

# Monthly Market Report

June 2019



**C**hina has hit a few speed bumps on the back of external and internal financial paradigms which have conspired to work against log prices and demand. For the first time in a long time this important market for NZ has a range of factors which are not all positive but by no means can be called a crash or a slump.

The first head wind has been caused by the illustrious Donald T. His tariff regime and consequent wider impacts has continued to weaken the RMB against the Greenback with booth elements making Chinese manufacturers uncompetitive with their products and commodities in to the US.

The short term gain for the US is a jittery but resurgent economy which otherwise continues to struggle on the back of indebtedness. The long term chickens will of course eventually come home to roost as US consumers will ultimately be the ones paying the tariffs through higher prices for US made products.

For NZ Forest growers, softening demand for finished and semi finished products at the upper end of the quality spectrum is finding its way in to NZ Radiata A grade and pruned log prices. These sorts of impacts also start to filter down in to all grades.

As China enters the height of summer, construction sites slow down and in this case the demand for NZ industrial export logs dwindles at the same time when we have been hitting some supply records. Add to this a significant increase in supply of Lumber out of Russia and logs from Europe and Uruguay and you have a market that just put the big white gloved had up.

At the Log supply and price negotiating table in the China sawmill is when we see eyes spending a lot of time looking at the ground and a lot of head shaking instead of nodding. When buyers have a sense of price drop they all pretty much sit on their hands until someone has to fold and set the new market price.

Importantly the combination of the housing, construction, property and related sectors make up over 30% of China GDP. The Government is already talking response measures with reduced and relaxed restrictions likely to be components of their reaction to the current situation. Indeed Kiwi Forest Growers can rest a little easier that the logs going to China to

help build apartments forms such a large component of what happens next

Whist current log supply significantly exceeds demand, if log prices drop even US\$5 which is not big in NZ historical terms, this will make much of the log out of Europe and in particular Uruguay uncompetitive. This is one of the reasons we believe the current situation has short legs and will run out of puff.

Meanwhile in the good old land of sheep, cows and bleaters, the Forest Industry has continued to break all previous records. In May we exported a staggering 2.787 million cubic metres of logs on 79 vessels, 4 more than April. Frankly we cannot keep this up as on an annualised basis the volume to date represents very close to our total annual cut in 2018.

And just for the record Minister Jones, before we start hearing another tirade of the bandied rhetoric about how we should be adding value in NZ, jump on a plane with me to China next time and I will show you why words do not match the market reality. One good example can be found in a consortium of 200 sawmills on one site paid for by the Government and as far as I am aware did not have to suffer the vagaries, costs and uncertainties of resource consents.

This site employs close to 1500 people each earning about NZ\$300 - \$400 a month, They are working 6 days a week, 9 hours worked per day and if they don't work they don't get paid.

We pay people in NZ a lot more than that per week to work at lot less hours with plenty of benefits and that is just the way it is. Mind you we also pay a lot of people for working 0 hours on 0 days per week and if they don't work they still get paid!

The current situation, whilst not ideal, looks to be of a temporary nature as far as we can see at this stage. If NZ can slow down volumes and prices reduce to levels necessary to remove competitor volumes this current situation should correct quite quickly. 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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