

Gaps opening up in hardwood plywood supply to the EU

Consumption of tropical hardwood plywood in Europe is now winding down for the Christmas break which is likely to be extended this year. However there has been some forward buying in recent weeks as importers have been filling gaps in preparation for the New Year. Although very few people are expecting a dramatic turnaround in consumption during the first half of 2010, there is mounting concern that temporary supply problems may arise due to short-falls in grounded-stocks.

For much of 2009, European importers focused on winding down stocks in the face of weak underlying consumption and uncertain economic conditions. For the first six months of the year, the large European plywood importers shifted away from brake bulk to containers as prices for the latter were extremely low and as importers were looking increasingly to buy smaller mixed batches.

However since the middle of 2009 freight rates have risen consistently as shipping lines reacted to the decline in trade by decommissioning a large number of vessels. Now much of the remaining capacity is overbooked. A 3-4 week gap between placing of forward orders and shipment to Europe has opened up making it more difficult for importers to fulfil short-term obligations. Importers may therefore be forced to build and carry more stock during the early part of 2010.

Shifting market for tropical hardwood and combi-products

This year the large UK market has shifted increasingly away from tropical-hardwood-throughout plywood in favour of product with a pine or poplar core. While bearing a passing resemblance to tropical hardwood plywood, the combi-product is much cheaper and – being widely offered from CE2+ certified mills - is generally regarded as providing adequate performance for a range of fairly utilitarian tasks in the UK.

Government green procurement policy in the UK has also tended to favour increased use of combi-product. Until recently there was particular interest in FSC Mixed products manufactured in Malaysia from an FSC-certified New Zealand radiata pine core and an MTCS-certified tropical hardwood face. However with the recent endorsement of MTCS by PEFC, more of this product is expected to be supplied with the PEFC logo. The first shipment of PEFC-certified Malaysian combi-plywood – of around 10,000 m³ - is expected to be shipped to the UK in January. This is believed to be priced at around \$400/m³ CIF UK for 18 mm product, significantly cheaper than the uncertified tropical-throughout product.

Manufacturers of alternative plywood products are also trying to exploit the rising interest in PEFC and FSC certified product in the UK plywood market. Weyerhaeuser has been particularly active marketing “tropical replacement panel”. This is available FSC-certified and manufactured from Uruguayan plantation-grown eucalyptus. It bears a passing resemblance to tropical plywood, is supplied by a CE2+ certified mill and prices are very competitive. On the other hand, according to one major UK importer, the product is derived from smaller-diameter logs, cannot match the performance of tropical hardwood plywood, and volume is still relatively confined.

Drift away from Chinese plywood

The UK plywood market's dependence on China has tended to decrease this year. One large UK importer notes that "three quarters of Chinese manufacturers that were formerly manufacturing plywood are no longer involved in the plywood trade – most UK importers are now only dealing with a small number of larger better performing mills". This importer also noted that due to lack of capital and credit, many Chinese mills are now asking for a 25% deposit up-front in order to purchase raw materials. This is a major disincentive to European importers buying from China.

Caution prevails in European market for tropical hardwood lumber

European tropical hardwood lumber importers have maintained a cautious approach to forward orders throughout the final quarter of the year. This is despite the combination of a strong euro, the widespread belief that European stocks are now quite low and signs that FOB prices for key products in both Africa and Asia are rising on the back of tight log supplies.

There is still great uncertainty over the likely level of European tropical hardwood consumption next year. Few importers are willing to speculate on market conditions 3 to 4 months in the future – which is the current lead time between ordering and delivery for African sawnwood. Lack of credit and cash-flow continue to be problems for many importers. As a result forward orders in recent weeks have concentrated on small mixed batches to fill gaps in stocks as they emerge.

Although some of the larger European importers engaged in the tropical hardwood trade report reasonable levels of trade this year – particularly those with a varied stock base and capable of delivering over a wide distance at short notice – most companies reckon that sales will have slumped by double-digit percentages in 2009. Margins have also tightened as intense competition between importers has put downward pressure on European wholesale prices at a time when CIF prices have been rising. There continue to be reports of importers being forced to sell tropical hardwood lumber at below replacement price.

At this time of year, importers would normally be placing significant orders of garden decking products for the spring season. However orders are well down this year as the large merchants and retailers have been very reluctant to indicate their needs for 2010.

The German window frame market is one of the few bright spots in a generally gloomy picture. This sector is creating consistent demand for Malaysian and Indonesian meranti window scantlings – although relatively high prices for the Asian hardwood product and limited availability mean that the actual volume of trade is now low.