June Market Update, Marcus Musson, COO
Opinion Piece

Winter – not the most enjoyable season for most, especially those in the forest industry. While many would agree that temperatures and rainfall would have you think we are still in mid-Autumn, winter is still winter. History would dictate that if it hasn't rained much yet it will more than likely will catch up in coming months, which can be more problematic as that generally means more intensive rainfall events, more forest infrastructure damage and ultimately, more cost. Having said that, history is becoming less of a reliable predictor of the future, and this year may be testament to that.

Last week, Earth Sciences NZ released their prediction of a 95% chance that we will see one of the most significant El Nino events in years which is likely to build through winter and peak in summer. This will likely bring lower rainfall, more wind and increasingly varied temperatures so maybe, just maybe we might get through this winter relatively unscathed. I wouldn't bet the house on it though as weather forecasting is a bit like being an economist in that you can be wrong most of the time and still get paid.

Meanwhile, predicting log market movements is a bit like weather forecasting as well. We have just come off a 10-month run of stability in the China market which has been the longest run in memory. Much like summer, all good things must come to an end, and the end of this one is June. Export at wharf gate prices have dropped around $10/JAS in June, although there are some different risk positions being taken by different exporters at different ports. There are a few things at play that have led to the drop, but the biggest issue is increased freight. The freight market has increased steadily in recent months and now sits at around $US45/JAS, up around $US15/JAS since pre-Epic-Fury/Epic-Fail war shenanigans. These increases are despite falling oil prices and show the current supply and demand imbalance for dry bulk freight.

CFR prices have moved up since the start of the 'war' which has offset much of the freight increase but unfortunately June sales look to be reversing the trend with sales prices dropping, putting more pressure on reductions rather than increases. A

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strengthened $NZ: USD didn't help the situation either with the $NZD sitting at just under $US0.60 at the beginning of June. This has since dropped to a 2-month low just under $US0.58 which may give some comfort to July prices should it hold at sub $US0.58.

In market inventory in China is sitting at around 2.4 million m3 which is a slight reduction on April but not enough to create any upward demand pressure. Current offtake is running slightly over 60,000m3/day which annualised is around 22 million cubic metres. There's been plenty of hand wringing around supply reductions from NZ as fuel costs have taken all of the fun out of forest owners net returns. In many regions that are more than 150km from a port, there is very little left once increased harvest and cartage costs are taken into account. Rule of thumb is that an increase of $1/litre in diesel costs will add around $4/tonne in harvest cost and an additional 40 cents to every kilometer the log truck has to cart the logs. Put those in the abacus and you get an additional cost of $4,800 per hectare for a forest 100km from the port – not pretty.

China is well aware of the impacts that fuel is having on NZ forest owners and the ability for exporters to lever price will come from supply reductions. To date there hasn't been much in the way of reduced supply which has been buoyed by large scale windthrow salvage in the top of the south and lower north islands. While the salvage operations in the South Island will continue for as long as the wood quality allows, the salvage in the lower north is winding down rapidly and a number of crews are now looking for work. There is also the lead-time issue which means any reduction in NZ activity generally doesn't show up as reduced supply in the market for 3 months - which is June.

There's not a whole lot of sunshine in the domestic market either. Recent numbers by Stats NZ have revealed a decrease in NZ residential construction activity of 5% for the 12 months to the end of March which is the lowest since 2016 and a 25% drop from the 2023 peak season. There may be some light at the end of the tunnel with the number of new dwelling consents up 11% from the previous year. This may take some time to filter through with the up coming election likely to keep people sitting on their hands until policies are revealed – if any.

Nothing to see here with Carbon as NZU prices have played in a tight band for the past few months and currently sit at a shade over $52/NZU. While there does appear to be a tight supply in the market, emissions returns are due by the end of June and there is still a significant number of larger players yet to their returns. To date, only just over 9 million NZU's have been claimed in the current reporting period compared to 25 million in the 2022 period.

So, plenty to think about when pondering what marbles will fall where. A lot will depend on old orange mate in the land of the free and home of the brave and his 'will I, wont I, shall I, shan't I" stance on Iran. Unfortunately, until this war is resolved, it is very likely that we will be looking down the 'barrel' of increased operational cost structures for some time to come.

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