problems remain in India with the Government effectively removing the 500 and 1000 rupee notes from the currency overnight. These denominations were the basis of most trade in the tax avoidance sector of the economy.

A good deal of the log trade is conducted in this black money, sometimes called No 2 money. Thus the move has been an aim to remove non taxable transactions from "the system" and the general populous is reeling. The most tangible way we see this in NZ is a slow-down in shipments as Letters of Credit become difficult to get.

Through all of this, log prices on a landed in India basis have actually increased as log flow has slowed down. Once the traders shake off the post black money jitters, we expect things to turn around very quickly. Indeed in the last week there has been a flurry of activity around India log sales and talk of extra shipments in February.

2017 looks to be a continuance of a stable market with good logs prices continuing to feature. Goodness knows what will happen once Mr Trump gets his feet firmly under the table but for the moment things are looking pretty good. We can only hope common sense and diplomacy will prevail in the setting of policy in particular as it relates to relationships China and Russia. Shenanigans to date would not necessarily instil confidence...

None the less, the world needs wood in all of its wonderful guises and forms, thus please remember as always, the only way forward for climate, country and the planet is to get out there and plant more trees.....!

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