August 2024 Market Update

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Opinion Piece

Double dips are great when we're talking about chocolate dip, chip'n'dip and lotto but not so good when talking export log prices, but here we are. Quarter three kicked off with August prices down around $4/m3 from July following a very slight rally from the low in April. Prices vary between ports but for the Southern North Island and Northen South Island you're looking at around $113/m3 for A grade shorts with Tauranga up a few on that, Lyttleton breaking into triple figures at $101/m3 and similar numbers for the more southern ports. Interestingly, the three-year average price has dipped into the sub $120/m3 range for the first time since May 2018.

Depending on whether you're a glass half full or empty person, you could argue either way that current stickiness is a supply or demand problem, and to be fair you'd be right on both counts. Demand has reduced primarily due to the Chinese construction implosion, but this has been exacerbated by the traditional off season plus heavy rain and severe flooding in Northern China restricting uplift. Meanwhile, supply has dutifully carried on at around 55,000m3 per day, even in the face of ugly pricing, resulting in only a very small reduction in China on port inventory of 50,000m3 taking the total inventory position to 3.15 million m3. This is basically a Mexican standoff, but the difference is we are pointing our own guns to our heads.

Until we can get inventory well under 3 million m3, we're unlikely to see much in the way of price increases. At the current run rate, we're delivering around 20 million m3 annualised into China where real demand going forward is probably in the teens. There's talk of increased interest from India but there's complexities around supply, and the demand is only a few vessels per month so no silver bullet there.

The scenario in NZ isn't a whole lot rosier in the construction space with framing lumber demand looking decidedly average. There is a glimmer of hope with the talk of OCR reductions but there will need to be a significant change in sentiment before housing starts return to 2023 levels. Pruned log demand remains stable with a large portion of the resulting clear lumber heading to the US and European markets, although those markets have also seen issues with demand. The value of pruned logs in the forest grade mix has created a resurgence in pruning as forest owners see this as a good return on investment.

Domestic sawmills have been hitting the papers lately with a number of sawmills and pulp mills temporarily closing while spot electricity prices leap higher than Hamish Kerr. WPI shut both its sawmill and pulp mills, Oji closed its Penrose mill, Panpac shut its Napier mill and Donnelly's shut its Reporoa sawmill. Shutting a sawmill or pulp mill takes a lot of consideration as it's not just a case of flicking the switch off. There's a massive cost to both shutting down and restarting these assets. With the Government's push toward de-carbonisation (noting that Huntley is now burning coal by the ship full) it must surely be plainly obvious that relying on electricity to be the vehicle for the fossil fuel divorce is like relying on Biden to get his own name right.

So, with electricity and gas supply and price instability, it doesn't take a rocket scientist to figure out that we need another form of fuel to keep all manner of industries in operation. Don't Stress NZ, we've got this. Woodfibre based biofuel is the future of large-scale industrial fuel. Unlike electricity, it won't hold you to ransom in a dry, windless winter and doesn't carry the same level of sovereign supply risk that saw an end to gas exploration under the previous Government. Long term supply is easy to see – it's growing in every forest.

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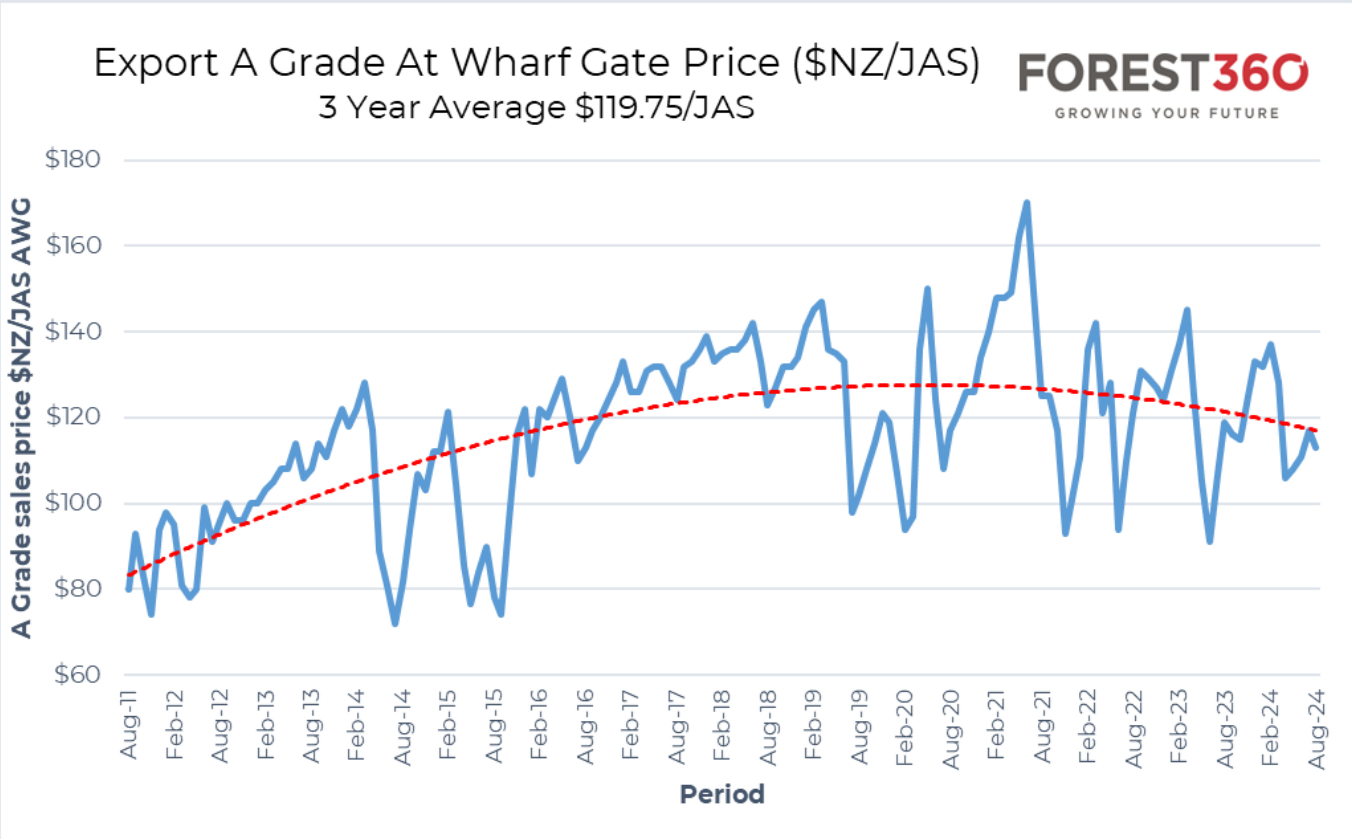
Thankfully, at the recent Biofuel conference in Rotorua, the discussion has now pivoted from utilizing slash and residues for biofuel to utilizing lower value export grades. This is a win-win in the current environment as China moves to a more mature market where log demand is in better quality, longer log lengths for furniture markets and less in the lower industrial grades. The supply of an 'Energy Log' will allow for a more stable pricing mechanism, reduce harvest and infrastructure costs, increase recoverable volumes and reduce waste left in the forest. The supply of this is not unlimited however, and those industrial heat users that switch first will be the winners with those slow off the mark likely to be left out in the cold – literally.

The planting season has gone well, although it was off to a slow start in most regions due to drier than usual conditions. This years' seedlings are a vast improvement on last year due to a better growing season and less disease in nurseries. With the Government seemingly doing its best to provide policy instability around the ETS, the carbon price has remained relatively flat over the past 6 months and sits at just under $54/NZU at time of writing. This instability has created a lack of confidence by investors which is now manifesting into lower numbers of establishment contracts for 2025.

In summary, there's not a lot of positivity in the game at the moment, however things will change. Summers' coming, inventory is slowly tracking down and at some stage we'll see prices starting to lift again, albeit doubtful we'll get to the highs of previous years. In the meantime, we can all do our bit to help, print more, wipe more, build more and burn more – every little bit helps.....



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