

# Monthly Market Report

August 2020



**A**fter a pretty tumultuous period as far as China is concerned, this key market for NZ forest products has stabilised with prices steady to slightly firm and all key indicators trending toward the positive.

A little against expectation, daily consumption across the Eastern seaboard has been steadily increasing. As at mid-August, usage of softwood logs has been running at 80,000 cubic metres per day, reflecting a monthly usage of around 2 million cubic metres.

Whilst this has eased concerns of significant over supply, some commentators are suggesting a cautionary tone. While the US\$/RMB cross rate has favoured China and therefore reduced log import cost, we are still seeing the domestic prices of logs teetering between stable and soft.

The nervousness is largely the consequence of those accursed Spruce logs and lumber coming out of Europe. Information is mixed but my rumour filter has volumes at somewhere between 400,000 and 600,000 cubic metres log equivalents per month, about 20% less than earlier predictions.

Of some concern is the ability of NZ players in the log supply sandpit to accurately determine what the other Children are playing with, in this case, just how much volume is at China ports, on the water and about leave Europe. Much of the Spruce arrives in Containers with a reduced ability for us to see just how much inventory is in the system. Thus, uncertainly and suspicion are the order of the day.

Suffice to say, there is a dearth of vessels loaded with logs heading to China and we know at least 3 of them are carrying Break Bulk Spruce logs. Whilst this is a new phenomenon, we understand these vessels are a trial basis.

We know that for most European harvest the forests are in excess of 1,000km from an export port, sometimes over 2,000km. Ships then have to travel round through the Mediterranean to Suez Canal, past India, around the corner past Singapore and up to China.

All of this will ensure NZ supplied logs will remain very competitive, unless European Governments increase subsidies even further to ensure forest owners can get a basic royalty. I understand many European nations are

not exactly flush with cash but like good ole' Trumpy, they might just keep the printing press's going.

As at mid-August, there were 50+ vessels waiting to discharge in China and if each on average has 35,000 cubic metres of logs and lumber on board, we are in quite a nery place price wise. It will not take much to tip the scales, particularly if CFR prices (logs landed in China in US\$) increase greatly. This will attract even more volume from all sources and potentially drive our own price down...again!

As has been the case of the last many years NZ domestic sawmills maintain their place as the rock and pillar of NZ Forestry and Forest Owners. Prices are stable throughout NZ and even though in some regions some export comparatives are heading back over domestic prices, I doubt this will see any change to log supply locally.

Contrary to what Shane Jones might say, I know of no log sellers who would shun the option to supply logs to a domestic sawmill, unless of course there was a credit or other issue.

Shipping rates have remained stubbornly firm during August. For the moment, and despite lower bunker costs and reduced international shipping volume numbers, ship owners are playing hard ball. Some are dangling the Charter Party Agreement at arms-length in front of Charterers in the continuing bizarre game of Cat and Mouse when no one is really sure which is the cat and which is the mouse. For the moment, standard 2 port load 2 port discharge hire rates are sitting in the mid US\$20's per m3 and hanging there without significant sign of movement either way.

It is fantastic to see many trees being planted across low productivity farm sites and not just the wonderful Radiata pine. Redwoods, Totara, Poplar and even Oaks are on the list along with riparian and stream planting as well as the normal woodlots. Long may it continue.

As always People, 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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