

Monthly Market Report

April 2018



International shipping rates have impacted the market most significantly over the last month. A combination of a busy northern hemisphere together with an abundance of capacity has seen a lift of US\$3 – 4 per JAS cubic in just 3 weeks which has left shippers reeling somewhat.

In January 2018 the NZ Forest Industry set another record with 1.1 million cubic metres of logs exported representing a 32% increase on January 2017. This also explains the shipping cost increases with at total 35 vessels required to shift this volume.

At a single month lookup, the data is likely to be skewed with the volume being very much a function of timing. However the indications are we well on track to maintain or increase previous annual harvest volumes. Statistic NZ are still to report but it is looking like total harvest in 2017 exceeded 33 million cubic metres setting another record.

At current delivery rates to China, NZ log supply accounts for 40% of the total market significantly ahead of the next largest, Russia, at 21%. In this market NZ is no minnow indeed we dominate this market absolutely.

Even with these extraordinary figures it is important to remember export logs comprise about 57% of NZ total harvest with 43% being sold to domestic processors. As I have highlighted many times, whilst many focus on what is happening in China, the good old (and some not so old) Kiwis battling away in sawmills here are a fundamental component of everything we do.

A quick round up of sawmills suggests the supply and demand planets are in basic alignment. Sawmill down time due to lack of supply has not been a major issue in recent months likely the consequence of the elevated harvest levels nationally.

On the China eastern seaboard, consumption has pretty much followed the route prescribed by most. Daily port off take is heading toward 88,000 cubic metres per day echoing the pattern set in 2017. Unfortunately inventory has not dropped at time of writing sending one or 2 shivers down the spine of the market. This is largely the consequence of the NZ over- supply in January and February.

A current inventory level of 5.4 million cubic metres is not healthy and has been increasing when it was expected to decrease. This potentially has the market hanging at the edge of a dangerous precipice. Some are suggesting inventory will start to decline as the market settles back in to its routine. NZ has a key role to play here and will need to rein in the volume stampede in order for market confidence to turn away from the precipice.

India has continued at a stable pace having settled down after the implementation of monetisation policies. Prices in the market are stable to slightly soft but shipping cost increases are biting harder here than China. As a consequence wharf gate prices NZ side have fallen to be very much on a par with or slightly below China comparatives.

NZ wharf gate prices fell by \$3 – 4 per cubic metre in April reflecting a small increase in sales prices over all but a significant increase in Shipping costs. Price settlements in China for the market indicator A grade have been in a US\$142 – 143 per JAS cubic metre band. For the higher cost Canterbury Ports, this equates to a net NZ\$120 - \$124 at wharf gate, certainly still well up there having regard to year on year comparatives.

I was asked recently what a JAS was and realised after doing this for 30 years it is easy to forget some people are not exposed to our every day acronyms. A JAS is a Japanese Agricultural Standard cubic metre. Now don't get me going on why we sell Japanese cubic metres to China please! History shows that about the mid 1970's the first major export deals were struck with Japan and the common practice has stuck. Whereas a NZ cubic metre is based on a three dimensional formula, small end and large end diameter and length, the JAS is based on a 2 dimensional formula being small end and length. The JAS cubic metre does have a small allowance for taper but certainly not generously so. In general terms a JAS is about 0.9 of a NZ cubic metre.

Meanwhile in the land of great promise and opportunity, 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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