

Monthly Market Report

December 2020



As I have moved around our contractors, customers and clients over these last few weeks there has been an air of positivity. “Actually, we have had a pretty good year” has been a common comment.

For our contractors, after lock down, there was a very mixed bag of a supply and demand knee jerk reaction with a rapid escalation in export prices to a sudden drop as markets struggled to understand how COVID – 19 impacted business. Eventually, things settled down and since August, the log export segment has recovered in price terms to end the year on close to the top 90 percentile of the last 3 years.

Now, harvest and transport teams have good work loads and this looks destined to continue for some time as forest owners capture some very good net returns.

As far as our domestic sawmilling customers go, all report full order books, struggling to meet demand, turning orders away and lumber prices steady to strong. Nearly all are wanting increased log supply in 2020.

On the surface, it would seem this might be time to start reviewing domestic log prices upward. However, for those of us with longer memories and knowing nothing lasts forever, I think this is time to steady the ship after some rogue waves, stay the course and maintain an even speed. Thus, the engines will last longer, we will burn less fuel and we will all be in one piece when we get to the destination.

For our forest owner clients, these are pretty good times. It used to be a net return for a well managed 30 year old stand of Radiata pine yielding \$25,000 to \$30,000 per hectare was uncommon. Nowadays, 26 – 28 year old stands are consistently producing these numbers.

On high productivity sites, less than 100km to markets and age 30, \$35,000 - \$40,000 net per hectare is achievable. Whilst bringing ample justification to the decision to plant trees all those years ago, it is sometimes frustrating forest owners are prepared to get the chainsaw out well before age 30 when the full potential could have been realised.

China continues to hit some very good numbers. Softwood log usage is cranking along at 85,000 cubic metres, a lot more than most commentators were predicting. Spruce supplies out of Europe have slowed significantly as container freight costs have escalated to

the point much of the trade is unprofitable at present.

The Australia Government have received a big punch on the nose after throwing a bit of lip China’s way. The fact the Aussies just don’t know when to shut up has seen over 450,000 cubic metres of logs and lumber per month removed from Softwood supply lines, when China put the big white gloved hand up. As a consequence, the China Eastern Seaboard inventory has been falling, about to sneak under 3 million cubic metres, representing just 5 weeks supply at current usage levels.

Some commentators are suggesting this is lime for level heads as there is a danger we might see log price escalation if China starts to panic. If CFR prices go too far above the current US\$135 for A grade, Europe and Russia will start dusting off the chainsaws. Thus we will see supply suddenly increase, prices will drop quickly, and all of the sudden we will have to contemplate joining out tourism sector mates in the dole queue.

In December export log settlements, we saw one of the largest increases in CFR prices for some time, up US\$5 – 6 per cubic metre. Unfortunately, the NZ economy is out performing almost all others and we have seen a sharp rise in the US\$/KIWI\$ exchange rate. This close to halved the potential rise in NZ wharf gate prices, a little frustrating but leaving us in a pretty sweet spot nevertheless.

Of all the challenges we have faced in 2020, the plantation forest sector has come out looking very sharp. New planting rates are up and despite what the 50 Shades of Stupidity say in attempts to deceive the NZ public, those new plantings are entirely on land that is marginal or not economic for traditional pastoral farming.

Many of those new plantings also include non-traditional species, many are natives like Totara, and many are undertaken with a strong environmental and sustainability ethic. There is no downside here.

I extend best wishes for all that is good to all readers in 2021. 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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