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October 2024 Market Update

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Opinion Piece

After what has seemed like an eternity of headwinds, it looks as though we finally have some positive signs from China with October A grade wharf gate prices boosting through the $120/m3 glass ceiling for the first time in 7 months. Offers depend on which port you are supplying but range from the mid to high $120's in Tauranga and Marsden, early to mid-$120's in the Southern North Island and Upper South and early $110's for those further south. This is the result of a number of factors, primarily lower shipping rates and slightly higher in-market sales prices. Most exporters posted their prices with a Forex rate of $NZ:US0.635, however in the last few days this has dropped by 2 cents which would theoretically put another $6/m3 on the table.

On-port China inventory has reportedly dropped by 700,000m3 in the past 4 weeks and now sits at around 2.7 million m3. A real inventory drop of this magnitude seems too high and is more than likely due to vessel delays with poor weather in September slowing vessel loading. This could potentially correct itself in October. Offtake has lifted to 70,000m3/day, however, with the Golden week holiday just wrapping up, this number is expected to drop temporarily.

On top of this, there's some interesting times in China with the release of the most aggressive government stimulus package since covid, aiming to halt the continued decline in house prices and stabilize the real estate market. This has obviously been welcomed by the Chinese economy with the biggest single day gain in the Shanghai Composite in 16 years. According to Deutsche Bank, the current package is worth around US$1.07 trillion or 6% of GDP and could be the largest in history in nominal terms. The package includes cuts to mortgage to debt ratios, additional funding facilities, bond issuances and additional capital for banks.

This all sounds fine and dandy, but don't go out and plan that trip to the Bahamas yet. To put some perspective around the state of the China real estate market, this is a US$60 trillion asset class which has been receding in value at around 7% per year and holds around 85% of household wealth. There are currently around 60 million empty apartments, the population is declining, and the government has made it clear they don't want foreign investment in property. Goldman Sachs estimate that the CCP need to inject around US$2.1 trillion into the sector just to stop the bottom falling out – twice the size of the current package.

So, while it's good news that our export returns are improving, many of our costs are outstripping inflation, resulting in diminishing real returns. A number of port companies have recently released their annual earnings and are high fiving each other over their profitability. Great news if you're a port company shareholder but not so flash if you're on the commodity hamster wheel. Port costs for log storage, handling and fumigation have increased approximately 70% since 2018 against a CPI of 25% for the same period. Costs attributed solely to port operations (not including scaling, marshalling and fumigation) have increased 55%. Conversely, the three-year average export price was $122/m3 in 2018 compared to $119/m3 presently – no high-fives for forest owners. Port companies will have to be very careful how they treat their log version of the golden goose because the goose is starting to run short on feed.

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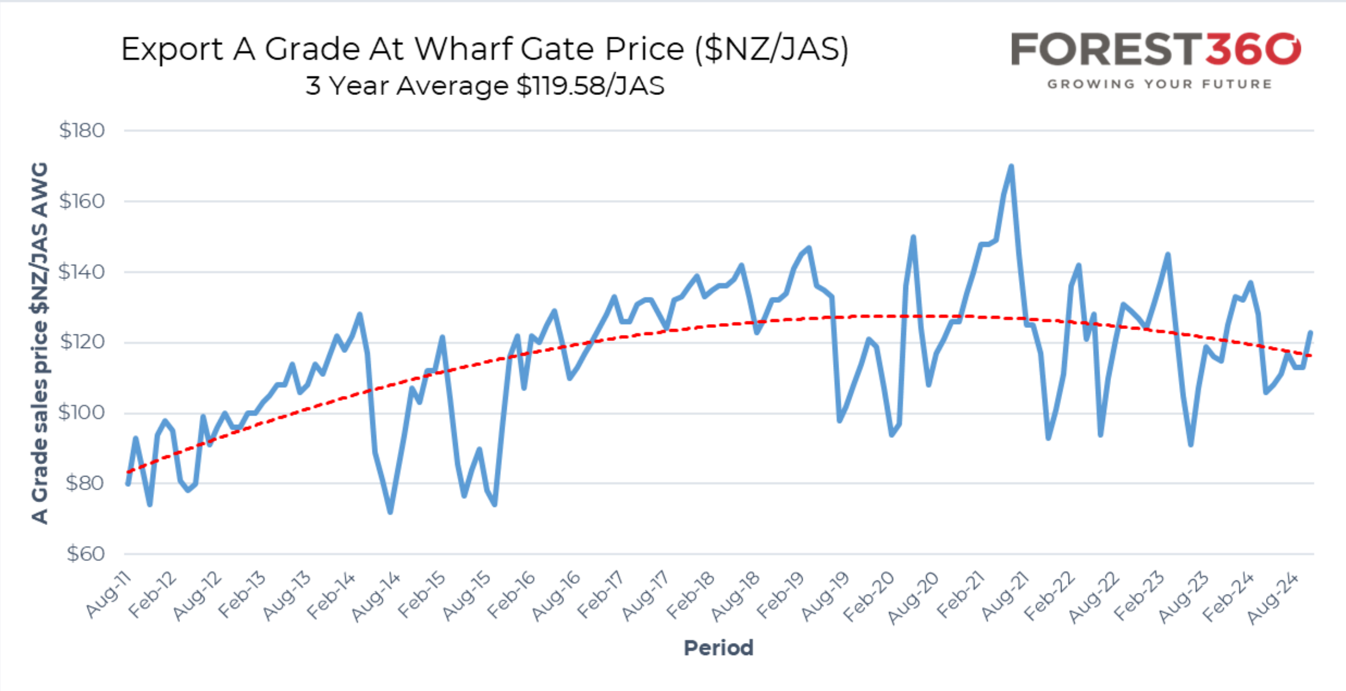
Domestic sawmills continue to provide stability to forest owner returns although trading is tough, especially for those supplying the NZ construction market. Issued residential building consents for the year ended August 2024 are down 20% on the same period last year with commercial consents down 8%. Consents don't necessarily convert into buildings, as many are sitting on their hands waiting for the OCR to drop and hoping for a reduction in building costs. Pruned mills are starting to feel the squeeze from the US with demand reducing and inventories increasing as the US economy wades through its various issues.

Carbon prices have increased slightly over the past month and currently sit at $63.50/NZU which, like the export prices, is a 7-month high. Nothing to get excited about but the trajectory is up, and all eyes will be on the December auction for some direction as to what 2025 will look like.

So, all in all the rest of 2024 is looking reasonably solid. If we can keep the lid on total supply then the price will likely improve, however, we're not that good at constraining supply, especially in summer with reasonable prices. The China stimulus package is more than likely just a giant can kicking exercise but it will provide a boost to sentiment and the China market is very sentiment driven. If you're sitting on the fence regarding harvesting your forest, now is probably the time to hop off and get your ducks in a row as this sugar rush may not last that long. It may be prudent to monetize your forest and buy some port shares…



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