

EU forward buying of tropical hardwood lumber very weak

Forward demand for tropical hardwood sawn lumber in the EU remains very subdued across the board, both in terms of products and EU countries. Anecdotal reports suggest that European door, furniture and joinery manufacturers have continued to buy only slowly against the background of uncertainty created by deteriorating conditions in the housing, banking and credit markets.

Exchange rate volatility is adding to the uncertainty. Since August last year, the dollar has risen nearly 20% against the euro and nearly 40% against the British pound. This means that European wood importers have seen a dramatic escalation in forward prices for dollar-denominated Asian stock just when the banking sector crisis has come to a head and severely dented market confidence. Another problem is that jittery insurance companies in the EU are increasingly removing credit cover from timber trading companies. This means that if a customer reaches their credit limit, they cannot be sold anything more until they make a payment.

Nobody is willing to gamble on prospective purchases in the current climate, with most contacts suggesting that the focus remains on stock reduction with many purchasing only to cover for existing orders. There continue to be reports of a few large importers off-loading excess stocks of key commodity species such as sapele and meranti at below replacement price. As one hardwood agent specialising in supply of Asian and American hardwoods comments, “our customers have become our main competitors”.

Despite concerted efforts by shippers in all supply regions to curtail production, the perception in Europe is that there is good availability of most products for prompt shipment. Numerous offers continue to come in with buyers in a very strong position to negotiate prices downward. When importers do take a look at the forward market, they are always looking to buy cheaper. Many are holding off until they see some settling in the market.

There is however growing awareness in the EU that the scope for overseas suppliers to cut prices any further for key standard items such as sapele and meranti sawn lumber is extremely limited. News of mass closures in some supply regions is beginning to filter through to the European trade and some importers are willing to acknowledge that it is in nobody's interests to push prices so low that even more suppliers are forced out of business. Once the large European importers have sold off their existing landed stock, prices must surely rise again. Expectations are that this is unlikely to happen until at least the middle of the year. But given that in some supply regions capacity lost now will not come back, the price gains could be dramatic when the market does eventually turn.

Generally there is a feeling that in many parts of Europe hardwood sales are holding up better than softwood sales, the latter having been hit much harder by the dramatic decline in residential construction in parts of Western Europe. While underlying consumption of hardwoods at the level of the end-user is well down on last year, the market is not entirely inactive. As one UK-based hardwood importer notes: “we are selling hardwood every day in every week”. Another comments that his company had met its sales targets for hardwood lumber in every week of this year with the

exception of the two weeks in the second half of January. However this importer also notes that while sales volumes have been reasonable, the margins to be made on each sale are now well down as price expectations in the market have fallen.

Some tropical species are holding up better than others. One UK-based trader notes that his sales of iroko and framire have remained reasonably good in recent weeks. Lumber in thicker sizes is performing better than thinner stock – although this creates difficulties as shippers will generally only sell the thicker stock to importers on condition that the importers also take some of the thinner stock.

Extremely weak plywood market

Reports from across the European plywood sector indicate very weak forward purchasing. The reasons are spelt out in a recent issue of the German-based trade journal EUWID: *“the financial situation facing European plywood importers has deteriorated significantly over recent weeks. Lower base prices for almost all grades and plummeting freight rates for shipments from Asia and South America have resulted in a sharp fall in replacement prices and thus a devaluation of importers relatively plentiful inventories”*.

EUWID notes that many plywood importers are facing liquidity problems and are therefore being forced to attempt to offload these devalued inventories despite very slow consumption in most sales sectors. As a result they are taking heavy financial losses and very few are interested in buying in new stock.

EUWID also notes that plywood imports from Asia now face increasing competition from Russia as that country’s birch plywood processing capacity is on the rise.