

December 2023 Market Update

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Opinion Piece

December's export prices were like the early Christmas present from Aunty Doris that you expected to be socks but turned out to be a bike. While there were expectations of a slight lift in prices for the month on the back of reducing supply, we probably didn't expect the levels that we have been presented with which are around \$8/m³ above November. Depending on what port you sell to, the number will vary, but for most North Island ports we are seeing A grade in the early \$130/M³ region. It's hard to get to that number if you reverse engineer the actual cost and revenue components but we won't argue and ride the bike gleefully. There is a \$10/m³ spread between some exporters and the higher numbers may be based on lower shipping and foreign exchange fixtures taken in November when both were significantly reduced.

The \$130/m³ level is the magic number that arouses some fizziness in the woodlot trade and is a trigger point for many forest owners whereby the transporter is welcomed rather than farewelled. This combined with some drier weather (except for the East Coast and Hawkes Bay) will see increased demand for harvest crews in the provinces. The problem with that is the number of crews that no longer exist, due to the horrific years that have been, which will keep a lid on total supply volumes. How long we expect to see prices at this level is anyone's guess and it's important to note that this is not a demand driven number, it's more to do with reduced supply than increased demand. Nothing's changed in the construction market in China, there's still more new, empty houses than there are people in China and many of the indebted construction firms continue to miss loan and bond repayments despite the Chinese government throwing stimulus packages around with Grant Roberston style abandon.

Port inventories in China have been reducing steadily over the past few months and are now at the 2.2Mm³ level which is the lowest point in memory. To put added pressure on the inventory position, one of the larger Chinese exporters has had around half a million m³ of this inventory frozen pending an audit which temporarily takes it out of the market and makes the buyers pucker about as much as Nicola Willis ahead of the recent Treasury fiscal update. This volume will unfreeze at some point but it's unknown as to when that might be.

While supply will seasonally increase around NZ, it won't be at previous levels and it's more likely that the supply/demand gap will widen over the next quarter rather than decrease. Off-port Chinese demand is running at around 70,000m³ per day and we are heading into our Christmas shutdown with many companies taking a longer than usual break. To top that off, the Taupo windthrow salvage, which has been running at around 15,000 tonne per day, will start winding down as the bugs start chewing through the cambium layer, rendering those logs unsuitable for export – remembering this has been on the ground since late February. Chinese New Year celebrations are in early February this year which will see most of the Chinese sawmills close for near on a month and may provide the timeframe needed for a slight inventory restock.

If you're a forest owner in the middle to lower South Island, that has the displeasure of having to supply Lyttleton, or Bluff ports, you could be forgiven for thinking you're getting fleeced when you hear of @\$130/m³ A grade as your export numbers will likely be \$10-25/m³ off the Northern offerings. These lower returns are thanks to a myriad of issues including lower port/space/shipping efficiencies causing high on-port costs and poorer wood quality. The wood quality is climatic and results in logs that have more taper which gives terrible stowage and m³/tonne conversions. Unfortunately, in terms of export prices, you guys are the red-haired stepchild and Aunty Doris gave you socks, plus they're too small.

Domestic demand is steady and although some sawmills are a bit nervy, business as usual is the order of the day. Now that the Chinese construction sector has pulled the handbrake on, Chinese sawmills have turned their hand to producing high-end engineered wood products and are now competing with our sawmillers in export markets such as Australia which is worrying. Quality of the Chinese product is more than likely dubious but in the end price talks. Pruned prices have had steady and successive rises thanks to reduced supply and many forest owners are deciding to prune forests again after a long run of unpruned regimes. Pruned supply nationwide will be under pressure over the next decade as the national age-class reduces along with the proportion of available pruned forests. If you made the decision to prune your forest in the past decade, my guess is you will be very happy with the investment.

The last government carbon auction for the year unsurprisingly failed to trigger the reserve price effectively wiping 15 million tonnes of carbon from the market and around a \$1.3 billion from the govt coffers. The Climate Change Commission estimates that there's currently an excess of 49 million units (tonnes) in the ETS compared to future emissions targets so the loss of 30% of that estimated excess is positive. There's still a reasonable level of uncertainty within the carbon market, especially following the previous governments 'tinkering', however, National have stated they want to see stability in the carbon market and will likely scrap the review that was proposed under Labour. Current spot pricing is at \$71/NZU following a dip post the auction failure last week.

So, what does the next few months look like in terms of log prices? Likely flat-ish as shipping and foreign exchange strength offset any gains in CFR (sale price in China), however it will all depend on the Chinese inventory position going forward. We don't want to see prices steaming northward as the race to the top is generally followed by a race to the bottom – as shown in the graph. We're all pretty keen to rule a line under 2023 and get to riding our new bikes - hopefully Santa is kinder to our South Island step cousins than aunty Doris. Wishing you all a Merry and safe Christmas, hohoho.....

