

Monthly Market Report

April 2019



For the first time in some time, export prices have come under downward pressure as markets respond to a combination of weaker demand and competitive log supply sources. As at mid April the situation looks to be of a small correction status. However there are plenty of factors that could continue to tip the scales against the NZ Forest owner.

At the outset we must remember any correction is not to be unexpected given a very log run of firming. Many market fundamentals suggest the next 6 months should largely be business as usual with no significant shifts either way but both Micro and Macro economic factors could yet impact.

CNF prices (cost per m³ landed in China in US\$) have come off US\$5 this month as traders look to claw back margins following a RMB20 drop domestic lumber prices. Shipping has remain flat to slightly firm with the net result being a NZ\$6 – 7 per m³ at the wharf gate for April.

Throughout the balance of 2019, my crystal ball is very cloudy and hard to read. If I take a mix of all the commentary including some international trade exports, it looks like we are not headed for a calamity or melt down or other unpredictable force majeure. But of course they don't call them unpredictable for nothing!

A review of the key elements to the market at present:

- Domestic sawlog markets are good. No major price changes to report with standard S34 – S40 (unpruned structural) logs generally trading at \$1 - \$3 up.
- Pruned log prices and demand remain subdued to flat as broad combinations of niche market opportunities and expansion are mingled with China being definitely off the boil in this space.
- We have come through Chinese new year pretty much as predicted with demand now picking up to expected levels but inventory falling back to slightly higher than comfort levels.
- Overall export prices have fallen back to very close to where they were in December 2018/January 2019.

Taking a closer look at China, as at mid April, eastern seaboard inventory has dropped down to about 4.4 million m³ with most commentators suggesting a

level under 4 million would be preferred. Meanwhile daily uplift has risen rapidly to 95,000+ cubic metres per day broadly just above the arrivals primarily from NZ Australia and Russia.

In terms of the global picture and the broader softwood log supply, there are very much some warning shots being fired across our (Kiwi) bows. The historically high and stable CNF log prices in China have been great for NZ but now we are also seeing others also take advantage.

The traditional pacific rim log supply sources are now being challenged by Venezuela, Germany, France, Czech Republic, Poland and Lithuania who are collectively contributing 600,000+ cubic metres per month to China. Whilst still about half the NZ/Aust supply, the volumes are significant and therefore broadly impact the market and appetite for price increases. Fortunately a slowing of supply of both Log and Lumber from US and Canada is helping to balance an otherwise very high tide coming on to China shores.

The European logs are often old growth high quality Spruce from forest being devastated by a beetle attack. The site of container after container of 10 meter plus logs, dead straight with small branches and small end diameters exceeding 30cm being sold below current Radiata log prices is extremely sobering. Some reports suggest there could be in excess of 6 million cubic metres of such logs heading to China in 2019.

This supply situation in tandem with falling RMB prices for lumber in China and overall negative sentiment could potentially weigh heavily on this key market for 2019

For our domestic sawmills life struggles continue in the face of competitive supply sources with discounting to get market share a typical modus operandi. Log supply does appear to have settled down with most getting the supplies they require and comfortable inventories in log yards.

As always please remember the thoroughly important message, "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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