

Monthly Market Report

August 2018



Late July and August has been somewhat tumultuous with Export log prices falling with reasonable significance for the first time in several years. This drop has been the direct consequence of a currency shift between the China currency (RMB) and the US dollar.

Prices fell variously around NZ with wharf gate drops in a range NZ\$10 – 14 per cubic metre.

Over the space of the first two weeks in August, the China market responding very bluntly to what has been about a 6% movement in then RMB/US\$ cross rate. NZ exports of log and lumber to China are in US dollars and in the absence of any movement in China domestic prices, the market basically folded its arms and refused sales until the sales prices of logs dropped.

And before anyone suggests a conspiracy theory here, this situation is not about a country adopting a rule the world policy. But it is about a market dynamic that involves a large number of customers who all on their phones waiting to see who folds first. It is also about holding out to see where the bottom of the market ends up thus avoiding buying over valued cargo and taking big hits on margins.

As can often happen in these situations, the market can over correct. As an example, at the top of the curve, CFR prices (landed in China) were around US\$145 per cubic metre. The currency shift was suggesting the correction needed to be about US\$135 but final settlements have been as low as US\$130. The weaken NZ\$ and slightly softer shipping rates have meant the full effects of a US\$15 per cubic metre drop in sales prices has resulted in an average NZ\$12 drop at the NZ wharf gate.

Just to put this in context, at current exchange rates Kiwi\$ v US\$ at an average US\$15 per cubic metre drop in CFR prices this reflects in a NZ\$20mil drop in the value of log sales in August. Of course it is easy to get all emotional about such drops but it is important to look back over the last 2 year history and realise even at the new lower levels, prices are still in the top 85 percentile of the market of the last 3 years.

The fundamentals in China remain very strong. In August, daily softwood log consumption on the

eastern seaboard has ticked along at 80,000 cubic metres and inventory has continued downward. As at mid August this was sitting at 3.8 million cubic metres, a drop of 300,000 in a month.

The big unknown is of course the illustrious (not) US leader and just what stupidity he espouses next. The unpredictability of tariff impositions together with shifting currencies has significantly impacted international confidence and world trade. Some commentators have suggested we are entering, or have already entered uncharted waters on the economic 101 front. A tariff battle is actually playing out as a currency battle and might even be described as an attempt by the US to reposition the Green back against the imposing tide of the RMB.

Such chest beating creates division and uncertainty and we have seen this play out in Turkey in the last couple of weeks. European economies whilst often small, can have a major impact on dynamic market shift. And the one big unfortunate thing here is the US consumer is going to wake one morning and realise paying 15 – 20% more for the Chevrolet and the dish washer and the new kitchen furniture wasn't such a good idea after all.

As stated, if the red headed one reins it in a little or gets reined in a little, the cumulative effects on NZ should be momentary with many of the fundamentals and key indicators suggesting wood fibre markets remain robust and strong. It is important to remember the current situation is a function of currency and not log prices or demand.

The NZ domestic scene remains very strong. Demand is through the roof, prices and holding and it is nice to see a small tweak upward in some lumber segments recently. A lower NZ currency will ensure we see a lot more of the same in this highly important part of the NZ Forestry economy.

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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