

## European demand for tropical hardwood remains slack

Reports from around north-western Europe suggest subdued demand for tropical hardwoods. Europe's tropical log imports continue to decline while demand for sawn lumber in countries throughout the region - including UK, Ireland, Benelux and Germany - is described, at best, as stable. Some suggest that sales of tropical sawn lumber in the region are down on the same period last year. Economic uncertainty is sapping confidence in future sales and encouraging importers to be cautious over restocking. Nevertheless the spring season is approaching which, with its promise of increased construction activity, may provide at least some short-term improvement in demand.

The UK hardwood market is generally described as "tough going". With the end of the financial year for many importers (end of March), combined with general uncertainty about future levels of demand this year, many companies are now off-loading stock. In a highly competitive environment, there is little concern for replacement cost and market prices for some key hardwood products on the ground in the UK have been weakening. Against this background, there is little incentive for buyers to enter the forward market for tropical hardwoods. Where occasional holes are opening up in stock, most buyers are looking to the large distributors in the Netherlands and Belgium to satisfy their short-term needs.

Considering individual species, prices for sapele sawn lumber have been falling since the start of the year, both for forward orders and for stock already on the ground in north-western Europe. FOB prices quoted to German importers for 52 mm FAS AD sapele boards have fallen from levels of around €645-€660 in December 2007 to stand at around €590-€620. Whereas delivered prices (inclusive of commission) for 1" KD sapele boards in the UK were hovering around £665/m<sup>3</sup> at the start of the year, quotes as low as £600/m<sup>3</sup> may now be obtained. However, one leading agent notes that buyers should be wary of the cheapest prices as "a lot of people are doing silly things with measures" to give the appearance of providing a competitive price.

European demand for sipo is generally slack and prices have been slipping. Prices are in a wide range, to a large extent dependant on whether stock is from Ivory Coast or Cameroon, the latter tending to offer superior texture and density. FOB prices for 52 mm FAS AD sipo boards quoted to German importers currently stand in the region €725/m<sup>3</sup> to €775/m<sup>3</sup>. UK delivered prices inclusive of commission for FAS KD sipo boards are currently being quoted in the range £645/m<sup>3</sup> to £685/m<sup>3</sup>

The iroko market in the UK is generally described as stable, but the important Irish market for this species is very quiet. Prices are generally described as stable. FOB prices for 52 mm FAS AD iroko boards quoted to German importers currently stand in the region €570/m<sup>3</sup> to €590/m<sup>3</sup>.

Demand for Ivory Coast framire in the UK is variously described as "weak" or "stable" with delivered prices generally falling. One UK agent gave a price indication of around £505/m<sup>3</sup> for FAS KD stock delivered inclusive of commission, but also noted that prices are all over the place at present. It seems that after a lengthy period of tight supply, the Ivory Coast is at last shipping some old contracts to Europe. FOB prices now being quoted to German importers for AD stock are in the region of €570/m<sup>3</sup> to €600.

There are some reports that demand for African whitewood species – such as ayous/wawa and koto – is marginally better than that for African redwoods driven by

reasonable activity in the mouldings and sauna industries. This combined with restricted supply of some species has led to reasonably firm pricing. Demand for wenge from the European flooring sector is also reasonably buoyant at present.

Meranti lumber prices quoted to European buyers have changed little since the start of the year. European demand for Asian sawn lumber is subdued due to sluggish activity in the construction sector. However this is generally balanced by limited supply. Overall forward availability is generally regarded as being tight, with mills cutting back on already limited production over the Chinese New Year period and now with heavy rain affecting logging operations in major supply regions. The weakness of the dollar against the euro has meant that Asian lumber prices have generally been competitive in the European market against African alternatives in recent months. However, price decreases for sapele and sipo since the start of the year have been eroding this price advantage.

Prices for bangkarai/balau decking being quoted to European buyers also seem to be stable. On-ground demand in Europe generally picks up at this time of year as the weather improves. However European traders do not expect any significant upturn in forward orders as existing stocks at European ports are generally regarded as adequate to meet this demand.

### **Supplies of Chinese plywood becoming more difficult.**

The main news from the UK plywood market is that supplies of Chinese plywood are becoming more and more difficult. Poor weather in China has been a major short-term factor, but a more important long term structural factor is the gradual removal of tax benefits for Chinese exporters – which is particularly undermining the ability of smaller Chinese mills to compete in the UK market. Other problems facing Chinese mills supplying the UK market are increased competition for wood raw material in China, rising labor and fuel costs, and the difficulties of supplying environmentally certified product from China due to the complexity of supply chains. Longer term, there is an expectation that Chinese mills supplying the UK market may increasingly replace core veneers made from poplar – which are becoming less readily available and which are difficult to certify – with core veneer made from eucalyptus or radiata pine.

Freight rates from Asia into the European market are also rising. So while FOB prices for Chinese plywood have remained reasonably stable, CIF prices to European importers are increasing.

Malaysia and Brazil are the major beneficiaries of Chinese supply problems in the UK market. Malaysia is benefiting particularly from its ability to supply high quality material, increasing volumes of which are FSC certified, and to exploit a lower GSP tax rate than Indonesia. Brazilian shippers are benefiting from relatively short shipping times in addition to low GSP rates.

Despite economic uncertainty, some UK plywood importers contacted for this report indicate that underlying plywood consumption is holding up reasonably well in the UK. Importers that have become too reliant on Chinese product have been suffering, but those able to offer a wide variety of product from a diversity of supply areas, including certified products, are picking up business.

One interesting development in recent months in the UK panels market is that some of the largest UK plywood agents are now taking trial shipments of Chinese MDF and

OSB. These are products which have traditionally been supplied from Europe's large domestic composite panels industry. European importers have been encouraged to take this step following recent Chinese investment in the panels industry which is now offering very competitively priced product to European buyers. UK importers note that the quality of Chinese composite panels is currently nowhere near good enough to satisfy the demands of European manufacturers that need their raw materials to meet very demanding specifications (consistency, thickness, colour, texture etc). However the products may well be appropriate as merchant grade material for onward sales to the joinery and DIY trade.