

Monthly Market Report

April 2023



Our log export sector is very much a story of history repeating this month, with most fundamentals pointing south after a price spike. Underlying the apparent weakness in April sales prices is the lack of consumption in the construction sector in China.

Last year was a COVID ridden anomaly impacting commodity trade including most certainly wood fibre. This year, as we move into the Northern Hemisphere summer, we were hoping for a tick up in daily consumption with a return to some semblance of normality.

Current usage levels are at about 56,000 cubic metres per day, compared to normal trading year exceeding 85,000 for this time of year. This speaks volumes about buyer confidence with little positivity prevailing. Erstwhile, inventory is building to back over 4.1million cubic metres, effectively 3 months log supply.

In January and February, leading NZ exporters were continuing to push log prices higher despite the fundamentals displaying high level caution. The history repeating bit includes buyers folding their arms when they could see log prices well exceeded trading margins. The net consequence has been some shipments from late March heading to China, with contracts but no LC's, a couple with no contracts and no LC's. The markets call's these distressed vessels.

Cell phone technology ensured everyone in the market knew there were distressed vessels on the horizon ex NZ in a very short time frame – less than a week. The net result is China buyers closed the negotiating door firmly, and are now waiting it out to see where the bottom is.

The additional weakness as at mid-April lies in the China domestic scene. Lumber prices are holding flat with older stock and unpopular sizes being heavily discounted. Some optimistic commentary has suggested domestic prices will swing when consumption picks up. The pessimists are saying, do not hold your breath.

On a more positive side, for Kiwi Forest Owners, shipping costs are starting to weaken. Some have suggested US\$10+ per cubic metre reductions are already on the table.

With May fixture rates very low, and high-level uncertainty as to what will happen next, as most realise NZ forest harvest will be impacted significantly and the need for vessel therefore also significantly reduced.

The net impact of April sales in NZ at wharf gate terms has seen prices dropping NZ10 - \$20 per cubic metre across NZ. The variation is largely a function of shipping cost. This has come off the back of a price spike so April price levels have still been pretty good. But May could be a cot case unless consumption picks up quickly in China and shipping rates don't continue to fall.

This yet again crisis point in the market highlights 3 things for me:

- 1) Why the heck – once again - were NZ sales teams pushing CFR prices up when in Jan/Feb/Mar there were clear signals, including poor consumption levels, China could not sustain those increases
- 2) I see the need for "NZ Forestry Inc" to get in a collaborative room and find solutions to our history repeating marketing follies
- 3) Finding alternatives to our total dependence on China as a log export destination is an absolute must

No significant changes to report in the NZ domestic scene this month. Sales remain weak but are by no means a cot case. Framing grade lumber is generally in an over-supply situation with sawmills focussing on this segment competing aggressively for volume and price.

The prevailing wailing and gnashing of teeth I get from NZ Sawmill owners is the cost of doing business and the associated regulatory framework which many vociferously describe is out of control.

Interestingly, some bleaters have suggested we need more sawmills to process our trees. We don't actually, but that is another story. If you wanted to start a new sawmill in NZ consenting costs alone could be north of \$1mil.

With that money in China you could have 5+ sawmills running producing 300+ cubic metres sawn lumber per day – a largish sawmill in NZ – with the government supplying the land and zero consenting costs.

Now people you know why we will not be seeing any new sawmills in NZ any time soon.

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, No 5 Seven Mile Drive, Belfast,
Christchurch 8051, New Zealand
Phone +64 3 359 5000

Email: admin@laurieforestry.co.nz



Laurie Forestry Ltd

www.laurieforestry.co.nz