

# Monthly Market Report

June 2020



**T**he now apparent sales elevated hiatus we experience in May has started to wane in June. Both Domestic and Export segments have come off the boil, all of which has been pretty predictable so no great surprises. Some domestic sawmill owners have reported almost bumper sales levels in May, with price less contestable than normal

As we have moved through June, the flurry, which appears to in great part be the consequence of restocking, has abated. Some have reported sales levels have dropping off whilst others are saying she is steady as she goes, but acknowledge there looks to be a small cloud building on the horizon.

Interestingly there has been comment around the significant disconnect between what we hear in the media and what is happening out there. One long term valued sawmill customer was very critical. When asked about future prospects he stated he felt Kiwi's we just getting on with it. He also reiterated the doom and gloom recitals were not helpful and sawmill owners regard their staff as their most important asset and any layoffs will be an absolute last resort. He has stated firmly "it will have to get ...joining word... bad before that happens."

Meanwhile in China, demand across the Eastern seaboard remains flat with daily consumption stuck in a 60,000 – 65,000 m<sup>3</sup> per day range. This compares with 95,000 per day at the same time last year.

We need to remind ourselves of this quite amazing market called China and its impact on NZ Forest Growers. Even at the current consumption levels, this equates to over 1.6 million cubic metres of logs per month. If an average forest in NZ yields 600 cubic metres per hectare, that is effectively close to 3,000 hectares per month being felled to make in to lumber and plywood to hold up concrete until it dries.

I trust then you will appreciate I get very antsy when someone in NZ, particularly a renegade politician, talks in anything other than favourable terms about this highly important market called China. This is a people and a country we should highly respect without rebuke. To chastise or criticise China I liken to biting off the arm, that has attached to it, the hand that feeds you.

It must also be remembered NZ sawmills supply a significant volume of lumber to this highly important

market albeit for them, it is mostly in what is termed fall down or pith in grades. These are the bottom end quality of the spectrum and mostly sold at cost or well below.

Thus, contrary to what Mr Shane Jones would want us believe, China does not reflect a honey pot of opportunity for NZ sawmills unless the logs were supplied to them at heavily discount rates. Not an outcome that would see commercial forestry flourish as an investment.

Like all other nations, China is experiencing a strained economy, less demand and most export markets basically on the blink when it comes to wood fibre segments. The 30% drop in current demand is unlikely to change medium term unless the China Government tips trillions in to their construction sector. Most commentators are suggesting this would be an unlikely scenario with a significant drop in demand for housing, business activity basically stagnant, and everyone waiting to see where the virus will hit next.

Eastern seaboard inventory remains under 4 million cubic metres, but expected to climb daily from about mid-June when May vessel loadings out of NZ and Australia start to arrive in force. Add in a large volume of Spruce out of Europe, an increase in supply from the Pacific North West and we are moving rapidly toward a market awash with volume and prices falling as a consequence.

The bottom line is, domestic prices for June remain stable, confirming this highly important segment just chugs along, whilst export log sales fell from being the top 99 percentile of the last 3 years to about the 80 percentile. Still a pretty good time to be harvesting with returns up there in terms of net to grower NZ. Me suspects there will some trade winds over the winter.

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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