

Monthly Market Report

October 2019



A much more positive review this month. Export log prices have recovered back up to levels that approach the top 85 percentile of the last 5 years. Domestic prices are flat to very slightly weaker on mid-winter levels.

Many fundamentals remain positive with inventory in China falling to below 3.7 million cubic metres mainly due to deliveries from NZ and Australia slowing. Staggering to consider this represents close to a 1 million cubic metre drop in one month.

Consumption is chugging along at 70,000 to 80,000 cubic metres per day, about normal for this time of year and certainly not a reflection of anything other than a strong construction sector.

For October sales, CFR prices have increased \$5 per cubic metre and should firm at similar levels in November. Unfortunately shipping costs have also increased, taking away 60% of the recent rate increase we might have otherwise seen at the wharf gate NZ.

One of the largest reasons for the last big dip in export prices in June – August 2019 was the result of a significant over supply from NZ. That NZ Forestry Inc should have seen the signs and start to role with the punch, thus reducing the impact will be long debated in the board rooms of NZ Forestry Companies.

However, the strong price points in the market also led to increased supply from many sources. Here again, we (NZ Forestry Inc) should have seen that and responded earlier. A good example lies in the European Union who have increased capacity significantly over the last year. This has mainly been due to storm damage harvest of 60+ year old Spruce forests of very high quality. Due to this veritable flood in supply, Spruce now sells below Radiata log prices, whereas it used to attract a 20% premium.

In January to July 2018 we saw 1.482 million cubic metres of Spruce logs head to China from Europe. In January to July 2019 this increased to 5.582 million, a staggering 277% increase. Some commentators have suggested this sort of supply volume will last another 2/3 years.

Staggering also to consider the 700,000 cubic metres per month arrives in about 25,000 40ft containers. I wonder what the carbon footprint of that would be!

The Pacific North West (PNW) is basically running out of forests with Sawmills closing throughout British Columbia now that the bark beetle harvest has almost ground to a halt. US harvest appears to be running along at about their domestic consumption levels, so very little exported.

The current monthly volumes from Europe are very close to what we use to see supplied monthly out of US/PNW/Uruguay. For NZ Forest owners, there is no question supply from other sources will continue to impact for some time but clearly, we are just seeing a shift in supply source rather than an overall significant increase.

For the foreseeable future, NZ will remain the dominant supplier of logs to the China Eastern Seaboard at close to double the supply from Europe. But it will behave us to ensure we are responsive to supply and demand forces and try to gear domestic production to avoid a repeat of the sudden dip recently experienced.

Shipping continues to be a problem child with new low Sulphur emissions rules requiring ship refits and systems upgrades. This is leading to reduced capacity, higher fuel costs, and expensive refits. Whilst debate rages over exhaust scrubbers and what represents a carbon emission reduction, shipping companies are attempting to pass cost to customers whether they are real or not!

Some interesting facts. International Shipping accounts for 2.2% of global CO2 emissions. About 90% of global trade is carried on the worlds ships erstwhile producing about 3% of the world's greenhouse gases. As a distance travelled and volume carried comparative, shipping emissions are 1/10th that of trucks and 1/100th of air freight.

Like all readers I am sure, working through the impacts of climate changes leaves one non plussed and highly confused as to what is fact and what is fiction. 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"!

Allan Laurie, MNZIF
Laurie Forestry Ltd

South Canterbury Address
22 Shearman Street, Waimate
7924, New Zealand
Phone +64 3 689 8333

Christchurch Address
Unit 3, 337 Harewood Rd,
Christchurch 8053, New Zealand
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz