

Monthly Market Report

April 2020



It has occupied my mind for some time how to start a report when we have the mix of market and challenges as we do at present. As a start point, let me first state the below is a recital of what is known on the 22nd April 2020. To those who might unkindly suggest a prediction I have made of what will happen in the next few weeks was way off the mark, I would kindly suggest that is entirely possible.

Of the recent past and that which lies ahead I can say the predominant feature is the only certainty we have is uncertainty. Everything else is a truth or a lie. And then of course I used to be indecisive, but now I am not too sure.

As at 22nd April all forestry companies are preparing for a level 3 return to work. Our guidance has been a thoroughly comprehensive, industry driven protocol with the one objective – to keep our people safe. This of course refers to COVID-19 safe. To have been part of this industry driven collective that has resulted in wide acceptance by regulators, MPI and wider industry has been a great positive.

All eyes are looking toward that wonderful cash cow we call China, who despite the well off-bean and ill directed protestations of Shane Jones, are poised to take that healthy portion of logs not required by NZ domestic processors.

To this end, China becomes critical to the strategy of ensuring best value recovery for forest owners, erstwhile ensuring the NZ\$70mil of logs estimated to be sitting on the forest floor, on skid sites and on ports, can be quickly turned in to some very badly needed cash.

A quick ring around local sawmills suggests an air of optimism with their customers generally commenting they are comfortable their construction activities have not gone away. Orders are thus far slow but pretty much as expected. There is no question there is downward pressure on log price, but in the face of a significant lift in export prices, any drops are unlikely to stick.

In China, all eyes are on daily consumption of softwood logs across the eastern seaboard. As a comparative, in April last year daily usage rates were chugging along at 90,000+ m3. When China when back to work late March this year, daily consumption ramped quite quickly to 85,000 m3 per day and we felt we were at piece with the world.

This early surge has since proven to be a restocking after lockdown recovery, and by 22nd April, daily consumption

has dropped to 50,000 m3. Meanwhile, overall inventory has gone from close to 8mil m3 to 5.4mil and dropping quickly without NZ Log deliveries. Inventory needs to be well under 3 mil to restore confidence and it will likely get there before the NZ supply tap can get turned on again.

Importantly, and despite some outwardly positive signs, the China market is not looking in good shape. No major NZ suppliers have been able to fix May sales and all buyers sit on their hands waiting for the other to settle a price. Expectations are this should start to happen late this week early next with China traders reportedly much more positive now Kiwi loggers will be returning to work.

Meanwhile shipping companies are refusing to make fixtures until new NZ/China freight rate levels are found with dropping bunker costs and zero demand until next week means everyone sits on their hands in that space also.

A further shiver down the spine is unfolding in China with domestic log wholesale prices falling RMB70 per JAS last week, about US\$8 in CFR terms. Our biggest current competitor, European Spruce, fell RMB100 per JAS. These drops are a function of a domestic construction sector basically putting the big white gloved supply hand up suggesting usage demand has plateaued, at least for the moment.

On a positive note lumber prices have remained stable which should see a return to some margin for traders, not something they have been used to lately.

On a negative note, Chinese factories with a European and US customer base for Veener, componentry, mouldings and figure joint timber have a completely empty order book and company collapse and liquidation has become common.

For NZ forest growers, the immediate future is looking good. Export log prices at the wharf gate NZ in May should lift well over NZ\$30 per cubic metre above March prices across most ports. But, you will likely have picked there is a high likelihood there could be some challenges ahead.

Do not let this current glitch deter you people, 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