Monthly Market Report

September 2018

After a pretty tumultuous market in August centred around a reasonably significant drop in China export prices, the market has stabilised. CFR settlements in US dollars in China have remained largely unchanged for early to mid September settlements.

The market presents as a reasonable mixed bag as at mid September. Domestic sales remain strong. It is pleasing to see sawmill yards full to over flowing with logs, a function of better wood quality within forests and woodlots together with stable and consistently good log prices.

My spies around the country report sawmills quite happy but a universal complaint that log prices are too high and lumber prices too low pervade the market. Given the pressure on I would not see any log price drops anywhere in our future but there certainly seems a dire need to lift lumber prices.

Whilst the large box stores basically rob the margins between wholesale and retail, getting prices up is going to be tough going. However, a lot of sawmills have commented on a much more vibrant export scene with a more favourable exchange rate allowing some good sales at better levels. Unfortunately Australia is not included in the happy hunting grounds with demand weak and prices at levels that ensures a low profit space for those want to play in that space.

Wharf gate prices in NZ firmed very slightly in September in response to stable CIF settlements, a lowering exchange rate and shipping costs off US$1 to $2 per cubic metre. Again China feature in all discussions and all eyes are on what the tariff besotted Donald Trump does with his toys in his imaginary world sized sandpit. Recent news of an attempt to rule the Sandpit game through a range of tariff impositions continue to spark interest.

The latest news the originally suggested tariff of 25% on wood products being reduced to 10% is potentially good news. It is only potentially good because the commentators have also suggested we should expect the unexpected. The one thing we know is Trump plays dirty and kicking sand in to the face of China is potentially not going to end well.

At least US consumers have finally woken up and realised an increased tariff regime is going to greatly increase the cost of their new TV and dishwasher and the pressure is starting to mount on Trump to cool it or face having his toys taken off him. Goodness, imagine the tantrum that would create!

Meanwhile in our land of reality, the critical inventory levels across China ports on the eastern seaboard have lifted to just over 4.0 million cubic metres. Up some 200,000 cubic metres in a month but not expected to increase greatly as Uruguay and Pacific North West volumes dry up. Daily consumption has also lifted to close to 87,000 cubic metres up 7,000 from mid August.

This is a function of a more buoyant construction sector with recently announced home buyer incentives targeted at lifting supply/demand volumes. It is also a response to the onset of cooler Autumn months and construction workers spending longer days on the job.

Shipping rates were dropping nicely through August but have made a rebound as demand for shipping increases significantly. In the short term, this relates to grain being shipped from the West to the East in Australia in response to extreme drought conditions. I suspect the grain farmers in NZ will be eyeing this situation up with grain values expected to lift significantly internationally as a consequence.

All in all we expect NZ wharf gate prices to lift in October in response to firm CFR settlements. The combination of a slightly weaker exchange rate and increases in shipping costs are likely to balance each other out. An overall positive mood pervades the market at most levels.

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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