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EU sawn hardwood market

Reports from the EU sawn hardwood market are generally gloomy. Signs are that importers have returned from their summer vacations in a very cautious frame of mind, no doubt influenced by the release of yet more data to indicate that economic growth is slowing. Generally European agents report that both sales volumes and profit margins are down. Importers are focusing heavily on getting the best deal possible, closely scrutinising specifications and bargaining down prices. This is despite the fact that on-ground stocks of many hardwood specifications are no longer particularly high while available supply in the major producing regions is not great. Agents suggest that even a minor uptick in demand in the EU could soon lead to shortages as overseas producers would be unable to respond quickly enough. Agents are concerned that the European hardwood trade, having bought too much forward last year, may now respond by buying too little too late this year.

But for now, European importers seem unimpressed by these arguments. Reports continue to circulate of importers selling their existing landed stocks at below replacement cost. They can hardly be blamed for their caution. While landed stocks have declined overall over recent months, some reports continue to suggest high landed stocks of certain items in some areas. For example, a report in the German trade journal EUWID in early September notes with regard to African sawn hardwood that “several importers note that hardly any new orders will be booked in the near future as merchants are still generally furnished with high stocks and as onward sales of goods remain slow…some merchants have announced that they will discontinue any further purchasing at least until the end of the year.” EUWID also suggest that stocks of African lumber of some German importers have actually increased in ecent weeks as, contrary to expecations, some older contracts booked between 6 to 12 months ago were shipped over the summer period.

Meanwhile the economic news is far from encouraging. Figures released on September 3rd confirmed that the euro area economy shrank in the three months to June. Germany has been the strongest of the area’s large economies. But even here economic growth is forecast by The Economist to slow from 2.5% in 2007 to 1.9% in 2008 and 1.6% in 2009. And against a background of large global imbalances and the strong euro, there are significant downside risks to Germany’s exports which have been a major driver of growth in recent years.

After a reasonable start to the year, the French economy is clearly now struggling. Deteriorating consumer confidence, a slowdown in investment and a weaker outlook for external demand recently prompted the Economist Intelligence Unit to lower its growth forecasts to 1.6% and 1.5% in 2008 and 2009, respectively. Economic indicators suggest that the slowdown is beginning to spread from the consumer sector to industry. Business confidence has softened. Industrial production contracted in all sectors in May.

The Italian economy remains firmly in the doldrums. GDP growth is forecast to slow from 1.4% in 2007 to as little as 0.4% in 2008, before picking up modestly in 2009. Meanwhile Spain faces rising unemployment and a contracting house building sector with national GDP growth forecasts for the year in the region of only 0.6%-0.7%. The UK economy also stagnated during the second quarter of 2008. Households are heavily indebted and feeling the pinch following bursting of the housing bubble. Banks bitten by the international credit crunch are no longer lending. Since financial services account for a bigger share of the UK economy than other European countries, the crises in the banking sector is having a particularly profound effect on UK growth. And because the UK government spent with both hands during long years of unremitting economic growth, this has left little scope for fiscal fine-tuning now. The governor of the Bank of England says that UK growth will be flat for a year. Sterling has lost 15% of its trade-weighted value over the past year and 5% over the past month making imports that much more expensive.

With regard to individual species, FOB prices for sapele and sipo sawn lumber on offer to European buyers quoted in euros have generally been flat at a fairly low level. However it has to be said that prices quoted by importers for sapele are currently over a wide range and it is still difficult to determine where the market is headed so soon after the summer vacation period. There are still reports of high landed stocks of sapele in some European countries. Nevertheless European agents are now fairly confident that the next movement in forward prices will be upwards as EU stocks are being gradually whittled down and as African exporters have severely curtailed production.

Iroko is one African species that has been performing reasonably well in the European market in recent weeks. One leading trader went so far as to refer to it as a "hot item". With good quality teak no longer available from Myanmar, demand for iroko – one of the very few species able to replace teak in certain applications – has responded accordingly.

The European market for meranti sawn lumber remains very quiet. Demand has been undermined this year by the ready availability of on-ground sapele stocks at competitive prices. Strengthening of the dollar-euro exchange rate in recent weeks has only served to erode competitiveness of the Malaysian species (which is invoiced in dollars) even further. However reports suggest that there is better demand for higher value specialist meranti items, for example in fixed widths, longer lengths and wider boards. Furthermore production cutbacks mean that availability of meranti products for prompt shipment is generally low despite slow buying.

Meanwhile mixed reports are emerging of demand in the market for certified sustainable hardwoods in the European market. In early September, the German trade journal EUWID suggests that "*European demand for African lumber with an FSC certificate reflects a special situation: in view of continually poor availability, suppliers report growth rates in respect of all FSC lumber available in spite of higher sales prices.*"

This analysis of the certified wood market in Germany contrasts with a more cautious appraisal coming from the UK. A representative of one leading UK-based trading company noted that in the current depressed market conditions, price is now such a pressing issue that there is very little willingness on the part of UK importers to pay the around 15% premium charged on the very small volumes of FSC certified African hardwood. Larger UK importers are however buying legally verified wood (through systems like SGS TLTV and Eurocertifor OLB) as a matter of course, partly because they are encouraged by wide availability at little or no premium and partly to hedge against ENGO campaigns and protect their brand image. However smaller importing companies in the UK are generally not requesting either verified legal or certified wood products, particularly in the current market environment.

Another UK agent noted that while they are committed to buying all their Malaysian wood as MTCC certified at a small premium, the actual level of interest from the trade further down the supply chain is negligible. This agent suggested that while importers tend to pay lip service to green issues and to stock a token amount of certified lumber, the wider market is still largely indifferent and strongly price driven.

EU plywood market

In early September, the UK trade journal TTJ sums up the UK plywood market as "worryingly quiet" but also notes that "*while stocks appear sufficient to cope with existing low demand, there is also concern that a post-summer improvement in order levels could quickly accentuate shortages*". In support of this analysis, TTJ notes that while world demand may have been hit by a downturn *"the plywood sector is grappling with a lack of capacity and a global shortage of raw materials, notably in Brazil and parts of the Far East. Sellers in the UK have been offering deals on plywood in a bid to move material and yet there is no weakness in forward prices*". TTJ also notes that Europe as a whole is under-bought in tropical hardwood plywood and stocks are low.

Meanwhile, according to TTJ, long term continuity of supply to the UK market is under threat. China's plywood manufacturing sector has contracted rapidly this year as a result of a spiking in the cost of labour, energy and raw materials and with the removal of export subsidies. And problems of long term supply to the UK market are likely to be accentuated by the fact that many mills in the Far East that now have more restricted log supply have little or no interest in supplying UK specifications, favouring Japanese and South Korean buyers that provide a better return. Availability of Brazilian hardwood plywood to UK buyers also remains very restricted due to a shortage of logs while the relative strength of the Brazilian currency and rising freight costs are undermining export opportunities.

TTJ notes that while prices of Chinese hardwood plywood on offer to UK buyers have increased, they remain competitive in the UK market against Malaysian, Brazilian and Indonesian rivals.

In early September, EUWID notes that prices for Indonesian raw plywood on offer to German buyers have risen with market players currently quoting prices of Indo96 +35%-37% for 4ft by 8ft BB/CC grade. Malaysian shippers are picking up more business in Germany because prices for equivalent Malaysian grades are below those of Indonesian manufacturers. EUWID notes that prices for Chinese poplar/bintangor on offer to German buyers have remained relatively stable in recent weeks. Demand for this grade of plywood in Germany has been steady over the summer months, picking up a little with the end of the vacation period.