FOREST360

GROWING YOUR FUTURE

December 2024 Market Update

Marcus Musson, Forest360 Director

Opinion Piece

There won't be too many people unhappy that we're about to rule a line under this year, especially those in commodity trades that have 'survived to '25'. Billy Joel could rewrite 'We didn't start the fire', base it solely on 2024 and still not run out of topics. Having said that, 2025 looks like it's ready to get going with a fist full of ammo as well.

Those of us that had hoped for an early Christmas present in the form of strengthening export prices were disappointed with slight reductions of around $2/m3 into December giving A grade prices of around $125/m3 in Southern North Island ports. There's no real surprises there though as underlying demand remains subdued with both the construction sector issues in China and the potential Trump tariffs weighing heavily on buyers' minds. Chinese log inventory has dropped slightly and currently sits around 2.67 million m3 with uplift in the early 60,000m3/day range. Some exporters pushed November CFR prices to $US127-128/m3 in the hope that there was some sustained demand and supply imbalance, however this has been met with folded arms and a frown by the buyers who are now less interested in setting a price. This has resulted in a number of vessels sailing without a letter of credit (LC), which is never a good bargaining position and conforms perfectly to supply and demand economics 101.

On the bright side, currency markets have started pricing in the Trump effect with the NZ:US firmly in the $0.58 zone and shipping rates have eased into the very low $US30's. Both of these movements have mostly offset the drop in CFR, for now. Chinese New Year holidays begin in late January, and we will probably see a longer than usual break by Chinese sawmillers which may deal us a difficult hand pricewise in February and March.

Beijing continues to try and pull all sorts of levers to stabilize their economy with the latest being a change in their monetary policy from 'prudent' to 'moderately loose'. This is the first reduction in 14 years and although many would argue that their economy has been in 'more than moderately loose' mode for the past decade, this does signal the desire to boost domestic spending amidst an economy wracked with deflationary pressures. This is also likely a realisation that exports will be weak once 'the Don' pulls on his tariff robes and gets down to the business of repatriating manufacturing back into the US. With reducing export revenue, Beijing only really has domestic consumption to buoy the economy.

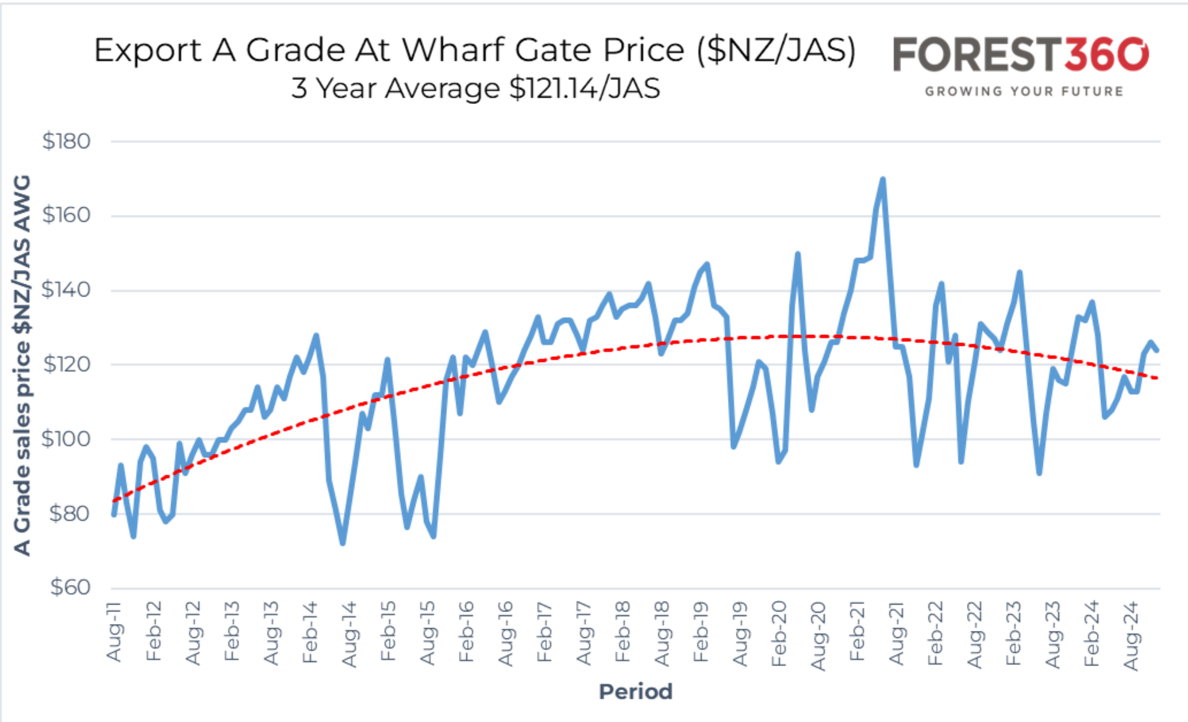
A 'moderately loose' monetary policy probably won't do much to increase demand in the construction sector, which seems to be impervious to stimulus at this point. Beijing has thrown the doctor at the property sector recently and the market still remains in a very precarious position. Goldman Sachs estimate that there is potential, without further stimulus, for Chinese property values to drop a further 20-25% before stabilizing in late 2025. Some measures to boost the market are being implemented at regional level with both Beijing and Shanghai announcing tax breaks in an effort to encourage house purchases. This has fallen largely flat with property stocks hardly noticing a change.

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

Back home, newly stamped consents don't read much better. To the end of October, issued consents were down 16% on the previous year and the number of new dwellings dropped to 6.3 per 1000 residents from 7.6 over the same period. A number of sawmillers have commented that the past 12 months have been the hardest period they have seen with subdued demand and soft pricing. There is some expectation of better times however with reducing interest rates and lower inflation leading to increased activity. There is a general consensus that there are a reasonable number of issued consents that have been put on ice waiting for lower interest rates and building costs. We may see a quick uptick in activity if those thresholds are met.

Big news in the carbon space is the government confirming its election promise of limiting farm to forest conversions by introducing a 15,000ha ETS registration cap for exotic forests on LUC 6 land and allowing only up to 25% of LUC 1-6 land being entered into the ETS. No matter which way you look at it, this will make our ability to achieve our national carbon sequestration goals incredibly difficult if not impossible. The general view is that this a blunt instrument which is very light on detail as to how it will be implemented. While Federated Farmers and Beef and Lamb will be high fiving each other, there will likely be many farmers coming to the realisation that this legislation has effectively wiped hundreds of millions, if not billions off New Zealand farm values. Something to ponder if you were struggling with succession planning and looking to monetise your farm investment – which is now worth less that it was a few weeks ago.

Next year will be interesting as there's not much on the China horizon that's different to this year, but let's worry about that in January. So, let's raise a glass to 2025 and bid it adieu in the same fashion as we do to drunk Uncle Dave after Christmas dinner. Wishing you all a Merry Christmas, I hope you get your fill of eggnog, and that Santa gives you something more than socks.



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