Monthly Market Report

September 2020

Quite a mixed bag this month with prices in the export sector continuing the very slight firming trend but medium-term indicators suggesting supply is getting dangerously close to exceeding demand in China. In the past, this typically leads to prices hitting a peak then quickly falling off as market realisations unfold.

Our domestic scene is chugging along very nicely with some sawmills experiencing elevated sales levels compared to the same time last year. We have to assume the money usually spent on over-seas holidays to going to new builds and reno's. Certainly, no point keeping it in the bank.

Nationally, house sales are some of the best numbers seen in recent times and new house start numbers are clear evidence the consumer spend domestically is helping retail dramatically. Housing and the need for lumber is at the forefront of that demand.

In China as at mid-September, daily consumption has been heading toward 90,000 cubic metres as the peak September/October construction season is reached. If this continues beyond when most expect, the market should shrug off an otherwise too high inventory. As at mid-September, that is 4.4million cubic metres of Pacific rim softwood logs and another million sitting on vessels awaiting discharge.

Add in another 1 million of European Spruce and we have inventory levels starting to reach twitching in the seat status at over 6 million. Increased consumption levels are helping to quell the restlessness, at least for the moment. If daily consumption starts to trail off, the current push up on CFR settlements by log sellers will see them turning off their cell phones and going on their in-country holiday. This will not stop the inevitable.

As has happened in the past, because NZ dominates the log supply sales in China, other supplying nations track those up. As CFR prices increase so therefore, does supply from other sources. Thus we are currently seeing new delivery levels from USA, Canada, and Uruguay.

The good news is NZ does dominate, sustainably supplying close to 70% of softwood volume and is therefore a highly respected supply source. A good example is 25 – 30 year Radiata pine logs with often large branches and indiscriminate form selling at US$10 – 15 per cubic metre currently above 100 – 200 year old Spruce logs out of Europe. NZ logs are typically 3.8m to 5.8m long and European logs up to 10m long and very few branches…..go figure?

One answer lies in the fact Radiata can be peeled for Plywood, Spruce cannot. Radiata is now consistently used to make furniture, joinery and mouldings. Spruce has a primary end use a sawn lumber to hold up concrete until it dries and little else.

At the current mix of CFR settlements (US$ per m3 landed China) shipping rates FOREX and port costs, a sales price of US$117 A grade basis, translates to a price at wharf gate for a NZ Forest grower of NZ$110 - $120 pe m3 depending on which Port. Some South Island Port costs are the highest of all in NZ and steam south costs sometimes higher for vessels.

In August we hit come big numbers even for NZ. 38 full vessel equivalents to China, 12 mostly top deck cargo's to Korea and 2 vessels to India. That equates to about 1.6 million cubic metres of log exports. And before any of you "we should be processing locally" bleaters get on your high horse don't forget we also produced over 1 million m3 of logs to domestic sawmills and processing plants.

This gives us an annualised harvest of just over 30 million cubic metres and a combined earner for the NZ economy in the order of $700mil per month. Not bad for what is effectively about a postage stamp size of the total NZ land mass.

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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