

Monthly Market Report

July 2019



The China speed bumps I referenced in my last report have turned to a bit more than a bump. Indeed fair to say this key market has turned in to a spiralling hollow. In the space of a month, it is almost breath taking to witness at US\$20+ per cubic metre drop in the selling price in China.

The rapid reduction in sales prices is certainly well ahead of anything I have experienced in the 16 odd years I have been directly involved in the China trade. Such a quick drop has massive impacts, not the least being a dramatic slow-down in the harvest rate in NZ. This has huge consequences for all involved

But a slow-down is exactly what is required to get a correction. The CFR price is the value per cubic metre landed in China. In US dollar terms this has dropped for a standard A grade log from an average \$130 to \$110 per m³.

Some commentators have suggested as low as US\$105 is in our midst. But the rhetoric, market intel and dynamic is changing daily. One thing for sure is the harder and lower it falls, the rebound could be just as amazing.

Here are some of the basics as to what is happening right now

- As reported last month, President Trumps tariff regime started the rot impacting sales from China to the US. This has had a cumulative slowing down affect.
- There has been a significant increase in supply of lumber from multiple sources, primarily Europe and Russia
- Pure demand for lumber has been waning and with the oversupply, prices are falling
- Beetle damage in Europe following a major wind storm, has seen massive areas of harvest to capture fibre ahead of the beetle adding 200,000 cubic metres of logs and lumber per month to an over-supplied market in China
- China wholesaler returns have been negative for some time at the same time when construction has been hampered by a very hot summer.
- Major NZ suppliers have ignored the market intel since late 2018 trying to drive up price when it needed to go down
- Harvest in NZ, which has for some time included forests way younger than they needed to be, has

been significantly in excess of the market ability to take the extra volume.

The declining sentiment and mood of the market changed to a tipping point which came when one large NZ supplier sent several vessels from NZ to China without sales and LC's locked down. This then became a catalyst for a correction which, when you look at the key indicators, has swung far too far the other way.

During all the turmoil of a daily changing dynamic, consumption levels across the eastern seaboard has been pretty good for this time of year at around 70,000 cubic metres per day. This will improve shortly as Autumn approaches. Inventory of logs has been climbing to over 4 million cubic metres, close to 10 weeks supply, which is on the cusp of too much and part of the problem.

India and Korea have been following the trend line downward currently not offering price points in NZ substantially different to China.

Meanwhile the NZ domestic scene has been strong, proving once again the NZ sawmiller is the real backbone of our industry. It may be a relatively small part of the body, but its resilience, in the face of a lot of bending, and its overall fitness is fundamental to the successful functioning of the body.

Prices have remained stable in this sector and likely to remain so as it presents a very reasonable return to forest growers. If the domestic prices drop right now, this would only promulgate a more dramatic slowdown in harvest and supply would become constrained very quickly. I don't see sawmill owners wanting that any time soon.

Right now it is difficult to predict what will happen next. History tells me the harder the fall the more likely the rapid recovery. My concern right now is if harvest in NZ does slow right down, and it looks like it is going to, we will very quickly move to an under supplied market in China and a risk of panic buying. This would be very unhealthy for all market segments.

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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