

## September 2024 Market Update

Marcus Musson, Forest360 Director

### Opinion Piece

Spring has sprung, lambs are frolicking, daffodils are blooming, and the feeling of warmer temperatures and better times is hanging heavy in the air. Unfortunately, like the frolicking lambs, logs are still worth bugger all in the export market with September prices flat with August at around \$113/m<sup>3</sup> for A grade. However, that feeling of better times is likely to come to fruition for logs (but probably not lambs) as shipping rates ease and in-market sales prices increase, albeit very marginally. If you run the abacus over what October might look like you get a number in the early \$120's/m<sup>3</sup> for North Island ports. This increase will be as welcome to forest owners as Darlene Tana's departure from parliament will be to the Greens (and everyone else).

On port log inventories in China have increased by over 200,000m<sup>3</sup> in August to 3.4million m<sup>3</sup> as supply has been stronger than expected, however, offtake has also recently increased by around 10,000m<sup>3</sup> per day to 60-65,000m<sup>3</sup> per day which should help balance the books. The NZ:US exchange rate has continued to be strong at \$US0.62 which has not helped pricing levels. As a rule of thumb, every cent appreciation in the \$NZ takes around \$NZ3/m<sup>3</sup> off the bottom line.

There's still no change in the residential construction activity in China and there's not likely to be for a while as there's currently enough empty new housing stock to rehome the entire Chinese population and still not touch the sides. This is being reflected in the log mix demand, with less demand for the lower industrial grades (Ki and KIS) and more demand for the higher grades (A grade), especially the longer lengths. This is due to demand now coming from the furniture and packaging sectors which require higher quality logs rather than construction and likely represents the new norm going forward.

Construction numbers at home don't look terribly flash either with consents down 22% compared to 2023. While we don't have the ridiculous over supply issues that China does, we do have other issues. Construction Minister, Chris Penk said recently that it was "too hard and too expensive to build" and committed to cutting red tape and lowering building costs. This will be great news for homeowners as anyone that has dealt with building consents will understand the cost that bureaucracy adds to a build.

Domestic log demand has, however, remained relatively stable despite the current trading conditions facing merchants. The recent closure of the Winstone Pulp and Sawmills in Ohakune as a fallout of the recent power price spikes has rocked the local communities with the loss of 230 jobs. WPI was a major employer in the central plateau and the loss of another domestic log customer also makes it that much harder for the forest owners in that region. This does highlight how many of these sawmills (and other primary processors) were initially setup as a business case with low cost, renewable power generation as part of the equation, are now having to deal with power pricing that would never have been contemplated in their wildest dreams. In contrast, some sawmills have

their own power generation from the burning of residues and would actually be better off running solely as a power generator during these periods.

The electricity crisis may have wins for those holding NZU's as generators throw coal (imported Indonesian coal that is) and gas into boilers as fast as they can. This has generated a 170% increase in emissions from the same period last year and the highest total emissions level since June 2021. This increase in emissions will chew a hole into the NZU stockpiles held by generators which will need to be replaced at some point. Interestingly, coal-based generation emissions increased 265% in the second quarter of this year which is an increase of around 500,000 tonnes of CO<sub>2</sub> - something to think of as you're driving your EV to work, scowling at anyone with an exhaust pipe while believing you're saving the planet.

The latest NZU auction failed without bids high enough to clear the auction floor price of \$64/NZU. Following this the NZU price reached a five-month high of \$62.25 before settling back down into the mid \$61 territory. Total NZU holdings have now dropped to 144 million, which is the first time below 150 million since mid-2021. If you were a betting person, you'd be looking at holding your NZU stash.

All in all, there's a bit of light at the end of the tunnel, albeit a candle flickering in the wind. Export prices look to be firming, summers' coming, and things will dry out. Pricing will be very unlikely to reach the peaks of previous summer rally's and in terms of supply, we definitely don't need a big price spike related supply slug to hit China later this year. So as summer progresses, help the industry out - get out there and build that deck, crack on with that house extension and put new palings on the fence. Our farming cousins would appreciate it if you could also chew on a lamb chop while doing it!!

