

Monthly Market Report

May 2020



Export log prices have been some of the highest we have seen this month as a consequence of all pricing planets being in alignment. The selling price in China has been in a range CFR US\$124 - \$127 per cubic metre A grade shorts basis depending on cargo log grade and length mix and timing at settlement. CFR is the cost including freight in JAS cubic metres landed at port side, China.

The current price levels do not rank amongst the highest we have seen. In the last 5 years I have seen spikes up to \$160. Co-incidentally, the average over the last 4 years is US\$127 exactly what it is at present. Throw in historically very low shipping rate as a consequence of supply, demand and bunker costs, together with a low exchange rate and hey presto – planet alignment!

Domestic demand has also been on a significant surge will sawmills all very busy. Despite the gloomy economic factors the media would have us believe, we can only assume the fantastic sales levels are the consequence of re-stocking and real demand. Long may it continue.

I consider it important here to state my experience of the last 30 years with regard to export versus domestic log supply. And that is most log sellers and forest owners continue to regard domestic sawmills as first stop choice for log supply. We recognise the value of a diversity of customers and across countries.

The current tirade of Shane Jones policy which manifested in to one of the most concerning attempts at legislation I have seen this week is a first step attempt to bring in export supply control mechanisms. The Legislation or Bill I referred to is the Forests (Regulations of Log Traders and Forestry Advisers) Amendment Bill.

It is poorly written and ill-conceived at best. It is of course the first step in introducing mechanisms for log trade controls with a fundamental driver to force supply to local sawmills and put in export disincentives.

It is amazing that a Minister should single out on industry for such treatment. For example, why not the wool sector where about 5% of the annual clip is processed and used locally? In forest sector sales about 40%- 45% of the annual cut is sold domestically

currently with volumes and percentages traded being a key function of log quality. For the most part, the poorer quality export logs are the logs domestic sawmills don't want.

There are exceptions in regions. For example, in South Canterbury there are no domestic sawmills, and in regions like Gisborne and Marlborough way too few mills to take the annual cut. Forest owners need choice and they need diversity of market. Fundamentally they must maintain the ability optimise value through a framework of international wood fibre pricing mechanisms.

To date this has continued to make the plantation industry in NZ one of highest yielding of any land use. To deny that to continue is to provide protectionism policies and certainly not free trade. If Shane Jones wants to support a stronger domestic wood processing economy then do what is actually needed. And that is to adopt wood use incentives in house and industrial construction, disincentivise the importation of emissions nasty steel for construction and get out there in the international arena and grow the market.

And back to the current situation, NZ production has ramped quickly which is fantastic to see our people back out in the forests and getting land ready for planting. The return to the mix of log, lumber and related products sales will quickly have us back earning the country the normal \$400 – 450mil per month in export revenue we assume the Government need – or then maybe not according to Mr Jones.

In China, log inventory has dropped to about 4.2 million cubic metres, vessels have started to arrive again and off port sales have climbed back up to around 55,000 m3 per day. All of this says the supply chain will likely clog up again and CFR prices could come off in response. I believe we are in for some challenging trade factors until everything settles back in to the normal levels of abnormality.

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"!

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