

May 2024 Market Update

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Opinion Piece

May's a funny month, you're hanging onto the autumn weather and good times that were had over summer, knowing fully well that winter is around the corner, and it's going to get cold and ugly. This is usually the case for our industry as log prices generally start heading south in late autumn and rain is not our friend. However, winter came early in terms of southward heading log prices, with a significant drop in April that extended into May with mainly flat pricing at the \$106/JAS level for A grade. Thankfully the weather has played ball with reasonably dry conditions to date, but this is cold comfort if your logging gear is parked in the paddock.

There were some hopes that May would see a price increase of substance but, with both the foreign exchange rate and the shipping costs having Julie Anne Genter levels of volatility during April and early May, our hopes have been dashed. There is some good news simmering away in the background as Chinese on port inventories stabilise and demand increases into the 72km³ per day range. Supply from NZ has dropped significantly following the poor April prices and a quickly slowing CNI salvage volume. This will likely not have an impact on the CFR price (sales price in China) in the short term until inventory gets to an uncomfortably low position.

The Chinese economy grew at a faster rate than predicted in Q1 with GDP at 5.3% against a Reuters poll of analysts that expected 4.6%, however it looks like the growth was primarily front loaded with March data weakening. Property remains the red-haired stepchild with Reuters reporting new house prices falling faster in March than any time in the previous eight years. Sales plummeted 23.7% in March compared to 20.5% for the previous two months so it's clear that any significant rebound in construction is still a pipe dream.

A recent Chinese trade delegation to NZ was wowed at our wooden commercial construction, and there was a definite interest in understanding how NZ's construction techniques and technology could be commercialized in China. It was clear that the aging Chinese population is reasonably cashed up and not necessarily interested in living in a 500-story concrete and steel apartment block. If we could help develop this market segment it may provide significant demand for NZ radiata by placing more wood into a smaller but differentiated construction sector. For perspective, the wood usage per capita in China is less than 0.4m³, compared to India at 1.61m³, and a global average of 0.55m³. This indicates that there is potential of an additional demand of 210 million cubic metres if China reached the global average.

There's been a significant reduction in non-NZ supply into China in the past 12 months with Europe dropping to around 250K^m3 per month and the Pacific Northwest steady at 180K^m3. Australian export supply is minimal and is primary headed to India, and NZ also has a couple of vessels destined for the capital of cricket. While we still have fumigation issues with Indian shipments, any vessel headed to our commonwealth partners takes supply away from China which is a positive.

Domestic demand still remains solid although the indicators are not looking flash for the NZ construction sector in the short term. Although core inflation was lower than expected, non-tradable inflation was stickier than a half-sucked wine gum, which will give Adrian Orr the mandate he needs to keep beating us over the head with his interest rate bat. Understandably, until we see a reduction in interest rates, the NZ construction sector will remain decidedly average.

Nothing to see here on the carbon front with NZU's trading in the mid \$50's for the last few months. It's the same story as previous months with plenty of supply and average demand as most large emitters have covered off their obligations in the short term and the speculators have left the building, for the time being. This price point still provides for a very tidy return of around \$1,605/ha and, with current returns from sheep, there will be many farmers very thankful for including carbon in their cashflow.

So, in summary, it's been a very volatile few months in terms of export price, and we're currently stuck on a rinse cycle. It's unlikely that June will see us over the \$120/m³ hurdle, but we are forever hopeful. It will more than likely be August before returns are at a level that will stimulate increased supply. Let's hope the spin cycle is a bit more user friendly.

