

Monthly Market Report

September 2019



July and August 2019 will go down in history as a 5 year low point in log export markets and it is my hope history also records the fact this catastrophic period was largely the result of a dysfunctional NZ Forestry Inc. More on this later in this report.....

During July and August, prices for export logs have remained largely flat and at a low point. Last month I reported CFR settlements at US\$110 per cubic metre. That is the price for logs landed at port on the China eastern seaboard. In September there was a US\$2 per cubic metre lift but that was largely taken up by a corresponding lift in shipping costs.

As at mid September there are more encouraging signs indicating we have hit bottom and starting to claw our way out the other side. Inventory across eastern seaboard ports is starting to drop, at mid September sitting at about 4.5 million cubic metres. This represents a decrease of 280,000 cubic metres over a 2 week period. This decrease is from a combination of slower deliveries from NZ and Australia as well as an increase in off port sales.

Port off take sales have increased to about 90,000 cubic metres per day, up 20,000 per day on last month. This is not untypical for this time of year with the construction sector lifting hours worked on sites through the cooler Autumn months.

A recent review suggests many of the fundamentals impacting the wood fibre space are pretty good. This in turn is a reflection of a construction sector chugging at a pretty good pace despite some media reports suggesting a China economic cooling. The construction sector is a major component of China's GDP.

Whilst some log export commentators have indicated an improvement in selling prices as we move in to the 4th quarter, shipping costs are also on the rise, potentially limiting any gains at a wharf gate NZ basis.

The impacts of what has essentially been an over-supply of NZ logs, is being felt very much at the coal face. A quick count around of those spoken to at the recent NZ Institute of Forestry conference in Christchurch, suggests up to 90 logging crews parked up or on significantly reduced production. This is a big chunk of the total about 400 logging crews in NZ.

I believe it is high time NZ Forestry Inc, in the log exporters segment, locked themselves in a room and sorted out a strategy which ensured we worked collectively and collaboratively to limit the sort of impacts we are seeing on the most important people of all – those that do the work.

It is my view there is a small handful of people (NZers) deciding the destiny of most and it is high time they lost the ego's and flawed ethos of one upmanship. Match this with a resolve to work in the collective interests of what needs to be an industry with much longer term planning and strategy horizons, and we might actually become much more successful at continuity and stability.

Thus all the good working people around us will be able to provide their families with certainty and stability, the net result being less stress, lower accident rates and in industry that is more attractive to new entrants.

As I have been able to consistently report for many years, our domestic sawmill owners provide the backbone, consistency and stability of good prices enabling some logging crews to keep working. A quick ring around suggests prices are stable and sawmill owners are being loyal to those who have been loyal to them.

Whilst it is not the realm of a plantation forestry practitioner to crystal ball gaze, the indicators are prices will claw their way back up to good levels over the next few months. As I have indicated previously, to get back up to the highs we were at prior to the drop, would be unwise. Those price levels had too many young forests being harvested and national production hitting a point of softwood fibre saturation. To have price points which would have history repeating would not be in our collective long term and sustainable interests.

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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