

Monthly Market Report

July 2020



July 2020 marks the 10th year anniversary of my writing market reports. I thought it might be of interest to readers to know where we were 10 years ago in terms of log prices, and returns to growers compared to now.

In 2010 sawmills in the Canterbury region were paying \$90 - \$94 per tonne for small branched framing grade sawlogs landed at mill. In 2020 they are paying \$120 - \$125 per tonne. The variation in price points then and now is driven by the length and diameter mix across the supply volume.

In 2010, China sawmill owners were paying US\$120 per cubic metre for A grade logs. In 2020 US\$110 per m3. In 2010 the US/KIWI exchange rate was \$0.7250 in 2020, \$0.6500. In 2010, shipping costs for logs NZ to China were \$US\$40 per m3, in 2020 US\$24.

In terms of how this played out at the wharf gate for forest owners in NZ, in the Canterbury region in 2010, the price for A grade logs was NZ\$82 per m3 and in 2020 \$104. Thus, we can be comfortable the current prices for export logs whilst at lower levels than the recent past, they remain at good levels historically. Add in the very good price points for domestic logs and we have a value mix that should be palatable albeit less than exciting.

For forest owners with higher quality blocks of trees, it is still worth harvesting. As has been the case for the last 40 years, domestic sawmills provide a stable platform and good price points for forest owners. However, despite what Shane Jones might say, we also need the log export sector to ensure the total returns at the stump are attractive and they have certainly been that.

As a general rule of thumb, China sawmills have been prepared to pay the same for the rougher grades of logs that our sawmill owners do not generally want. Thus, returns to forest growers, including woodlots owned by farmers have been higher than can be achieved for almost any other land use.

And before our critics like the 50 Shades of Stupidity climb all over us like a big red rash, most foresters have no expectation forests and large woodlots will be planted across high quality farm land at scale. Indeed, commercial forestry cannot get anywhere

close to what farmers are prepared to pay for good farm land. Our cashflows and bottom line NPV will consistently ensure we foresters confine our planting to mostly lower quality, lower value, land.

The current 1BT grant scheme does not support whole farm conversions and nor do we see farmers wanting to apply for whole farm conversions. However as far as I can see many farmers are taking the opportunity within a 1BT grant thus ensuring a wide variety of tree species are planted in the right place on farms. This then ensures optimal land use integration, sustainability and taking care of some important positive environmental outcomes. There are no negatives here.

Meanwhile in July 2020, prices are hovering in a lower cycle over all but on average still in the top 65 percentile of the market of the last 3 years. Signs of a moderate improvement in China are emerging despite earlier gloomy predictions. Daily usage rates across the eastern seaboard have increase 10,000 m3 per day to currently 70,000 and climbing ever so gradually.

The big volumes of Spruce out of Europe have not yet appeared at the scale some were predicting. Total inventory sits at just above 4 million cubic metres representing just over 2 months supply at current usage levels. This is about right and with the current reduction in supply out of NZ, we are seeing confidence levels in China start to improve.

Shipping rates remain stubbornly high and for the moment nobody can explain why. World trade is on the go slow and there should be a dearth of vessels opening on NZ next month. Lets hope this eases the pressure on wharf gate prices. Then all we need to see is that pesky US\$/KIWI\$ exchange rate start to ease and late Q3 we should start to see prices improve in the export sector.

Do not let this current glitch deter you, 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