

Monthly Market Report

November 2020



The last month has seen some of the most significant elements start to impact markets than has been seen for some time. Whilst the media focus has been on US elections and COVID -19, news of the trade barriers imposed on Australia by China have hardly made the headlines.

And yet here in lies potentially one of the most significant events to hit the log and lumber trade in the Pacific Rim for a long time. Initially we heard the trade block had been imposed on Queensland with bans on exports of Logs, lumber, lobster, barley, wine, copper and coal destined for China. Interestingly Chinese authorities have not officially confirmed the restrictions but stop they did.

In the last few days, bans have been placed on log exports from Victoria after China's customs stated bark beetle had been detected in logs heading to China. What we don't see reported is in fact China traders have basically turned off the Australian log and lumber trade by refusing to open Letters of Credit on Shipments already under way. Thus, the trade has ceased almost overnight.

Many forest owners and communities in Australia have been hugely impacted with fire damage forest harvest adding to the mix of devastation. If this important supply tap cannot be turned back on there will be a sustained loss of over 450,000 cubic metres of logs and lumber per month in the supply lines.

Given China is heading in to a lower usage period, and NZ is maintaining a pretty steady supply, the overall impacts will be lessened. However, market commentators are already talking up supply shortages and the likelihood of prices heading up.

Despite a period of expected falling log usage across the China eastern seaboard, we have been seeing numbers ticking along at 90 – 95,000 cubic metres per day. Meanwhile total inventory has been falling by about 100,000 cubic metres per week, currently sitting at around 3.4 million cubic metres.

At current usage levels we are now sitting at less than 6 weeks supply. Port space is clearing as a consequence, and prior vessel waiting to discharge times are close to non-existent at many ports.

At the same time, we have been seeing China domestic wholesale log prices increase ¥20 – 30/m³ over the last

week. This translates back to NZ\$3 – 4/m³ so we would expect to see a US\$1 – 2 lift in sales prices for December settlements based on this alone.

For the moment a US\$1 – 2 lift in settlements for November sales has impacted similarly on NZ wharf gate prices which are now in the top 85 percentile of the market of the last 3 years.

Meanwhile NZ side, log and lumber exporters are not eyeing the new governments impact on the US\$/Kiwi\$ exchange rate favourably. This has gone from 0.66c to 0.69c in a flash, effectively eroding close to NZ\$5 off December log prices at the wharf gate.

I believe we would want to see the prime Minister call the Reserve Bank Governor in to her office for a pretty intense deep and meaningful and a little cap doffing, erstwhile insisting we get this under control. I am sure there is a strong need to ensure maximised overseas returns so we can build more houses and pay those Kiwis not working an even higher incentive not to do so.

NZ side, domestic customers are still reporting sales are going gang busters, in fact at elevated levels compared to October. Recent respondents stated there are truck-loads of lumber heading to Auckland every week from the South Island, this must be a first surely. Another Canterbury mill has reported 40% of last months sales were out of region. Another first.

On the log supply side, most sawmills are running on a “just enough” basis. But sensibly, prices are steady and for the most part an air of optimism pervades meaning everyone gets their small slice of the action along the way.

In short, the NZ plantation forestry sector remains in great shape and that looks set to continue as long as our politicians don't follow the example set by their Australian counterparts and start making jabs at China. Behave people.... and we will all be OK!

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”!

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