

Monthly Market Report

May 2019



Overall market factors have stabilised over the last month. The NZ domestic scene is stable to the extent demand is consistently good and prices largely unchanged since November 2018.

Exports prices softened very slightly on a wharf gate basis in May, but NZ\$1 per cubic metre down can hardly be described as significant. As per normal, China leads the demand charge and NZ Forest Owners can be very comfortable to let them do so, at least for the moment.

Over the last month, across the China Eastern Seaboard, total softwood inventory of logs has remained largely unchanged at about 4 million cubic metres. This represents about 2 month's supply at the current daily consumption levels which most commentators suggest is about right to maintain the price equilibrium.

There is some concern the most recent tariff increase announcements by President Trump could upset the apple cart. Some have suggested "go Donald" lauding praise on him for addressing a trade US/China trade imbalance which has long favoured China.

For a NZ Forest Grower, the concerns extend to how a current 10% increase to 25% including on wood products will play out in the broader economic context and how this potentially impacts log prices. Most commentary suggests the imposition of higher tariffs on goods sold to the US from China could have a many fold negative impact.

A weakening of the RMB (China currency) is inevitable. An increase in the cost of financing for Chinese manufacturers is predicted. The value of China exports will drop significantly and the China economy is already showing signs of weakening.

If these key factors come to pass there could be more log price drops in our near future. But some parallel consequences could include our exchange rate weakening against the Greenback as it rides the coattails of US president with his tariff tail in the air and shipping rates could fall as demand hits the Northern hemisphere sliders.

Overall we would therefore say NZ forest owners have one market foot in a bucket of cold water and the other in hot water. Thus the average market temperature is lukewarm and we should remain at peace with the world in the meantime!

The same could not be said for US Western Yellow Pine log suppliers to China who will no doubt suffer the Roth of a Chinese premier likely to impose a counter 25% tariff on US logs exported to China. This would essentially take US softwood logs out of supply with NZ, Australia, Canada and Europe, potential benefactors.

For the moment China consumption of our logs is ticking along at about 75,000 cubic metres per day representing just over 2 full log vessels per day. CFR price settlements have remained flat at US\$134/135 per cubic metre and unlikely to change much in June.

And for you statistical buffs out there it is worth noting just how the monthly profile of log supply looks. Export v domestic mill/plant supply nationally is running about 60/40. In April we exported 75 vessels of logs from NZ. 60 went to China (about 2 mil m³), 15 went to Korea and 1 each to India and Japan.

Last year NZ inc produced 35.4 million m³ of logs, up from 33 million in 2018. And all of this from forests covering just 7% of NZ land area, erstwhile earning NZ\$5 bill+ in export earnings and contributing 3% + to GDP.

This is indeed an exciting industry which is on the cusp of significant expansion. Not surprising given returns from commercial forests are amongst some of the most profitable enterprises we can use our land for.

And for my most loyal and faithful readers thus endith today's lesson bar one. 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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