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January 2025 Market Update

Another New Year, another hole in the belt, another bunch of 'get fit' and 'sobriety' resolutions that probably won't make it past the couch or fridge, and another year of anticipation on what might be around the corner for the commodity trades. The past few years have certainly been ones to forget with massive inflation related cost increases, erratic demand thanks to the Chinese construction implosion, and unforeseen weather events. Hopefully, like Joe Biden, these will be buried in the past and 2025 will be one out of the box.

We all have hope, but unfortunately reality generally gives us a quick backhand to shake us out of dreamland. While 2025 has started well with increased At Wharf Gate (AWG) export returns, the underlying demand profile isn't much different from last year. January's AWG prices are up a few dollars to around $128/m3 in Southern North Island and Northern South Island ports with $2-3 more in Tauranga and Marsden and up to $20/m3 less in Lyttleton and other southern ports. These numbers will get the woodlot sector fired back into life, especially during the summer months, but these increases are purely driven by lower shipping and exchange rates, not demand. The market does not need increased supply and any increase in supply will likely result in lower sales prices.

Chinese New Year holidays (CNY) start on the 29th of January this year and many sawmills have already closed as their workforce return to their home provinces. This shutdown generally lasts 4 weeks and there is some expectation that this year the break may be slightly longer. Off port uplift in early January was around 65,000m3 per day and inventory is sitting at a shade under 2.9million m3, an increase of approximately 200,000m3 on the month prior. It is likely that inventory will get close to 4 million m3 post CNY which is getting into pucker territory for exporters.

There is some sliver of good news with the Chinese construction sector reporting that residential house price declines have slowed with a 5.3% decline in December compared to 5.7% in November. December marks the 18th consecutive month of price decreases and it is now widely expected that the bottom has been or is close to being found. There's still purportedly around $US1 trillion of stimulus to be thrown at the sector to try and get some traction but with around 2 years' unsold housing stock in the system, it may not be until mid-2026 that we see some significant upwards momentum.

An interesting development has been the inception of the Chinese log futures market in November last year. The theory behind this is to use futures as a hedging tool to stabilise the price and mitigate risk for buyers. At present there's around 3 million m3 under futures contracts with many due for delivery in late June. This date is important as it coincides with a historic low log demand period in China and the hope is that this may bolster demand in that period. While still in early stages, the futures market appears to be trading above spot with positive sentiment.

All eyes will be on Trump for the next few weeks as the inauguration palaver subsides, and the Don gets into asserting his authority on the US situation. It's anyone's guess as to what random decrees will come out, but tariffs are the one headline that will have both a direct and indirect impact on China and therefore NZ. If the tariffs are implemented at

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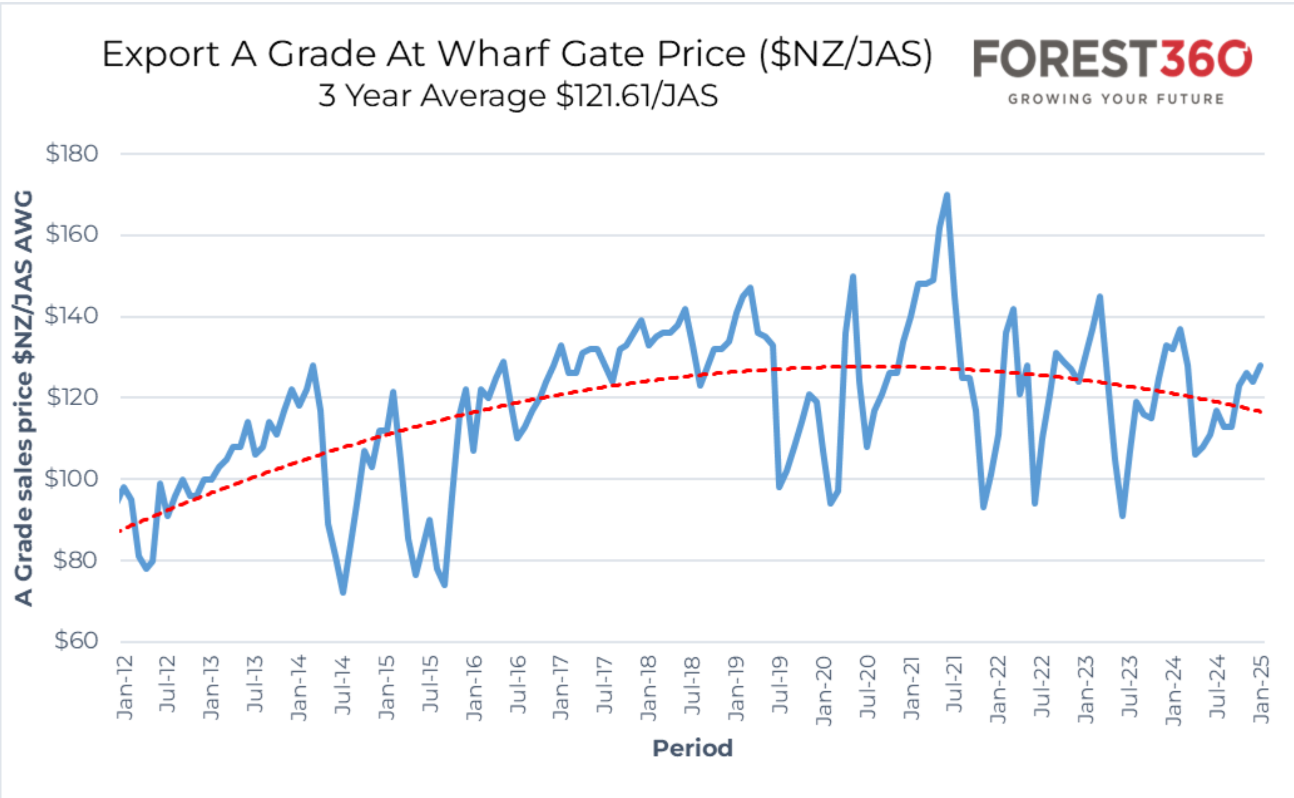
the level Trump has threatened, there will be a reduction in demand for Chinese furniture which will flow into log demand.

Back home there's plenty of news reports outlining increased residential building activity as interest rates ease and the population continues to grow. There is a general view that construction costs have stabilised and many people who have been sitting on approved building consents are now hitting the go button. Domestic sawmills are all back into action and log demand is solid for both pruned and unpruned. Pricing remains relatively flat from Q3 and Q4 and those with pruned forests will be very happy with their decision as pruned log prices continue to track around $70/tonne higher than their unpruned cousins, converting to around $8,000/ha at harvest.

Post New Year carbon trading has been relatively stable with current spot price at $63.90/NZU. The next government auction is on the 19th of March and all eyes will be on whether there is a full or partial clearance. At current spot levels, the return is still very attractive for anyone looking to retire low productivity land.

So, things are looking good for the start of the year and export pricing should hold into February, however things might get a bit sticky post CNY, depending on supply levels. That might be a good time to kick the running shoes back under the couch and reach for the fridge again.



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