

Monthly Market Report

March 2024



Very much against the tide of what we had been expecting, the China market has taken a major turn down. Indeed, the current correction might best be described as catastrophic, even by our recent history standards.

The earlier positivity had its foundations in the assumption all would be fine after Chinese New-year. It was expected daily log consumption would quickly recover to normal levels as everyone went back to work.

Unfortunately, this has not happened, with daily usage struggling to reach 40,000 m3 per day in February, when the market was expecting 60,000 per day. As at mid-March, we are seeing usage numbers improve, but too little too late. The problem is NZ Forestry Inc has been delivering 60,000 m3 per day since Christmas.

Radiata log inventory is now at 4mil m3 with all softwood inventory sitting at close to 5mil. This is regarded as way too high. With demand weak and ample stock, China domestic prices for Kiwi logs are also falling.

China buyers have now folded their arms and refusing orders from Kiwi exporters whilst waiting for prices to hit bottom. As at mid-March, no one knows where the bottom is with no major sales contracts signed and no LC's issued in close to 2 weeks. This is a massively concerning situation.

Around NZ, there is the beginnings of a big slow down in deliveries to Ports. This will need to happen more dramatically and for some time to enable supply and demand to get back to an equilibrium. Underpinning that is harvesting contractors and transport companies parked up again.

The continuing ebb and flow of the current modus operandi model to China must change. The impacts across the people who do the real work is unacceptable. There has never been a more desperate time for NZ Forestry Inc to get in a room and lock the door until a production and supply framework is sorted out.

Meanwhile shipping companies had been doggedly holding on to freight rates citing international undercapacity and lots of cargo everywhere. Happily, their greed chickens have now come home to roost. One example is iron ore prices ex Australia are plummeting, there is a dearth of stock in China and suddenly Capesize vessels are looking for work.

Whilst NZ ports are not deep enough for Capes, the net impact of no iron ore cargo's is the Capes are starting to take volume off Handy Max's and Supra's, and those vessels do ply the NZ log trade. The net result is shipping rates are starting to fall but NZ fixtures remain miniscule compared to the norm. Indeed, NZ ship charterers are now happy to fold their arms and smile sweetly in response to ship owner pleas for cargo's.

There have been high levels of enquiry from India buyers wanting to look again at NZ log cargo's. Whilst India stands as a nation of great opportunity, our history pavements are scarred with many bad and problematic deals with a lot of Kiwis losing a lot of money on India sales. Payment defaults have been common.

For most exporters, there can be no India deals or at least no logs loaded on boats until the money is in the bank and that has become a major impediment to significant trade resumption. It would seem to me this trade option requires higher level Govt intervention. I see the likes of Govt led trade delegations to India as a start point. Agreements would need to include sustainable resolution around fumigation issues.

Meanwhile, NZ sawmill owners are experiencing reasonable sales levels. Most are citing a good order book with prices for domestic logs holding. Once again, the local sawmills confirm their position as the backbone of the forestry sector. Recruiting staff continues to be one of the greatest challenges facing sawmill owners.

It is good to see in the corridors of power, the Government throwing out some of the prior wok policy settings. The announcement of a review of significant cost to belong increases for participants in the ETS is a good start. Reviewing the Log Traders and Forest Advisors legislation is another. Discarding them completely as 2 rule settings that achieved absolutely nothing would be a good step forward.

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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