

Market balances out and correction begins



TIMBER AUCTIONS
MARKET REPORT
Oliver Combe
Timber Auctions

Increase supply v reduced demand = falling prices

For the last three months we have been in the situation where yards have been filling up and prices have been falling steadily especially in areas like the west of Scotland where supply has been exceptionally strong.

This has led to the situation where some more challenging parcels have not attracted an offer whilst others have been withdrawn as they “have not met expectation” so already we are seeing supply starting to reduce.

This has a double impact as it reduces available volumes but also reduces the supplies of cheap timber required to offset the expensive purchases from the second half of 2018.

The ability to dilute expensive wood is reduced and the pain is prolonged.

Over the last three or four years the supply of timber to the market has been significantly front loaded to the first five months of the year with very little offered to the market from June onwards.

This has meant merchants and processors have had to buy in the spring and then make it last for the rest of the year.

Should this trend occur again in 2019 at the same time as aggressive price cutting by the processors reduces standing timber prices then we may see an interesting situation in Q4 where merchants and processors are struggling for volume and may have to be more aggressive in their purchasing.

Scotland, Northern England and Wales have seen overall price reductions of 10-20% this spring on the back of large vol-



umes offered to the market although there has been a noticeable slowdown in market activity this month. It remains my suspicion that currently supply and demand are very finely balanced, it would only take a small increase in demand or continued decrease in wood offered to the market to put pressure on prices again.

Conditions for harvesting have been good this spring with no really bad winter weather and a drier than normal winter and spring. Roads have held up well and machines have enjoyed good conditions to work in so timber has been coming out of the forest quickly and yards have filled up.

Even the smaller biomass markets which

The market correction is happening, supplies have increased at the same time as demand has fallen and processors’ confidence in the market has faltered. The net result is that processors and merchants see enough wood ahead of them to start to reduce prices.

Domestic market

In the UK the energy market has provided market diversity and price stability during the recent price correction which has softened the impact of regional oversupply and lack of confidence in the traditional processing sector.

Since Christmas there has been an air of uncertainty in the market which appears to be due to lower than expected demand for finished products, a gradual increase in the strength of the pound (at least until this week) and increasing uncertainty over Brexit coupled with expensive wood purchases from Q3 and Q4 2019 now hitting the weighbridges.

This has brought a renewed focus on the need to reduce overall supply costs at the same time as there has been large volumes of timber offered to the market in Scotland and north England on the back of strong prices last year. Once buyers have been able to fill the gaps in their yards then their focus has turned to managing the price.

£ per tonne delivered to customers in Wales, central and south England (May 2019)

Product	Lower price	Upper price	Trend
Log 18	£65.00	£80.00	↓
Bar 14	£60.00	£70.00	↓
SRW	£50.00	£65.00	= ↓
Fencing	£70.00	£80.00	=
H Wood firewood	£60.00	£75.00	=

£ per tonne delivered to customers in north England and Scotland (May 2019)

Product	Lower price	Upper price	Trend
Log 18	£65.00	£75.00	↓
Bar / pallet 14	£45.00	£60.00	↓
SRW	£50.00	£60.00	= ↓
Fencing	£55.00	£65.00	=
H Wood firewood	£55.00	£65.00	=



were 'starved' of wood last year are now gradually rebuilding their stocks with some even putting quotas on deliveries.

The diversity of the energy market has made it difficult to actually quantify the scale of demand but what is noticeable is that there is very little small roundwood at roadside currently in England and Wales.

Outlook

The market will now start to stabilise as volumes offered to the market reduce whilst demand slows down as the holiday season leads to the seasonal slowdown in demand. The big unknowns are the uncertainty over Brexit (this appears to be weakening the pound and should favour domestic producers) and the full impact of "Trumpism" on the US and Chinese economies (will it start to draw imported timber away from the UK). Maybe we are reaching the bottom of the downward cycle and we will start to see signs of improvement later in the year.

GLOBAL TRENDS

The global market was showing signs of coming back into balance after the oversupply situation of Q4 2018 until the latest escalation of the US v China trade war this month.

There are many positive signs that the market has improved in Q1 2019, roundwood prices have increased in Norway, Estonia, and Sweden whilst in Germany and Austria sawn timber prices have increased in April and May on the back of strong demand.

In many areas processors have slowed production down to balance supply with demand which has stabilised prices and, in most areas, lead to modest increases.

So globally, supply now seems to be back in balance with demand albeit at a lower level than previously.

The areas to watch closely are Sweden and Central Europe where storm damage and related beetle damage has seen large volumes of spruce come to the market quickly, this has in turn pushed roundwood prices down. Although there are potentially market disrupting volumes of timber it is difficult to quantify what is recoverable as when storm and beetle damage combine there is significant downgrade of timber from stem snap, beetle damage and the need to log it quickly to reduce the risk of wildfire.

In the past, these incidents have led to short-term price falls followed by longer term shortages, this has been particularly evident in central Sweden where widespread shortages of spruce have followed recent storm damage and lead to mills having to adapt to cut redwood and buy logs out of catchment to maintain viable production volumes.

So, although there is a glut of cheap wood currently the big question is how long will it last and in which markets will it impact.

The US protectionism is already impacting on global trade, already this year we have seen Canadian sawn timber imports to the USA fall by 20.8%

in Q1 whilst US hardwood exports to China have fallen by 40% in the same period.

The Canadian sawmilling industry has reduced capacity significantly and is currently running at around 80% utilisation.

Whilst US sawn timber prices are in the doldrums demand levels are OK and there are signs of increasing demand for construction timber, without Canadian timber will this demand suck in timber from Sweden and Central Europe?

So, there are some positive signs emerging in the global market and maybe for the UK we are not too far away from seeing a reduction in supplies of 'cheap' imported timber placed in the UK whilst other markets stutter. Maybe Donald Trump's protectionist policies will help the UK



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The Swedish and German mills are already increasing their shipments to the US at current low prices, it would only require a modest increase in prices for these volumes to increase significantly and draw away volume currently coming into the UK.

Global demand for wood products remains good, the Chinese market is showing signs of recovery and the ever-rising demand for wood fuel continues with global trade in wood pellets increasing by 21% last year.

Whilst energy wood is at the bottom of the value chain, additional demand adds to global demand pressures and helps to maintain a floor in price levels during market corrections.



Roadside hardwood prices (£ hft) May 2019

	Oak planking	Oak beam	Oak fencing	Export ash & beech	White ash sawlogs	Export sycamore	Large Douglas fir & Larch
High price	£12.50	£10.00	£7.00	£3.25	£4.50	£5.00	£3.25
Mid price	£11.00	£8.50	£5.50	£2.75	£3.50	£4.00	£2.90
Low price	£9.00	£7.00	£4.00	£2.00	£3.25	£3.00	£2.50

These prices are for guidance purposes only and are based on historic market information

TIMBER AUCTIONS



If you wish to discuss parcels of timber you would like to market, please contact Oliver Combe on 07771 958975, oliver.combe@timberauctions.co.uk for free independent marketing advice.

Market rollercoaster



TIMBER MARKET REPORT
by **Harry Stevens**,
timber buying director
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Long term watchers of the market for roundwood both roadside and standing are well used to extreme volatility in the market for all products, even so the rapid inflation of the last 18 months has been unprecedented in recent years. However, as we know, markets cannot go upwards indefinitely, and with the benefit of hindsight, we can see that the market initially levelled off in the last quarter of 2018 and subsequently we have seen a significant weakening of demand in the last quarter leading to lower prices.

What are the drivers behind this?

Storm damage and bark beetle are conspiring to flood mainland European markets with spruce roundwood sawlogs. Storm Eberhardt, which swept through southern Germany, northern Austria and the Czech Republic on the 10th and 11th March has left widespread damage in its wake.

The clear-up operation now underway in the forests is compounding the steep growth in sawlog supply already emanating from felling operations that are underway to contain the swarms of bark beetle which are damaging Czech, German, Swedish, Austrian and Swiss forests.

The total windthrow resulting from Eberhardt is reported to have reached 3.4mn m³, spread across nine German states, and in the Czech Republic, it was up to 2mn m³.

The Czech Ministry of Agriculture is announcing extreme measures to contain the widespread damage wrought by the bark beetle across its forests. On 3rd April, it designated those areas that have been most severely impacted, predominantly located in its eastern regions (close to Germany), as 'red zones' where forest owners are permitted to carry out clear cutting.

Beetle damage affected approximately 6mn m³ standing timber across Germany in 2017. In 2018, that figure more than doubled to 13.5mn m³. The authorities have monitored trends closely through April when the first swarming phase was expected. Conditions in German forests are reported as not encouraging. Low rainfall through winter 2018/19 means the forest floors are dry. Moreover, 'high population densities from last year' means the Bavarian Forestry Institute believes a 'heavy and condensed swarming period' is likely.

Large volumes of damaged roundwood has led to a significant increase in softwood log exports to Germany's traditional neighbouring markets in Austria, France and Belgium, but there has also been dramatic growth in exports to Asia, especially China.

Sawmills have reacted to this increased volume of cheaper logs by increasing throughput substantially. In

some cases, sawmills are reported to have ceased production temporarily because they are overrun with co-products that they cannot shift.

The high throughput at Austrian and German sawmills is directly contributing to rising stockpiles of imported sawn wood in the UK where port terminals are reported to be currently holding 25-30% more stock than usual for this time of year. Concerns that wood procurement would prove difficult following the UK's departure from the EU on 29th March had encouraged importers to build supplies through February and March.

Quays are now full and the volume is not moving due to oversupply. Rental charges are now impacting and imported prices are reducing at a rate that is putting UK sourced material prices under extreme pressure. Between timber at quayside, and in sawmill stock yards in both Europe and UK, there is a considerable amount of stock that needs to flow through the system before we reach a steady state again.



This trend has been compounded by weak sawn demand in other European export markets, such as China, North Africa, America and Canada, which left Scandinavian shippers redirecting spare cargoes back towards Europe and the UK. Finally, the pound's 10% rise against the Swedish krona between mid-January and early-March reduced the price of imported Scandinavian sawn wood.

Similarly, in central Europe coproduct and industrial roundwood are reported to be oversupplied to all users and prices are falling in reaction to the abundance of material. Prices for all categories of panel products have been held back with MDF reported to be most significantly impacted, with producers in Britain taking time out to balance production against demand.

The implications for roundwood demand in Britain

In the short term we have yet to see the full implications of this oversupply in central Europe start to really impact on the market in any substantial way. There certainly has been a weakening of demand from sawmills as overtime



The total windthrow resulting from Eberhardt is reported to have reached 3.4mn m³

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>> and some core production hours have been reduced in an ad hoc response to falling demand and a rising inventory of sawn stock. What is traditionally the busy period for the sawmill sector, the spring period, has not lived up to exceptions for 2019. Certainly, the very warm Easter bank holiday saw good demand for fencing which is one product area that appears to see reasonable demand. Otherwise, requirement for carcassing timber and palletwood is reported as weak.

In response, recent tenders have seen standing prices fall as roundwood buyers consider the impact of the reduced demand on their forward bought inventory for their processes. In some instances, parcels have not met reserve with small roundwood reported as having the greatest discrepancy between reserve and offered price. In the short term, demand for industrial roundwood is down considerably with bio fuel plants taking maintenance shuts for several weeks, whilst other larger processors are reported to be reducing their use for at least the next few months in response to production 'issues' and weakening demand. Alongside this, several large producers have come through the winter period without having to touch their winter reserves and are anticipating destocking over the next period further reducing demand in the short term.

As ever the crystal ball does not seem to work for more than the next few weeks, however, it is likely that demand for sawlogs is going to be reduced for at least the period up to Christmas and then demand is unlikely to pick up much before next spring. Small roundwood may behave in a slightly different fashion as reduced sawlog consumption will result in a reduction in coproduct production, and users will have to substitute this volume with industrial roundwood.

By comparison with this time last year where we were in the middle of a strong inflationary period for standing timber, we now appear to be in to a period of declining demand and falling prices. It is likely to be a long hot summer for harvesting teams with increased stocks of roundwood sitting at roadside, just like the 'good old days'.

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Outlook for the timber market

The key to timber prices over the longer term is likely to come from sustained building activity and a buoyant economy, report Savills' **Ian Bailey** and **James Adamson**



Last year saw the third highest percentage rise (46.2%) in UK timber prices recorded during the last 35 years, leading to understandable nervousness over the short term direction the markets will take. But commodity price fluctuations are not new and market volatility will continue - the reality is that the price of timber will be entirely influenced by supply and demand and the efficiencies or otherwise of the production chain. The domestic market is complicated by the degree to which the UK is reliant on imports. In 2018 and early 2019, this was compounded by the uncertainty around future UK trade relationships with most other exporting countries.

In forecasting commodities it is important to look at underlying fundamentals, not past pricing cycles or short term risks. There are a number of factors influencing this, but the latent demand for wood is undoubtedly key. Both global and UK timber supply should be considered relatively finite as replenishing global timber resources is unlikely to keep pace with fellings, and indeed pressure to limit climate change will provide strong >>





The reality is that the price of timber will be entirely influenced by supply and demand and the efficiencies or otherwise of the production chain

>> friction against expanding the global harvest further into the natural forest resource. Domestic forward supply is shown on the graph on page 5, and the ability to up-scale domestic production is limited, so from a supply standpoint timber deliveries are relatively unresponsive to increasing demand and, therefore, open to demand led price inflation.

Latent demand may fluctuate, but we consider that over the medium term it will not diminish. Construction demand is underpinned by house building targets in the UK, and this is replicated in China and the USA, as well as the potential from developing economies. Biomass currently offers strong demand for small diameter timber in the UK and elsewhere. This is not a sustainable use of wood fibre and, although it is clearly impacting on markets, there is the prospect of price or regulatory intervention impacting the further expansion of this sector. The key to timber prices over the longer term is likely to come from construction demand and in a buoyant economy there is no reason for prices to fall. If they do, as seen in past cycles they will recover again, and we do not believe the market has reached a ceiling price.

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TIMBER MARKETS

Price

According to the Coniferous Standing Sales Price Index for Great Britain, the average value of timber increased significantly (46.2%) during the year to September 2018. This follows a 21.4% increase in the previous harvest year. This 2018 price rise is substantial but not unique and the graph on page 4 shows this is the third increase of this magnitude in annual growth in just over a decade; other significant rises occurred in 2010 (48.7%) and 2007 (50.2%). Since 2000 timber prices have increased by 235% compared with -26% in the 15 years preceding 2015.

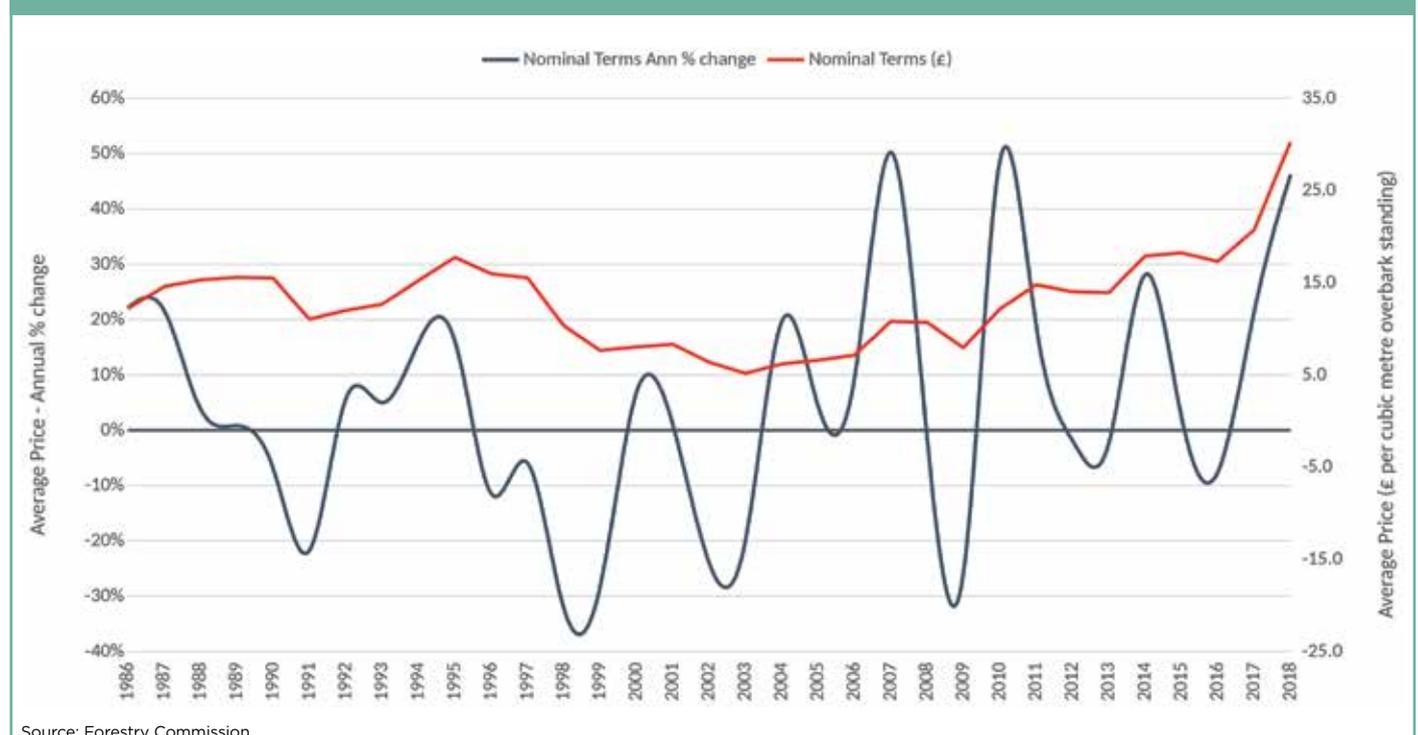
Demand

It is well reported that the UK is very reliant on timber imports, but recent inward investment in the UK wood processing industry and pricing trends highlight the buoyant and world class nature of this sector. Current conditions favour UK producers but our potential harvest is limited by availability of the resource and the practicality of harvesting more timber than we are currently producing. Current felling rates can be considered as sustainable for the next 30 plus years, which means that, subject to external shocks disrupting demand, there is little on the horizon to suggest a change to current pricing structures.

Supply

UK softwood supply is forecast by the Forestry Commission, shown opposite. Based on current projections the data on the chart averages about 15 million m³ against a current harvest of 11.4 million m³, meaning we are currently running at just below maximum capacity. This is for a number of reasons, including industry capacity and the ability to work in upland locations in winter. Even if we could capture the extra 3 million m³ per annum, this only represents 5% of current UK wood usage so it would have limited potential to adversely affect timber prices. Although there is a risk that imports win back market share post Brexit, factors such as tighter bio-security controls on imported wood or increasing demand in the country of origin may limit this.

CONIFEROUS STANDING SALES PRICE INDEX FOR GREAT BRITAIN



Source: Forestry Commission