

# Monthly Market Report

May 2023



**M**y prophetic words in last months report “....but May could be a cot case unless consumption picks up quickly in China and shipping rates do not continue to fall”.

A cot case we most certainly find ourselves in with all planets falling completely out of alignment and May wharf gate prices NZ falling to the lowest in 5 years. The market driver/indicator A grade log has dropped to between NZ\$84 and \$100 per JAS cubic metre at wharf gate NZ. The variation is a function of North or South Island, number of port calls, port cost and shipping fixture timing.

In China, the CFR rate (the selling price landed at port in US\$) has dropped to US\$112 to \$115 per cubic metre depending on timing, with most market commentary suggesting May sales will see us at or about US\$110. This again has us at a 5 year low by a reasonable margin.

At a mid to high NZ\$80's wharf gate price in the South Island, this reflects just above the average cost of harvesting and transporting the logs to port. As a consequence, all South-Island Ports are seeing a dramatic drop in daily deliveries. Some are close to a mere trickle and only because some of the larger corporates need to keep harvesting to fulfill domestic mill contracts.

Volumes heading to North Island Ports are also slowing but to a lesser degree for some as Central North Island Cyclone Gabrielle damaged forest harvest gets in to full swing. Some have suggested current volumes at 60 – 70% of normal.

A normal log export harvest month in NZ has been running at about 1.5 – 1.6 million cubic metres, mostly heading to China. Most commentary is suggesting in May we will head south of 1mil cubic metres, with June likely to be much less.

The impacts of this across our industry cannot be over stated and no less so for our people on the ground who do the real work. I have stated many times, NZ Forestry Inc needs to get in a room and thrash out a strategy that includes a re-set on marketing behaviour parameters as well as finding new and more resilient markets. Our total dependence on China needs to be reviewed and quickly.

In China, the market bottom lip is certainly dragging close to the ground. In general terms nothing has

changed since Q4 2022. Demand is weak, domestic prices are falling in many regions and inventory is well above what would be needed to see a swing in confidence.

Across the eastern seaboard daily sales as at mid May running at around 50,000 cubic metres per day, down 35% on the same time last year. The softwood inventory is sitting at 4.1mil cubic metres not including stock sitting containers.

China wholesale log prices are also falling with one key Port for NZ logs, Lanshan, dropping a further ¥30 per cubic metre since early May (about NZ\$5 - 6). This of course does not bode well for CFR settlements in June with the trader breakeven point being around the US\$110 – 112. Thus, you will not need your abacus to work out what the future will look like.

On a brighter note, shipping costs have turned down, not surprisingly of course. An interesting development at present includes shipping fixtures timing dropping to around 3 weeks versus the normal 5 – 6 weeks. This leaves ship owners running a knife edge with short term options limited if they cannot secure a NZ cargo.

For most of us at the coal face, any sympathy for shipping companies is non existent with the gouging of the last 12 months still very strong in our memories. In fact, shipping costs, which are currently sitting in the low US\$30's will have to go a lot lower for harvest to increase.

On another brighter note, a massive and devastating drop in harvest in NZ will very quickly see inventory drop in China. Some commentary has suggested it will be 4 -5 weeks before vessel arrivals slow and therefore any reaction delayed.

But history tells me most of the larger players in China are very well informed on what is happening in NZ. Thus, I would expect to see a confidence swing sooner than some have been suggesting.

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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