Monthly Market Report

January 2021

A very happy New Year to all readers. Let's hope 2021 is a better year. In China culture as of February 12, 2021, we enter the year of the Ox, Metal Ox in fact, and we see the end of the year of the rat. The year of the Ox is a good year and will favour those born in the previous years of the Ox, 1949,1961, 1973, 1985, 1997 and 2009. If you are like me and do not feature in these years, then I guess it is business as usual.

For log markets generally, the start to 2021 has been very favourable. Domestic prices and supply have remained stable and strong. Export Log prices were up NZ$6 – 7 per m3 at the wharf gate in January. Had it not been for a rampant Kiwi $, the increase could have been double that after some significant CFR increases in China. For those new to the game, CFR means the cost of logs including freight landed in China in US$ per m3.

Across the China Eastern sea-board, we have seen demand drop off as winter bites in to the construction sector. However, daily consumption is still cranking along at 62,000 cubic metres per day, comparing very favourably with last year.

Shipping rates have been, holding up at levels that most commentators were not predicting. The apparent cause is what has been described as insatiable demand in China across many commodities which has continued to place pressure on shipping capacity, particularly the Handy Class segment that carries our logs to China.

Brent Crude is also holding up at historically high levels, currently US$56 per barrel. Demand and Oil prices are giving ship owners plenty of meat in their sandwich at the negotiating table. Most commentators are suggesting shipping costs will soften when we hit Chinese New-year. This runs from 12th February and although is officially for 7 days, most extend for 2 weeks and China effectively grinds to a halt unless you are a restaurant owner.

Total inventory is sitting at 2.6 million cubic metres as at mid-January. This is historically very low, representing about 5 weeks supply at current usage levels and without CNY. Total inventory increased by 200,000 m3 since mid-December following some elevated arrivals from NZ.

But these are very small numbers and in context should see a strong demand profile for NZ exporters in Q1 and 2. Most agree we will be largely dependent on the spread of disease and pestilence globally. Also depending on the benevolence of our government as to a continuing acceptance of infected visitors, domestically this could throw all predictions in to the murky waters of uncertainty.

At time of writing, we are still not seeing any attempts by the China and Australia leader to do a kiss and make up. This will continue to see 400,000 + cubic meters of lesser supply of mainly Radiata pine logs in to China.

Over the last 3 months Spruce log supply out of Europe from Bark Beetle harvest has not reached back up to mid-2020 levels of 1 million + cubic metres per month. This is largely the consequence of the container trade with freight rates escalating due to lack of empties opening in Europe. Most commentators are suggesting this one remains the sleeping giant and could yet impact if container rates head south.

Russia also is not tipping in anything like the normal volumes with President Putin continuing to put demand on local processing. For the moment this supply in both log and lumber does not pose any downside risk to NZ supply.

The combination of all of this should see CFR prices continue to strengthen and this in turn will see some pretty exciting times for NZ Forest Growers. The challenges will as always be sustainability. If the log price ramps up, so does supply from other sources, and this drives a reversal. So, despite the apparent positives, this is a time when we certainly do not want to see the pride precede the fall.

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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