

# Monthly Market Report

February 2020



**T**he NZ Forest Industry has a most challenging time at present. Our reliance on China for a wide range of our exported commodities, including wood fibre, has presented challenges we might never have imagined.

As China workers have stayed home after CNY rather than risk sickness spread by others, consumption dropped severely. For the timber industry across both log and lumber segments, post new-year sales have virtually been nil.

As a consequence, inventory has built although not to the extent we had anticipated. This is as much to do with a lack of staff to unload vessels as it is about off port sales. In this sense the challenges for the forest industry are echoed by many other commodities.

In the case of logs, all sales require a Letter of Credit (LC). Essentially a contract for the issuing bank in China to make payment to the receiver's bank in NZ once all conditions of the LC are met. This is primarily the manifests, certificates and other cargo details which provide proof the cargo has been loaded and the vessel is on its way from NZ.

As at mid-February it has been impossible to get LC's, simply because there is no one at work in China to prepare them! Also, of some concern is the banks reluctance to issue LC's where customers struggle to provide satisfactory credit lines at a time when factories are not working and construction sites are inactive.

Thus, whilst there has been much talk of the likely new settlement price for February/March sales, most agree there is little point discussing price when there is no ability to get a contract or LC.

For those at the coal face, the impacts are immediate and brutal. Whilst our company is in a very favoured position with long standing relationships in China, our business echoes others. That means harvesting crews on short weeks and or a combination of production quota. For some in other companies it is a total stand-down.

For the first time in my 26 years of log sales including exports, NZ Forestry Inc has finally chosen to work collectively even if only by market forces which provide little choice. For the one thing we need to do is for the national cut to drop dramatically and it is almost heartening to see it has.

But there are no positives here. The very good people we have to do the real work, are the most impacted and my heart goes out to them. It behoves all those who make people management decisions to use every possible resource to hang on in there.

The one element that impacts China at these times is confidence. China customers monitor our port deliveries as we also watch their off-port sales. Such information has the primary impact on confidence and therefore the push and pull at the negotiating table. If China sees the volume being produced in NZ drop dramatically, they will be more confident the market can recover more quickly.

The perverse of all of this is shipping costs are falling like a stone and the NZ dollar is dropping in value against the US dollar. This will help substantially to reduce the net wharf gate NZ impact. Not with standing this, NZ must restrain production for some time, certainly through March.

It is impossible to recite the actual virus infection and death rate numbers. My direct contacts in China are suggesting the rate is well above that being report. Much is anecdotal and much is not really known. Importantly though if we put in to context the last China Government statistics, an average just under 5,000 per month die in China from standard flu's, pneumonia and the like.

If we extrapolate the last death numbers from Coronavirus, it will be another month before the total deaths exceed the normal number of people who die a month from influence related illness. Again, this is of course if you believe the numbers.

In recent days the Chinese Government have announced stimulus packages with more to come. Reduced rents and interest charges, and fast-forwarding construction projects are in the mix and will help our sector greatly. If NZ supplies continue to decline and confidence returns, we may see a revival more quickly than is currently expected. Fingers and toes crossed people.....

As always please remember, despite the apparent challenges, it is but a blip. The thoroughly important message is of course, "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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