

Monthly Market Report

November 2017



Wood fibre markets continue to boom both internationally and in NZ. Prices across our domestic and export segments have reached historical highs. Importantly these highs are not significantly above the previous months. Rather they are the continuance of what has now been a close to 3 year tide of strength, stability and certainty.

All current indicators suggest more of the same lies ahead. Indeed the fundamental supply and demand planets appear to be broadly in alignment and we don't see great change ahead which heightens the value of wood fibre generally.

We do expect some externalities to have some minor impact. These will shipping rates impacted by global trade, the NZ\$/US\$ exchange rate impacted by political uncertainties in NZ and how the US economy will perform in the face of certain impeachments and stupidities.

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

- Usage levels in China have continued at pace reaching some daily records in late October approaching 80,000 cubic metres per day. That consumption represents about 2.5 vessels of logs from NZ, loaded to the gunnels.
- Usage has settled down to around 70,000 per day in mid November, slightly above normal for this time of year.
- Inventory across the China eastern seaboard is at 3.64 million cubic metres, again as at mid November, slightly higher than desirable for this time of year. That is just under 2 month's supply.
- NZ harvest has been cranking along with some commentators suggesting we might reach 33 million tonnes to year end March 2018.
- Harvest of younger than desirable forests have been common in NZ as forest owners respond to high log prices. For most this is a value sacrifice beyond measure.
- The Russian currency (Ruble) has been strengthening against major trading partners making life for exporters less comfortable. Volumes of Russian Logs and lumber are starting to weaken slightly which will be to the benefit of NZ in the medium term
- Shipping costs and ship availability has settled down with the recent run up hill on rates trailing off to a flat surface

India has continued in the doldrums with cashflows constrained as log buyers struggle to fund the recently

implemented 18% GST. The compounding problem, in a pilots terms called a tail spin, is buyers need to pay the GST prior to discharge with no prior signals this was part of the economic restructure plan.

The fundamentals of this market remain strong. Most commentators still believe India will hit the 3 million cubic metre annual softwood log consumption from NZ by 2020. There is no question this market is going to be an increasingly important one for NZ Forest growers.

On the domestic front it appears to be pretty much business as usual. Many sawmills are running close to the wind on supply but I have heard of no major supply issues over the last month. Recent interviews on TV with North Island sawmill owners complaining about logs not going to them appear to be a function of meeting the market price rather than a shortage of supply.

It is concerning to hear builders are becoming disgruntled with framing timber quality. This could be a function of tree quality and or too early harvest. Either way the industry does not need builders running to steel as a supposed higher quality alternative.

However the additional complaint that all the good logs are being exported is unlikely have any substance. The reference to good logs is essential a reference to branch size and diameter. Larger small branched logs are preferred by domestic sawmills for them to produce house framing lumber.

For the most part, it is the lower quality construction grade logs that are exported unless there is a lack of local mills. In the case of the Canterbury region, Timaru is an example where there are virtually no sawmills so everything is exported. However in North Canterbury there are many excellent sawmills around Christchurch paying good money for the higher grade logs. Thus Lyttelton log export cargos rarely contain higher grade logs.

Either way we are on a roll, the market planets are basically in alignment, prices are exciting to say the least and now it has stopped raining! We can say we are reasonably at peace with the world and it looks like more of the same in our near future. 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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