

# Monthly Market Report

August 2019



**C**hina continues to dominate forestry conversations in NZ. The talk is around the impacts of the last months log price falls as well as trying to predict our near future in terms of the market. For the moment this is crystal ball gazing at best with wide ranging influences adding to a confused pot of uncertainty. We await the next round of the hand bags at dawn stoush going on between China and the USA to try and work out what will happen next.

The so called trade war, impacts the NZ forest industry, as it does for the other exporters with high level sales to China. Those sales are more than often conducted in US dollars. The imposition of tariffs essentially sees the China Government devaluing their currency, the RMB (short for Renminbi) to help their exporters cover the trade tariff.

This increases the cost of imports including the logs we sell to China which are also conducted in US dollars. This potentially limits or challenges any recovery in price for the forestry sector.

As reported last month, the July 2019 drop has almost been without precedent in terms of the size of the fall and how quickly it happened. Right now and as at mid August there are many logging crews parked up and that has been for over three weeks. A quick ring around of colleagues in the North Island alone would suggest well in excess of 70 logging crews on a forced holiday. There are many more in the South Island.

Last month I suggested that a new price level of US\$105 per cubic metre, standard A grade basis, was possible. Fortunately that did not occur and we have seemed to have settled at US\$110. Some have suggested this is the bottom of the current cycle.

Indeed if you compare the net result NZ side with where we were 3 years ago, prices at the wharf gate in NZ are certainly not the lowest they have been. The problem is we have been lulled in to a higher price framework and anything less is hard to get used to.

Based on the current indicators, it is unlikely we will see significant change in the short term. Inventory in China has levelled at about 4.7 million cubic metres, which is way too high, but is expected to fall rapidly as log vessels ex NZ slow to a trickle. Volumes from other sources have slowed as prices fall but not enough to see a short term rebound.

China eastern seaboard consumption is running along pretty well at around 67,000 cubic metres per day, about the normal for this time of year. Most commentators are suggesting most supply demand factors point to a reasonably strong position for sellers. But the big unknown is the Trump factor and the levels of uncertainty this has created for all commodities.

Financial and social stability are seen as essential in macro economies if trade is to maintain a reasonable status of normality. These days with cells phone, social media and broad communications networks, sentiment is everything and rapidly impacted by the immediacy of the ease of communication. And of course sentiment means risk. If we pile the likes of the Hong Kong "situation" on top of trade volume uncertainty together with a bit of squaring off here and there and the market in general essentially sits on its hands.

And so it is we sit in a state of flux waiting for clear direction. On the positive side the rapid slowing of volume in to the market should shortly send corrective actions in to prices. But as stated above, currencies and trade wars will impact everything.

As reported last month, our domestic sawmills and plants are our mainstay. Consistency around a good price is a hallmark and for the moment this market is a beacon on a sea of misty gloom. Some sawmill owners are reporting sales slowing down a lot and well below normal winter trade.

The recent move by the Reserve Bank Governor to reduce interest rates is a clear sign all is not well in domestic growth. Of those general freight carriers I have spoken to recently, most are complaining about low volumes and trucks parked up. This is a very good indicator of how we are trucking (forgive the pun) along. Let's hope China can turn a corner and take up the demand slack in the near future.

Despite the immediate challenges, the plantation forest industry has served forest growers well in NZ. Therefore 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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