# Monthly Market Report

July 2018


The trade war between China and the US is starting to bite. For the softwood sector on the eastern seaboard of China, the weakening China currency (RMB) against the US$ is driving domestic log prices up to levels that appear to be a tipping point.

All of NZ log and lumber trade to China is conducted in US dollars so the impacts are potentially brutal with few alternatives available.

Whilst July sales have hung on as if a climber to a rock face, it is looking like it is seriously time to check the status of the gear to ensure it will hold should a hand hold be lost. A 6% shift in exchange rate over the last 5 months can no longer be sustained by log importers so something has to give.

All this seems quite odd when sales in China are strong currently running at 80,000+ cubic metres per day. This is 10,000 per day more than at the last time last year. The oddity this year is of course, Mr Trump which is one of the nicer terms of endearment I have heard aimed in that direction in recent times.

Inventory across the China eastern sea board remains at around 4.5 million cubic metres compared to 3.7 million at the same time last year. Given consumption is also higher this time, the current level is not uncomfortably high but is does add to the weight of negativity starting to pervade the market.

All of this adds up to the current market speak suggesting CNF prices in US$ terms in China for July sales will come off US$ 3 - 5 per cubic metre. At current cross rates, this adds up to about NZ$ 4 – 7 per cubic metre down for August at the wharf gate, a drop we have not seen in the market for some time.

However, none of this is doom and gloom to the extent it reflects a drop off some pretty extraordinary high log prices of late. Indeed as long as we don't see the fundamentals change too dramatically we should be OK. Of course the wild card is Mr Trump and he likely hasn't thought about what he is going to do next month yet so anything is possible.

Across our domestic segment, sales and prices have never been stronger proving once again the local sawmill are the mainstay. Demand continues across the house frame market and larger dimension lumber. This latter demand relates to industrial buildings where those with a more sustainable view continue to select timber over those nasty climate destroying alternatives like steel and concrete.

At the recent NZ Institute of Forestry Conference in Nelson, it was most heartening to hear of some huge innovations taking place in the forestry sector. Logging contractors sitting in seats controlling operations far away from the tree felling sites using technologies developed in the mining sector are exciting. Aerial assessments of forests as a component of pre harvest inventory, and timber being used exclusively in multi story buildings rank amongst what will shortly become everyday technology signalling an industry hungry to capture every opportunity.

And in amongst this is a health and safety programme of the very highest order with an industry wide focus on minimising harm to our very precious people. These are exciting times indeed with a combination of recent advances bringing the NZ Forest Industry in to a leading space in primary producer industries in NZ.

There has to be a final word on, shall we say the less than favourable words used by NZ politicians, to describe China and a potential military threat from a NZ perspective. Such words are a travesty. They do little to recognise the very important relationships hard working NZer's have with many people in China. The foundation stone of those relationships is of course trust. I think NZ primary producer sector will be horrified and Mr Peters should be reined in significantly.

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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