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## July 2024 Market Update

**Marcus Musson, Forest360 Director**

**Opinion Piece**

'Survive to '25' seems to be the new catch phrase around the country, especially in the primary sector. It probably wouldn't have made a great political campaign slogan, but it does sum up the general feeling around the traps. July hasn't delivered any surprises in terms of export prices with another minor lift of around $5/JAS across the board. This brings the A grade price at Southern North Island ports to around $117/Jas, a few more dollars for Napier and Marsden, and those unfortunate folks that supply Lyttleton are not quite in triple figures yet with $99/JAS.

There's nothing new in the news from China. The property market is still as bigger a problem to the CCP as Darleen Tana is to the Greens. New house prices fell for the 13th consecutive month which has dragged the country's economic growth down from a growth projection of 5.1% to 4.7%. This highlights the unwillingness of the Chinese populus to invest in property even though the government has released a hoard of stimulus packages including lower interest rates and reduced minimum deposits. It is expected that policies will continue to be relaxed but, with around 80% of the country's household wealth held in in property, and enough empty, newly built floorspace to rehome the entire country and still not touch the sides, it's unlikely that we'll see any significant increase in construction in the short to medium term.

It's becoming more obvious that China's fibre demand is shifting to furniture and packaging as traditional construction markets disappear. Southern China has previously consumed NZ supply at around 3.5Mm3 per annum, however, this has dropped to well under 1Mm3 as the region switches to more manufacturing and usage of the region's short rotation Eucalypt species. The changing utilization of our product is resulting in tightening of log specifications and less demand for the lower grades of KI and KIS.

NZ supply into China has dropped significantly in the past month, however this is only having a minimal effect on port inventories as uplift has tanked to around 55,000m3 per day from 65K in June due to flooding in South China compounding what is a usual off-season. Current inventory is sitting at around 3.2Mm3 which hasn't dropped as quickly as expected giving sellers less leverage for price increases. Shipping rates continue to be stubbornly high and there's not much sign of easing with the continued ruckus in the Suez Canal.

Even though supply has dropped, it is still higher than what would usually be expected with current price and cost levels. Over the past 18 months, longer-term fixed price contracts between exporters and forest owners have been gaining momentum and support. This has enabled many of us to keep producing, albeit at reduced levels, with prices that are $10-15/JAS ahead of current spot prices. The advantage of this is that exporters have a more predictable supply and forest owners have a known price and hence return, however, the disadvantage is that it supports a supply base which is artificial and doesn't react to the traditional supply/demand model. This is likely one contributor to the stubborn spot price increases.

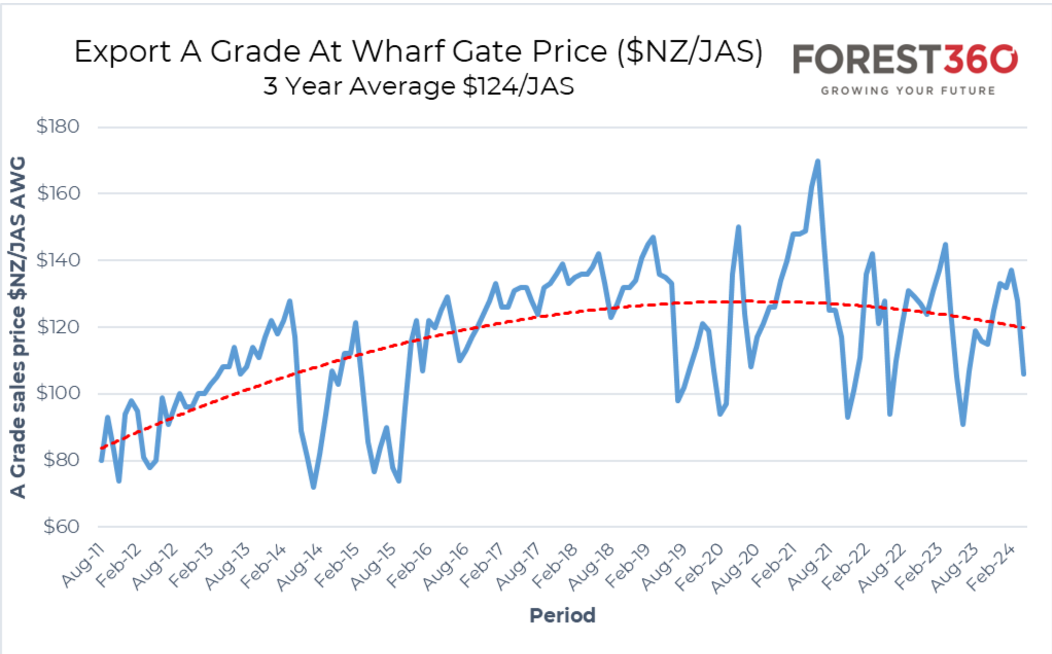
India has had an influx of volume from Australia and South America which have both freight and fumigation advantages over NZ. There has been a notable increase in phone calls and emails from all sorts of Indian buyers but it's unlikely to result in any significant increase in supply.

To add insult to injury, Napier port has added an additional charge to all trucks of $15 per load which is further squeezing forest returns. This charge is purely a money grab to increase shareholder return on investment and does not reflect any additional service delivery, even though it was initially couched as a cost of administering the new and contentious truck booking system. Industry has rightly pushed back on the charge, but protests have not been fruitful, and the port has barreled ahead with the implementation. Increasing port costs nationwide is nothing new, whether it's on-port charges or increased wharfage costs, some port companies are making the most of their regional monopolies at the expense of the primary industries that have no choice but to support them.

Nothing to see here with carbon. The current NZU price is sitting at $54 which has very slowly inched its way up from sub $50 in May. The market is still waiting for some clarity from the government around policy and consultation and at this rate will likely be waiting a while.

NZ's residential construction costs have decreased for the first time in 12 years with a 1.1% decrease in the quarter to June. This may help alleviate the slide in new dwelling consents which, according to CoreLogic, are down around 30%. Domestic sawmill demand is still buoyant in the face of lower construction levels, and it is important to note that pruned log mills are much less affected by the NZ construction sector than their sawlog sawing cousins.

In summary, the market is still as unpredictable as a Biden speech, however, until the inventory in China dips below 3Mm3 or the Houthi's put their missiles away, we're unlikely to see any significant increases in export prices. Survive to '26 doesn't have the same ring to it, so let's hope the current catch phrase proves true.






**FOREST360 OFFICES NATIONWIDE**
P 0800 366 700
E info@forest360.nz
www.forest360.nz