

Monthly Market Report

March 2020



The Forest Industry stands not alone in attempting to grapple with a market we previously had become used to “just being there”. The loss to business across all primary sectors is without precedent. For the commercial forest sector, harvest production rates have dropped 20 – 50% across the regions. This is having wide ranging impacts on the ground.

There is a flicker of activity in China for wood fibre as at mid-March. Wood is starting to move but certainly not at levels that would generate any excitement. At present port off take is just slightly ahead of deliveries.

The salutary and most brutal lesson of complacency should sharpen our tactics in the future and make us realise the planet is very small, very precious and getting smaller every day via the cell phone, emails and social media.

Some have commented in bewilderment over the reaction to a nasty strain of the flu indeed many, who have not this far been struck with it, appear amazed we should bear witness to such dire and drastic measures to contain it. Indeed, the intensity and rapidity of the reaction is likely the consequence of modern communication tools.

For the vital log export trade, the sharpness of the market price drop and the apparent temporary loss of our single largest market has seen a massive slow down in production from our forests. This is a time to send out a big “hail them” to our logging contractor workforce who have been forced to take rate drops and peeled back production to at least keep working. The drop in harvest is also felt at Ports where logs are ticketed, measured and managed. The drop in daily deliveries is shortening hours worked and staff numbers are being decreased.

Once again, we can be most pleased there is a vibrant domestic wood usage economy, even though many sawmill owners and factories are complaining of lack of profit due to high log prices. At least for the moment, the local markets are getting the logs they require and as a consequence, forest owners are still getting very healthy returns.

Equally, many forest owners are able to target the better-quality portions of their forest to ensure domestic supply. If the current China “situation” lasts, this will also challenge future supply in the higher-grade logs as some will run out of “targeted” wood.

As at mid-March, consumption rates across the China Eastern seaboard are improving at around 35,000 cubic metres per day. Usage rates will need to double to get a close to 8 million cubic metre total inventory, back under control.

Our customers in China advise some people are returning to work in sawmills and construction sites, but low staff numbers continue to hamper volume growth. Orders are starting to trickle in and the ability to get LC's in place is improving.

For NZ supply we can expect many challenges ahead. If a work site in China has anyone become infected with COVID-19, the work site must close down for 14 days. All ships from NZ carry a NZ based fumigation management person on board. At present China authorities are not allowing that person to disembark. This means a port call in Taiwan at present with other potential drop off points under boarder exclusions.

Demurrage is a charge applied for ship waiting time at the discharge port in China. At present most discharge ports have 2 – 4 vessels in the queue waiting. At US\$7,000 - \$8,000 a day paid by the charterer, the numbers can get eye watering. We anticipate this will be a constant for all of March and likely well in to April based on current usage and supply forecasts.

My latest intel suggests the China market is reacting with more confidence to the large slow down in NZ production. Indeed, the current talk is we could see CFR (price landed in China in US\$) increase by US\$3 - \$5 per cubic metre for April sales. Add in reduced shipping costs and a lower FOREX rate, and it could be we will see some improvement in prices at the NZ wharf gate.

It would be most unfortunate if this led to an increase in production in NZ. Indeed, if this occurred, we would like see another price crash in the near future. Such is the fragility of the total supply and demand chain at present.

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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