

# Monthly Market Report

January 2020



**C**hinese New Year holiday impacts export sawlog markets with general negative tones pervading at present. Some is what we would normally expect at this time of the year, some is a reflection of a market well supplied, if not over supplied.

This year the CNY holiday period comes a little earlier than normal, 25th January to 8th February. Inventory across the eastern seaboard is gradually increasing and workers start to drift off to their home provinces, attempting to bet the mad rush.

At 4.3 million cubic metres total inventory, this is 1.7 million cubic metres higher than at the same time last year. On its own, inventory levels are concerning but not well outside of forecasts.

Off port sales are chugging along at 40,000 cubic metres per day, almost half of the same time last year comparative. Again, the market is not panicked over consumption. Whilst less than most would prefer, it is reflective of a CNY which is about 3 weeks earlier than last year.

What is concerning is the containerised Spruce volume coming out of Europe which is estimated to make up another approximately 1M m3 in inventory and approximately 20K m3/day in sales.

Finding out the total delivery stats on Spruce is difficult, as it arrives across container ports and the containers are mixed in with others.

The majority of the market comment suggests current deliveries of Spruce logs are 700,000 cubic metres of logs per month. This substantial supply is providing the majority of the source of negative sentiment. Several NZ companies have people in Europe at present trying to get a handle on what we can expect in terms of log supply to China in 2020. I will report on this next month.

What we do know at present is Spruce Logs are being sold at a US\$10 – 15 per cubic metre discount below Radiata. And don't forget the Spruce logs are derived from 100+ year old trees. The logs are often 10m long, over 30cm in diameter at the small end and with knots rarely greater than 25cm.

However, NZ grown Radiata pine does enjoy a premium because it is very suited to peeling to make plywood and many China Customers favour it. Many are now well used to the multiple benefits of Radiata including the many uses options.

Whist we have seen a small drop on Export prices this month at the wharf gate NZ, at a year on year comparative we are still sitting in the top 75 percentile of the market of the last 3 years.

On a further positive note, overall lumber inventory in China has fallen for the first time in a long time. This is maintaining a level of confidence and lumber prices are firming albeit very slightly.

A strengthening RMB (China Currency) against the Green back is also helping Chinese manufactures selling to the US. Tariffs for wood related imports are being eased, which in combination also maintains confidence levels.

Most commentators are suggesting Q1 and possibly in to Q2 2020 is going to be volatile and unpredictable. The new world order that includes the US President being forced to shadow box from an increasingly weak corner is making money markets jittery. The experts tell me the kiwi dollar has more chance of firming over the new few months.

Add in the Russian Boss wanting to step aside whilst trying to keep ultimate control and most of the Iraq population now prepared to slap some bombs on and head to the US, we are likely in for some pretty interesting times.

The NZ Domestic scene has been described by some as “chugging” along. In very broad terms, the demand and supply planets are basically in alignment. Prices for log and lumber are stable and demand is good.

Most sawmill owners spoken to lately are generally happy with their lot, tinged of course with the constant challenges of trying to make some skinny margins whilst facing increasing costs. Compliance costs and the resources required to manage compliance are those elements most spoken of around the negotiation table.

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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