

March 2023 Market Update

Marcus Musson, Forest360 Director

Opinion Piece

You don't have to look too far to find a negative report on our industry when it comes to the effects of the recent biblical rain events on the mobilization of woody debris. The media will never let the truth get in the way of a good story and politicians will jump on any chance to get voters on side – even if they have very little idea about the subject they are pontificating about. While the damage to the communities on the coast is devastating and we all empathise with everyone involved, pointing the finger squarely at forestry as the sole source of 'slash' is like referring to all utes in NZ as a 'Hilux's' - part of the fleet, but there's plenty of other brands in the mix. But that's a story for another time.

The recent cyclones have obviously given the country a real hiding, and, as our teams operate in the rural environment, there are plenty of harvesting crews around the traps that are unable to operate due to road damage. This has seen a significant drop in the deliveries to the ports of Napier, Gisborne and Marsden with many exporters in those regions being caught with cargo-less vessels, which is less than ideal when you charter these on a daily hire basis.

To complicate matters, Gabrielle also laid flat around 6,000ha of forests in the Turangi/Taupo regions. Aerial photos show the destruction which looks like God's big mitt has been swept across the land and the trees broken off as if they were spaghetti sticks. This area equates to around 2.5 million tonnes of logs and the time clock is ticking for the salvage of this volume as it gets pretty iffy past the 4 month mark once the trees have been blown over. In this case, where the trees have been primarily snapped off rather than blown over with the roots on, the timeframe can be even shorter; as, once the bugs get under the bark, they are not suitable for any market other than pulp and firewood. The net effect of this windthrow is that there will be crews mobilised from around the regions to deal with this wind damage which will see a blip in the supply volumes from NZ. Whether this will be enough to offset the supply reduction from the other cyclone effected areas is yet to be seen as it's likely there'll be a lag of at least 4 weeks in this volume hitting the ports on mass.

The harvesting contractor workforce has been struggling with increased costs and erosion of working capital over the past few years with covid lockdowns, severe market fluctuations and endless winters. The inability for some to return to work post-cyclone will, unfortunately, be the end for a reasonable number. This will undoubtedly reduce our harvest level going forward, especially in the Hawkes Bay and East Coast regions. To top it off: there were at least 40 log trucks drowned in the Hawkes Bay during the flood and around 25 of those have been written off (to date). This takes around 3,600 tonnes per day of cartage out of the system in the region, which is difficult to replace.

March has seen a significant rise in At Wharf Gate (AWG) export prices as exporters scrap for volume and vessels. A-Grade now sits in the mid to high \$140's/M³, up around \$10/m³ on February and \$15/m³ above the three-year average. We have higher sales prices and lower Forex to thank for the increase, but how much further the in-market sales can be pushed is a guessing game. There has been an increase in off-port sales since the Chinese returned from the Lunar holiday period, which combined with reduced NZ deliveries, has started to reduce the inventory position across Chinese ports. The speed of this inventory reduction generally dictates the quantum of the increase in sales prices. The flipside of this is that the shipping companies generally react to increases in sales prices with much more vigor than Andrew Coster to looting (which wouldn't be hard) and we have already seen upward pressure on vessel rates which could have an impact on April AWG prices.

The domestic framing timber market will be looking to the post cyclone rebuild as a bit of a lifeline in the face of slowing demand. It is too early to quantify the size of the residential rebuild project but one would imagine it would be significant. The wind damage mentioned above will have the pruned mills in the central north island feeling queasier than Rob Campbell after a phone call from David Parker. Much of this volume was a staple diet for these sawmills and now the next four odd years of supply is on the deck. This will create a shortage of pruned logs in the CNI following the salvage operation and mills will look for supply further afield.

The next few months will probably see continued solid pricing as demand outstrips supply, primarily due to supply constraints rather than an increase in demand. However, the outlook past the end of Quarter 2 is anyone's guess. We had hoped that 2024 was going to bring some stability and better trading conditions compared to the previous two years, but at this point it looks like more of the same, with most of us thinking 'bloody hell what's next?'

