



LOG PRICES BEGIN TO REBOUND

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A rise in prices in New Zealand's log export markets is starting to counter the impact of the high kiwi dollar and rising freight rates.

Margins for A-grade unpruned logs in New Zealand dollar terms plunged 61 per cent between July 2002 and July 2003, according to an analysis provided by Evergreen Forests chief executive Mark Bogle at the company's annual meeting this week.

The margin on pruned logs fell 36 per cent in the same period.

The squeeze was all down to rises in the New Zealand dollar and shipping costs.

The higher dollar cuts returns because logs are sold in US dollars and shipping costs have been rising because China's booming import and export trade has reduced the supply of ships.

Since July, a rise in market prices as New Zealand reduced its forest harvest, has countered further rises in the New Zealand dollar and freight rates to erode margins only slightly.

The price of pruned logs delivered into Asian markets had risen to about US\$117 a tonne from US\$107 in July, Bogle said.

The price of the high-grade unpruned logs had risen to US\$79 a tonne from US\$67 a tonne in July. Industry sources said the November price has risen further to between US\$90 a tonne and US\$100 a tonne.

At US\$90 a tonne, using Evergreen's analysis, the New Zealand dollar margin for unpruned logs doubles to \$34 a tonne from \$17 a tonne at present. If the New Zealand dollar falls, or shipping costs retreat it would rise even more.

Evergreen took shareholders through some figures to demonstrate the volatility of margins in the forestry industry.

Rens Bosman, of Trans Pacific Trading, said the US dollar log prices included the cost of shipping.

The cutback in harvesting had helped to push prices up but the biggest driver was shipping costs.

"There is a screaming shortage of bulk carriers," he said.

The valuation of New Zealand forests has plunged this year to reflect the lower cashflow the forests currently generate.

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