# Monthly Market Report

**November 2019**


Some significant lifts in export prices takes us back up to the top 95 percentile of the market of the last 5 years. We have not reached the dizzy heights of late 2018, early 2019 but prices certainly justify dusting the chainsaw off again.

These latest increases are the result of improved settlements in China, up 5% on October levels. Shipping costs also softened slightly as more vessels are opening on NZ than are required for the current trade levels

A surfeit of vessels is in part due to weak northern hemisphere trade as well an overall drop in the world wide Baltic shipping index. To explain the ebb and flow of supply/demand and how this impacts the index can be similar to herding elephants. Unpredictable, confusing, regularly changing direction and loud trumpeting! For the moment shipping costs are softening and that is all that is important.

For the moment to fundamentals of the China market remain OK. Daily softwood log consumption remains around 72,000 cubic metres, about right for this time of year. Log inventory across the eastern seaboard has continued to decline, currently sitting at 3.6 million cubic metres. This is a historically low inventory but not by a great deal.

These positive fundamentals are underpinned by some less than desirable elements, principally a growing lumber stockpile and European storm damaged forest recovery.

On the lumber side, our agents in China are finding increasing stock piles with some suggesting the lumber inventory in volume terms now exceeds logs. Domestic prices at the wholesale level are under downward pressure, dropping ¥20 per cubic metre in one week. This implies log prices should drop US$2 – 3 per cubic metre to ensure continue trader margins but a low inventory and reasonable sales are keeping that wolf from the door for the moment.

The harvest of European Union storm damaged forest is hitting some big numbers. Spruce logs are flooding in with no sign of any slowing. This, despite the fact these 60+ year old, high quality logs are selling 10%+ below Radiata currently.

Last month I reported a total 700,000 cubic metres of Spruce logs were being delivered to China monthly in Q1 and 2. This broke all previous records by some margin in October, increasing to 1 million cubic metres and now having a major impact on the softwood log sector. This supply level is expected to remain for 12 months at least. Lets hope the beetle gets them before the loggers!

All things considered, for those considering harvest, we would suggest sooner than later with the likelihood the November levels are at or near the top of the current cycle.

Our domestic sawmills are enjoying reasonable, albeit not record-breaking, lumber sales levels for this time of year but log prices and low profit margins are a major challenge. Many sawmills are short of logs, largely a function of a much-reduced private sector harvest in Canterbury.

Some mills have had to work short days lately and some are buying export equivalent logs in order to keep busy. Export lumber sales are not happy hunting grounds with the Asia market for fall down grades and cuttings well below cost levels. Like NZ log suppliers, sawmill owners are hoping there will be a slow- down in Europe and Russia supply so that prices can return to break even.

The international wood fibre space has some positive elements but short-term trading conditions could get challenging. The most positive news is the European log supply must inevitably run out and it will be 60+ years before they will be back to upset our, (NZ) playground again.

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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