

April 2025 Market Update

You couldn't make this stuff up even if you tried. If you had written a book about a global economic situation such as the current one, it would have been a flop as it would have seemed too farfetched and laughable, but here we are. Let's not for a moment think that this isn't what the majority of Americans signed up for though as tariffs and protectionism were a large part of Trumps campaigning and it's not like he's known for being predictable. Add to that the fact that something had to be done to stem the bleed that has led the US national debt to rise by \$12.3 trillion in the last 5 years to a total of \$36.2 trillion (sound familiar?). I'm not sure that severing everyone else's arteries is the best way to stem your bleed however.

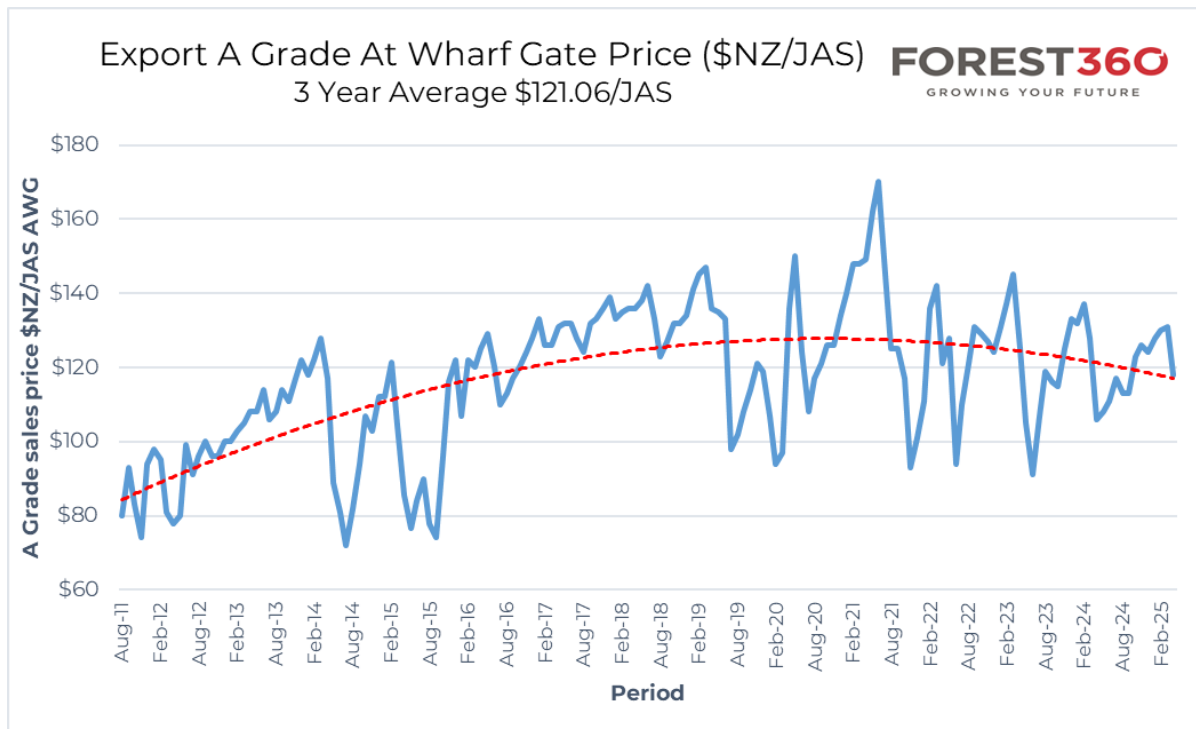
The tariff roulette wheel has been spinning furiously for the past few weeks, and you would have more chance of hitting a bullseye on a dartboard blindfolded after drinking a bottle of whisky than predicting where tariffs will end up on a country-by-country basis. What we do know is that our largest trading partner, China, probably isn't going to fare that well.

In 2024, around 30% of the furniture manufactured in China headed off to the US. China is not the biggest supplier into the US however with Vietnam exporting double the value of Chinese exports into the US. Of the total volume of furniture consumed in the US, 52% was made domestically, but the actual value of the imported furniture inputs was 63% meaning that some imported products were used in domestic manufacturing.

So, what does this mean for NZ? With a current US:China tariff of 145% (pick a number for what it could be next week) it's very likely that there will be a significant reduction in goods manufactured in China headed to the US – furniture included. NZ grown radiata is very popular in the Chinese furniture industry due to its properties as it can easily be sawn, dried, glued, laminated, painted and stained. This sector has become more important to NZ as the construction sector continues to suffer and demand for NZ radiata in construction has reduced significantly from 2021 onwards.

Having said that, China demand for NZ logs is still strong with off port uplift in the order of 70,000m³ per day in late March. On port inventory remains a bit stubborn at a shade under 4million m³, however, this has reduced by 100,000m³ in the past few weeks. March is historically a big supply month for NZ and this year was no different with plenty of vessels on the water. This supply, along with uncertainty in the market, has resulted in a downturn in buyer sentiment with April CFR prices dropping 8-10% based on March numbers.

This drop in sentiment has led to a reduction in AWG prices across NZ of around \$10/JAS. Generally, reductions are reasonably static across exporters, however April has seen a significant spread across the board with reductions between \$8 and \$16/M³ depending on exporter and port. The effect of tariffs on bulk shipping rates will depend on reciprocal tariffs as the US only accounts for 2.3% of global dry bulk demand, however, it does account for 5.7% of dry bulk exports. FOREX has been playing the game if you're an exporter with fluctuations between mid \$US0.55 and \$US0.57. Every cent reduction in the \$NZ:US is around \$NZ3/m³ on the bottom line for AWG prices.



The Chinese log futures market hasn't been terribly positive of late either. After trading mostly positively since its inception, pricing has dropped around 10% since the beginning of March primarily due to negative market sentiment.

Carbon prices dropped off a cliff in early March falling from \$63/NZU to around \$55/NZU by month end. Market jitters are not helped by the likes of the Parliamentary Commissioner for the Environment, Simon Upton, suggesting that it was time to phase out forestry offsets for fossil fuel emissions. That's all well and good but cows aren't yet farting oxygen, and the large majority of the population still drives to work (let's not start on the conversation about the lifecycle carbon footprint of EV's).

The domestic market continues to show resilience with prices mostly flat for the second quarter of the year. Once again, tariffs could come into play here as a significant volume of the clearwood sawn from pruned logs is sold into the US DIY market. Currently, there is a temporary tariff exemption on NZ forest products. This exemption for timber and lumber products came about through internal US lobbying by the likes of the American Building Materials Alliance and the National Association of Home Builders who urged the White House to rethink tariffs that would weaken a critical supply chain for housing affordability and construction, particularly in a time when areas have been affected by natural disasters. Additionally, the US Secretary of Commerce is investigating the role imported timber plays in national security. The US military spends \$US10 billion annually on construction alone so wood-based products are seen as a vital part of national security.

So, there we have it folks, a proverbial global crap shoot. Those forest owners with locked in, long term export prices will be sitting pretty for the next quarter or two while tariffgate plays out. NZ supply will start reducing over the next month with the wet season upon us and lower prices preventing some jobs from starting which will see Chinese port

inventories reduce into more comfortable territory hopefully putting upward pressure on prices.....hopefully.