

Monthly Market Report

January 2018



A very warm greetings and salutations to all readers. I extend best wishes to all for 2018.

As is the norm over this period wood fibre markets are in a state of limbo and most commentators sitting back awaiting the mix of supply and demand to play out. On the New Zealand side, a very busy run up the Christmas appears to have seen most production take a well earned 3 week break.

As reported last month November 2017 was a record breaker in terms of production. And this is an even more significant outcome when you consider the large labour shortages across the forestry sector. Loggers, log cartage operators, sawmill owners and port operations service providers are all complaining about the lack of good labour.

Just about all of those spoken to recently, are also cringing about the future lifts in minimum wages with the expectation all employees will want a commensurate lift. One medium size sawmill owner has calculated his wage bill is going to lift \$500,000 per year which is money that is not going to go in to upgrading equipment and lifting production to create more jobs.

Meanwhile in a key log and lumber market in China, daily consumption is starting to trail as Chinese New Year (CNY) approaches. Sawmills and factories are basically starting to use up existing stocks rather than buy in extra in anticipation of their 2 week holiday mid February.

As at mid January Log inventory across the eastern seaboard has lifted to 3.94 million with daily consumption dropping through 57,000 cubic metres per day. This then sees inventory lifting by 200,000 cubic metres over the last month and consumption coming off a 75,000 cubic metre per day high in November.

None of these figure suggest a market facing difficulties although most commentators are

suggesting log prices will likely drop US\$1 – 2 per cubic metre for February sales as the CNF pricing (logs landed at wharf China in US\$) reacts to a 10 RMB per cubic metre drop in domestic log prices in December.

With the log supply holiday in NZ resulting in minimal vessel arrivals until mid to late February in China, most are predicting a reasonable balance to the supply demand picture over the next month.

India has shaken off the GST blues, cashflows are improving and buyers generally have returned to the negotiation table. President Modi's recent announcement of the intent to initiate a smart city building programme is adding an air of optimism in the wood fibre sector. Indeed the potential for 20 – 30% YOY increases in this market for NZ logs appears imminent.

International shipping has turned a wrong corner for NZ exporters with rates very much headed in the wrong direction for them. Most commentators are suggestion the drivers will soon realise their folly and make a u turn although there is an element of a lack of confidence about this. For the moment daily hire rates are following the Baltic index and slight firming for February shipments appears to be the order of the day.

With the combination of small drops in sales prices, small increases in shipping and a FOREX rate very much headed in the wrong direction, we are predicting a drop on wharf gate prices for February. This is off course off a very nice high so it is not all bad and we don't see anything in our midst that suggests any sort of market correction.

Thus it remains as always fundamentally important , the only way forward for climate, country and the planet is to get out there and plant more trees!

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