

Monthly Market Report

July 2017



For the first time in several months log prices at wharf gate NZ have softened. There is certainly nothing to be concerned about here, with a drop of between \$2 and \$3 per cubic metre reflecting the exchange rate movement between the Kiwi and the Green Back. This is nothing like a top of the wave signal, just a snapshot in time in what is otherwise buoyant times indeed.

Settlements in our key export markets have remained flat, shipping costs are stable and all indicators are for more of the same to slightly firm. Pruned log prices have bucked the trend with a US\$3 to \$5 per cubic metre increase in China in July signalling good demand and a largely in balance supply profile.

Around NZ my spies have confirmed standard domestic prices for logs that can produce framing grade lumber are firm to fantastic. Logs with a minimum small end diameter of 30 to 35 cm are selling in a \$115 - 130 band per tonne. The band reflects regional demand profiles and availability of the right grades of logs.

North Island prices are higher with the lowest framing grade price I have been able to find at \$124 per tonne.

Prices in the South Island on average, are \$6 per tonne or more lower. Canterbury is the lowest in a recent survey with quoted ranges in a \$115 to \$120 band depending on small end diameter and length mix.

The difference in prices between the Islands is likely a reflection of export comparative pricing pressures. North Island ports generally enjoy lower costs and shipping costs are often cheaper also reflecting larger facilities and less steaming time to get back up to the China eastern seaboard.

All of these stats together with continuing good export pricing means forest owners are enjoying net returns in an average band of \$20,000 to \$30,000 per hectare range. It must be stressed that returns much higher or lower than this average band are possible.

This average indicator reflects mature stands (+28 years old) within 100km of a significant domestic market and an export port. It also reflects stands of reasonable quality with some management history and easy to moderate harvest difficulty.

Just to ensure readers don't all think their forests and or woodlots fall in to this sort of value, it is important

to emphasise infrastructure costs, cart distances, tree age and quality together with harvest complexity all have an interplay which can dramatically affect the bottom line.

Recent news out of China is very encouraging with GDP growth hitting numbers well above forecasts.

This is adding to a mix of confidence and should continue to see softwood consumption rates break previous records for this time of year. Total Log arrivals in China are running at about 2 million cubic metres per month and consumption continues at close to the same. This reflects port off take of close to 70,000 cubic metres per day, there is no such thing as a 5 day work week in China.

Just in case there are any new readers out there it is important to relate how our wonderful Radiata pine logs are used in China. The staggering fact is that over 70% of the consumption, which means 50,000 + cubic metres per day, is logs being milled in to plywood and lumber to hold up concrete until it dries in multi high rise apartment construction! I have witnessed it first hand and it is inspiring to say the least.

I will be in the China market mid July and will report my findings in more detail in the next report.

On the continuing plus side, Douglas fir log and lumber out of US and Canada is slowing noticeably.

This is the consequence of good demand in the US and the end of the bark beetle harvest in Canada. As a consequence we are starting to see some pressure on Douglas fir log prices and we expect this to not only continue but also bring pricing pressure on to Radiata pine.

Overall we are expecting some price movement upward but nothing to get even more excited about. And as long as the red headed one in the US and the round headed one in North Korea do not move beyond the current sanity levels, we should be OK.

This proves once again, the only way forward for climate, country and the planet is to get out there and plant more trees.....!

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