

Monthly Market Report

October 2017



Export log prices have remained flat to up maybe up NZ\$1 - 2 per JAS m3 for October sales on an at wharf gate basis. Timing of shipping, freight cost and when FOREX is hedged have impacted exporters. The domestic scene has continued a very strong path of demand and prices are slightly firm also.

A summary of the factors that have impacted the market recently are as follows:

- Domestic consumption is strong, prices continue an upward trend and some mills are struggling for supply.
- Whilst the key centres of Auckland and Christchurch are off an apparent "boil" in terms of new house starts, other second tier cities are experiencing significant increases.
- China softwood log consumption has exceeded expectation at close to 70,000 cubic metres per day across the eastern seaboard.
- Log supplies to China from NZ, Australia, Pacific North West (PNW) and Russia have been pretty much in step with consumption resulting in an all important stable inventory at or about 3.7 million cubic metres.
- Shipping costs and ship availability have been a source of wailing and gnashing of teeth for exporters. Rates are increasing toward the high US\$20's per cubic metre mark with shipping companies short supplying the market in order drive prices up.
- The India log trade is still struggling with the imposition of GST and log tariffs which means log buyers have to now fund up to 23% of the value of their cargo prior to discharge.

On the domestic front, pruned logs have remained stable with the average across NZ being about \$170 per tonne for P1 (min SED 40cm) and largely unchanged in 6 months. Again, sales at significantly above and below the \$170 mark have been recorded where log quality and pruning timeliness have played a key role in clearwood recovery. This segment can certainly pay dividends for those Forest Owners getting it right.

News of large sawmill expansions, new engineered wood manufacturing start ups and new technology options being explored to timber treatments are all signs of an industry on a roll where higher log prices are clearly not a deterrent, rather a catalyst for driving pressure in to Lumber prices, technology advancement and new building concepts. There is nothing but good news here.

In China GDP grew by 6.9% for the second quarter exceeding earlier forecasts, adding some confidence to the market generally. After a period of gloomier outlook, the financial sector is much more positive with activity expanding on the back of the Central Governments spend on infrastructure.

In terms of softwood log supply, NZ continues to be dominant. Of the 2.0 million + cubic metres delivered monthly to the eastern seaboard, NZ and Australia supply about 1.4 million, PNW about 550,000 and Russia the balance.

October settlements for Radiata pine logs landed in China are back up to where they were in 2014, at that time, a market peak. Ordinarily we would be starting to look back down the tunnel about this time to see if the calamity train was coming but this time all eyes and movements are forward.

The strengthening RMB against the US\$ has helped China exporters absorbing the log price increases, indeed also increasing margins and thus restoring some profitability to traders.

Even at the current elevated levels, the market appears to be comfortable. However, as always, the levels of consumption are the ultimate determinant, it will not take much to tip the supply demand scales at the current price levels.

In India the effective 23% increase in log cost funding as a consequence of GST and tariffs is keeping this market significantly subdued. Buyers are struggling to get sufficient funding in place to cashflow the 18% GST portion particularly, and orders have slowed considerably.

As the market overcomes this issue and the GST starts to flow back in to bank balances, most commentators are suggesting a market revival of some proportion. Indeed despite the last 2 months, the overall growth in volume is expected with 20-30% year on year currently predicted.

The continuing buoyancy and apparent robustness of markets is certainly making for some wonderful returns for forest owners and long may it continue. With ongoing labour shortages, port congestion and persistent rain, it certainly doesn't look like production is going to ramp in NZ any time soon. That is exactly what we need to ensure we continue to enjoy the current returns with plenty out there to potentially tip the supply demand scales the wrong way.

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

Allan Laurie MNZIF
Laurie Forestry Ltd

South Canterbury Address
22 Shearman Street, Waimate
7924, New Zealand
Phone +64 3 689 8333

Christchurch Address
Unit 3, 337 Harewood Rd,
Christchurch 8053, New Zealand
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz