EU plywood fluctuates as market uncertainty grows

It's been a roller coaster 12 months for the European plywood industry according to stockholder importers and distributors in the region.

Prices have fluctuated following the rise and fall of key international markets, there have been supply issues due to raw material availability in some supplier countries and demand has ebbed and flowed in response.

European importers also report increasing pressure to provide product legality, quality and performance assurance and now, with forecasts the European market will generally cool this year, plus the destabilising impacts of uncertainty surrounding Brexit, business conditions in the sector through 2019 are expected to become increasingly challenging.

The market has certainly changed since the beginning of 2018, with one importer describing the first six months of last year as 'frenetic'.

"Demand was strong across Europe, as was US consumption, with their importers buying significant volumes of Brazilian ply in particular and leading to Brazilian exports reaching around 2.2million m3 for the year," they said. "Consequently prices just went up and up, with increases from Brazil accompanied by rises from China and Russia."

Price inflation was also fuelled, said another importer distributor, by weather restricted raw material supply in China, Indonesia and Malaysia.

"The dry season was apparently too dry, the rainy season too wet, so mills initially just weren't able to get sufficient logs and price pressure increased further," said an importer.

This initial market buoyancy is reflected in the import statistics. Total EU imports for January to November 2018, comprising tropical, other hardwood and softwood plywood were up 11.1% at 2.27 million metric tonnes (MT).

Of the leading buyers of plywood (from outside the EU) by volume, Belgian imports dipped 1.1% to 216,362 MT, but imports increased in the UK by 5.2% to 625,257 MT, in Germany by 15.5% to 381,211 MT, in Italy by 20% to 173,627 MT, in the Netherlands by 14.3% to 156,862 MT, in Poland by 26.7% to 127,846 and in France by 20.7% to 92,673 MT.

EU tropical hardwood plywood imports overall were about stable at 299,518 MT in the first eleven months of 2018. Contraction in purchases from Malaysia, down 15% at 49,107 MT and Gabon, 19.2% lower at 12,701 MT, were offset by increases from elsewhere. Imports increased from Indonesia by 2.7% to 85,189 MT, from China by 8.5% to 108,589 MT, and from Vietnam by 144.8% to 11,507 MT.

Other hardwood plywood imports into the EU rose 14% to 1.16 million MT with increases from Russia, up 12% to 597,717 MT, China 10.3% to 410,014 MT, Ukraine 38.4% at 62,190 MT and Belarus 38.7% at 71,612 MT.

Total softwood plywood imports rose 11.6%, with increases from all key suppliers. Imports from Brazil rose 7.5% to 502,294 MT, Russia 0.8% to 79,172 MT, Chile 25.4% to 114,769 MT, China 20.4% to 54,519 MT and South Africa 220.9% to 16,312 MT.

While it wasn't immediately reflected in the EU import statistics, however, importers report that in the latter part of the year, the plywood market started to turn around and become more volatile.

"We saw the Turkish economy slow dramatically, with construction particularly hard hit, and several of their big name companies seeking court bankruptcy protection," said a continental importer. "As a result Russian birch ply, in particular, that would have been destined for Turkey, was pushed into other markets, including Germany.

"At the same time, the Middle East started to slow down. Following the buoyant international market in the first half of the year, however, plywood production was still high and given an added boost by rising availability of logs in China, Indonesia and Malaysia," said another plywood specialist

European imports also initially remained strong, they added, with contributory factors including importers placing big orders for the next duty-free quota.

The eventual outcome of the combination of high output and falling international market demand was prices, in the words of one company representative, going into a downward spiral. "And due to the strengthening dollar, dollar-based suppliers had to cut particularly deep to remain competitive," he said.

This, he added, left importers holding substantial expensive stocks and facing the dilemma of whether and by how much to discount them to compete with falling current and forward import prices.

Brazilian softwood plywood recorded a particularly sharp fall in prices. "Over six months the price fell between 30% and 40%," said a European distributor. "Standard Brazilian 20mm elliottis, for instance which had been $310m3 last April went down to $225m3, or even less. After five or six years of good growth, the Brazilian industry has also built up a lot of capacity, which could undermine prices still further."

Russian plywood production was temporarily affected late last year by unseasonably warm weather delaying the start of logging, but it is also reported to be back to full production.

"The result is that Russian mills have been cutting prices too," said an importer.

A UK company echoed the comments of continental counterparts. “After rising quickly in the first half of 2018 in line with demand, prices on Brazilian pine and Malaysian ply have tumbled,” they said. “Brazilian is about $100m3 lower and Malaysian around $50 from its high, or 10% FOB. Chinese is likely to rise by 4% after the Chinese New Year, but currently it is 8% lower.”

Another importer distributor reported that Indonesian plywood prices had also fallen a few per cent in the last two to three months, possibly due to weaker exports and cheaper logs.

“For Indonesian film-faced shuttering plywood prices are also badly affected by cheap offers of Russian film-faced, resulting in demand for Indonesian – benchmark 18/21mm– being at probably its lowest point for years,” they said. “Malaysian prices are a few per cent lower too in spite of stable cost prices and some mills are consequently increasing their use of rubberwood to compensate.”

While there wasn’t complete consensus on the topic, freight rates, which had been firm, were also expected by some to flatten and fall, reflecting more competitive conditions. “Brazilian rates have already declined as less is being shipped to the UK due to stocks now being so high and Far East freight should also trend down,” said an importer.

Cutting prices also does not seem to have had the impact suppliers wanted to increase European consumption.

“If anything it has had the opposite effect,” said another importer stockist. “Prices have fallen so rapidly that, instead of buying more, customers have deferred purchases to see if products will be even cheaper the following week, or week after.”

UK importers also mentioned continuing substitution of plywood by OSB in key markets, with the competitive threat increased by the opening last year of a £95 million new line at Norbord’s OSB plant near Inverness in Scotland.

However, an importer on the continent did not see this as a significant long-term or widespread threat, and felt the two products could co-exist.

“It obviously poses increasing competition in some sectors, but in other applications there is still a preference for plywood,” they said. “The degree of competition also tends to strengthen and weaken. As prices of plywood rise, some customers opt for OSB, then OSB goes up in price and we see the reverse.”

Meanwhile, in France, the acquisition of the €30 million turnover timber and plywood business Rougier Sylvaco Panneaux by plywood and decorative panels leader Malvaux is not expected to add further disruption to the market.

The deal follows on from Rougier’s disposal of its African timber operations, bar those in Gabon. But Malvaux, which already had a panels and marine plywood distribution relationship with Rougier has stressed that the business, with its depots in Caen, Paris and Sète, where it holds stocks of some 30,000m3, is actually set to develop under its ownership.

"Rougier Sylvain Panneaux becomes the distribution subsidiary of the full range of Malvaux Group Products throughout France," stated Malvaux after the acquisition. "In turn, the acquisition strengthens our industry and distribution division, accelerating deployment of our strategy to develop a global multi-product, eco-responsible offer. It enables us to provide complete range of plywood, technical and decorative panels."

Importers said they had also not detected significant fall-out yet from US-China trade conflict, but were keeping an eye on the situation.

"We haven't yet seen Chinese plywood that would have been destined for the US diverted to Europe, but obviously the longer their dispute goes on, the greater potential it will have to disrupt international markets more widely," said an importer.

What was an ongoing issue in the European plywood market, however, was ever growing pressure to meet the requirements of the EU Timber Regulation (EUTR) and CE marking.

"EUTR competent authorities have become more experienced over time and increased personnel, and checks under the regulation are consequently becoming more frequent and demanding," said an importer. "But we have already considerably narrowed our supply base to ensure the suppliers we deal with can meet our due diligence requirements, and there is a limit to how much further we can go in policing our supply chains."

CE marking also represented a continuing challenge, said another company. "There has been progress, but some suppliers still have a lot to do to achieve the levels of professionalism and consistent performance standards required," they said. "And regulatory compliance takes administrative time and is a further cost we have to absorb in a competitive market."

Going forward into 2019, one plywood business thought prices generally would start to plateau.

"Chinese prices do seem to have stabilised in December and January and we're possibly going to see further upward corrections due to the higher RMB and increasing production costs," they said. "Though very cheap in January, Russian film-faced prices also seem to have levelled and Ukraine is looking for 5% increases from the end of February, so overall the sector may have bottomed out."

Difficult plywood trading forecast in 2019
In spite of this, however, European plywood businesses said they anticipated 'a lot of challenges' this year and one predicted 'very difficult trading'. The continuing slowdown of the Eurozone economy is expected to be one factor

impacting trade, with the IMF predicting growth to slow to 1.9% from 2.7% in 2017, and 2.3% in 2018. And in an EU-wide poll of economic analysts in the Financial Times at the end of December, some predicted growth could slow to 1.3%, 1.2% and even 1%.

One continental-based international trader said that their UK orders had grown recently, possibly the consequence of customers building up stock prior to Brexit.

However, a British importer described the market now showing signs of weakening, with both new construction and building renovation markets slowing, partly again due to Brexit, with contractors and clients putting projects on hold pending greater clarity on the post-Brexit trade deal between the UK and EU, yet to be struck at the time of writing.

Latest news from the UK Construction Products Association bears this view out, with the organisation in January downgrading its previous forecast of 2.3% growth in UK construction output in 2019 to just 0.3%.

"Our customers in the timber merchant sector are clearly being affected by this increased hesitation in the market," said another UK importer. "Delayed purchasing has slowed their stock turn, and that in turn is affecting importers' sales and margin."

Despite early signs of European-wide economic slowdown ahead, including a reported 1.6% December 2018 fall in factory orders in the continent's economic powerhouse Germany, far worse than 0.3% forecast by analysts in a Reuter's poll, some continental European plywood importers still reported stable and reasonably good demand from key markets in early February.

"Our construction customers, particularly in north west Europe, in Germany, Belgium and the Netherlands, remain at about the same level and still seem to be reasonably busy as does the packaging sector," said one company representative.

On the downside however, companies across Europe shared the view that the market was overstocked following the price and supply fluctuations in 2018 and that the situation could deteriorate if, as expected, the Eurozone slowdown does worsen and greater caution starts to spread in the market. In fact, another company said that, while their Netherlands business was still robust, they did already detect something of a slowdown in France and Germany.

The destabilising effect of Brexit for the UK and Europe more widely is also expected to grow as the deadline date of March 29 for the UK to leave the EU approaches. In the event of a no-deal Brexit, plywood trade between the UK and the rest of the EU would become subject to duty equivalent to the current external tariff on EU imports – that is between 6% to 10% depending on product.

UK customs have said they will allow cargo to be temporarily 'waved through' 20 ports without checks in the event of a no-deal Brexit to avoid hold-ups, with importers then having to complete an electronic customs declaration within 24 hours. But businesses are clearly concerned there will still be at least medium-term disruptions as systems adapt to new trading arrangements and an importer saw signs of the UK plywood trade preparing.

“The European softwood plywood import quota reached a balance of 275,000 m3 several weeks earlier than in 2016 and 2017,” they said. “One factor could be UK buyers building up stocks to hedge against anticipated import disruption.”

Overall plywood companies said they were less optimistic for business than at the start of 2018. “There are already many uncertainties affecting consumers and businesses and I think the plywood market will be a lot more volatile,” said one. “Importers as a result may become more cautious about holding stocks. And profit margins will be under pressure for sure.”