

Monthly Market Report

December 2023



The lifts in export log prices reported last month have continued in to December. The selling price in China has been increasing with positivity pervading the market generally. Most commentators are suggesting we will continue to see across the board firming in Q1 2024.

The NZ domestic scene looks also to have turned a corner with sawmill owners spoken to recently reporting a small lift in sales in December and much higher volume enquiries for early 2024. There appears to be no obvious reason why, but a common thread is a mood of positivity and preparedness to invest following the change of Government.

Over the last month across the China Eastern Seaboard, off port daily sales have been running at 65,000 cubic metres, on a par with the same time last year but less than the previous year. Importantly, the current sales levels are at a time when the Real Estate sector in China is being reported as the worst in many years.

This confirms a demand for NZ Radiata pine logs for milling in to products other than timber for form work in high-rise apartment construction. This combined with the Governments recent announcement of staged expenditure into low-cost housing amounting to RMB¥1 trillion is adding to the pot of positivity and great news for Kiwi Forest Owners.

For the moment, the eastern seaboard inventory is now below 2.9 million cubic metres representing about 8 weeks supply. It has not been that low since January 2021 and helping to swing the pendulum back to NZ exporters.

The key message for the NZ forestry sector here is to keep monthly China export sales below 1.5 million cubic metres. If we can, Q1 and 2, 2024 should see continuing lifts in CFR prices.

On that score we need to be very careful. Current CFR settlements, A grade basis, are in a US\$126 - \$128 per m3 range. This is up over US\$10 in a month, representing a dynamic shift in the market.

But at these levels, we can expect to see eyes light up in Australia, Uruguay, Europe and the Pacific North West. If we hit US\$130 levels, we can just about guarantee those supply sources will want to play in our market sandpit and it will very quickly become crowded.

NZ Forestry Inc is still eyeing up the Cyclone Gabrielle factor and that is the 6,000+ hectares of trees flattened in Lake Taupo forests. Harvest has ramped significantly with 450 – 500 truck loads per day heading out of those forests and much of that increasingly heading to China.

And as the logging crews work further in to younger forests and the wood deteriorates in summer temperatures, the challenges in front of the harvesters to get that wood off the ground are significant. Harvest is expected to last until May/June 2024 when a projected slow down in the national cut is expected to be the order of the day.

Shipping has continued to frustrate NZ exporters with fixtures being impacted by a very weak Korea market at present. Many vessels in the typical log carrier Handy Class add in top deck cargo heading to Korea, a typical vessel taking 25,000 to 28,000 m3 of log under deck and 5,000 to 6000 m3 above. This then becomes a 2-port discharge, 1 in Korea and 1 in China.

Without Korea in the mix, exporters are having to secure Supramax size vessels taking 34,000 to 38,000 m3 only below deck. The additional challenge here is not all NZ ports can accept this vessel class due to draft restrictions. This then typically has them on a 3:1 rotation – 3 port load NZ 1 port discharge China. A more expensive charter than a Handy class vessel on 2:2 basis.

Supramax vessel owners are eyeing up NZ's problem and are very much keeping the pencil away from the sharpener as a consequence. Indeed, with a bumper grain harvest internationally, the owners are using a very blunt felt tip spelling out "take it or leave it" as the start point.

This combined with a slightly higher US\$/Kiwi\$ exchange rate for the moment is keeping at wharf gate pricing NZ subdued. But all the fundamentals look to be in place for a much improved 2024 log market. Halleluiah to that!

As always, 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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