

Monthly Market Report

July 2024



The tide has turned in China with demand at a low point and prices under downward pressure. Thankfully as at mid-July, not to a significant degree.

In line with expectations, China demand for softwood logs and fibre has slackened with the mid-summer season seeing big rain events and very high temperatures. This sees construction projects slow down as workers taking a longer midday break whilst persistent rain is impacting concrete being poured.

Some of the negative impact of seasonal challenges is being offset by a continuing increase in lumber usage for non-construction end uses. So much more of our wonderful Radiata pine is being used for the likes edge glue panels, figure jointing componentry, mouldings, doors and furniture, with the primary market being domestic consumption.

Meanwhile, it is apparent China also believes the incredibly ridiculous Donald Trump will prevail as the new US leader. We are seeing elevated volumes of product heading to the US and other warehouses to avoid the anticipated tariff impositions. This is also biting in to the Handy Class vessel fleet, thus reducing the short-term availability of ships for the NZ Log trade.

Daily China consumption is running at about 50,000 cubic metres. To put this in to context, with NZ 80% of all log supply currently, this is just over 1 fully loaded vessel, leaving a NZ port every day, 6 days a week with NZ logs. Unfortunately, NZ forestry Inc has once again ignored customer demand, sending 5 - 6 more vessels in June/July than the market wanted.

The unsold inventory is starting to build on China ports, albeit not to a significant degree as at mid-July. The issue is the market is extremely fragile with buyers being super cautious and very reluctant to take any cargo until they see how the post rainy season goes. LC's have become hard to get with a traditional 3.8m long log now being very hard to sell. Any sales at all are strongly favouring longer 5.2m and 5.9m long logs which could potentially bite into NZ domestic sawmill volumes.

China domestic prices are holding reasonably well in most regions, certainly not increasing. The

effective current breakeven point for traders to make margin on NZ logs is about US\$115 per cubic metre. The current selling price for NZ logs is US\$122 per cubic metre. I do not think you will need your abacus to figure out what happens next.

Erstwhile, and the old tale of history repeating, rather incredibly, in early July we have one of the largest NZ sellers trying to push China buyers to US\$126 per cubic metre. Customers sent him home with his tail between his legs no sales, no LC's most of us in NZ gazing with wonderment at the stupidity. Why you would want to push prices higher when demand is low and all economic indicators pointing downward, beggars' belief.

The seller has since returned to China offering at low US\$120's and still no sales and no LC's. Most commentators believe somewhere just below US\$120 will be in our near future. With the FOREX drop NZ side this should see prices remain flat for August NZ at wharf gate sales. But, as I said, things are very fragile with the crystal ball is extremely cloudy.

Shipping costs have remained frustratingly strong, with ship owners pointing to plenty of cargo options out of Australia and Northern Hemisphere. If NZ charterers do not yield to unsatisfactory prices levels, vessels will become short supplied and the cost of getting a log from NZ to China, even higher.

For the most part, commentators are suggesting it will be September before we see prices swing and that is tempered with a number of caveats. World events are going to be extremely interesting over the next 6 months and NZ food and fibre growers might yet emerge as a significant beneficiary. I suggest watch this space, in particular keep your eye on the economic entwine of Russia and China.

As always, please remember the thoroughly important message, "despite the challenges, 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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