

## **Europe offers little prospect of improved hardwood plywood demand**

European consumption of tropical hardwood plywood remained at low levels during the third quarter and there now seems little prospect of any significant upturn in forward buying before the end of the year.

The significant UK market for tropical hardwood plywood is becoming increasingly oriented towards break bulk shipments from China at a time when consumption is limited and buying is more price focused. Despite continuing concerns about quality, fitness for purpose and environmental credentials, Chinese plywood is being favoured in the U.K. because it offers a 20-30% price advantage compared to Malaysian plywood, the principal competitor.

After significant arrivals of Chinese product in recent months and with construction sector activity still slow and facing an uncertain future, forward buying of hardwood plywood in the U.K. has been limited in September. A particular concern for the future of the U.K. market is the government Comprehensive Spending Review due to be published in October which may well demand very significant cutbacks in public sector spending on construction and renovation activity.

European imports of hardwood plywood from Indonesia are now restricted to high value specialist products, with much of the volume destined for continental Europe rather than the U.K. Rising prices for birch plywood from Russia over recent months, a result of the forest fires that raged through the country this summer, have helped boost demand for film-faced Indonesian plywood in Europe.

European imports of hardwood plywood from Brazil, formerly a major supplier, are currently running at negligible levels. Brazilian hardwood plywood exports to the whole of Europe averaged little more than 2000 m<sup>3</sup> per month in the first half of 2010.

CIF Europe prices for Chinese hardwood plywood edged higher over recent months in response to rising raw material and labour costs in China and strengthening of the yuan on international exchange markets. Although there are reports of a downturn in Chinese production in recent weeks due to poor weather conditions, European agents and importers report that supplies are sufficient to meet continuing low levels of European consumption. Anticipated increases in Chinese FOB prices may be offset by slightly lower freight rates in coming weeks.

Meanwhile CIF Europe prices for Malaysian and Indonesian hardwood plywood have remained broadly steady in recent months, with a slight rising tendency reported for some grades such as film-faced Indonesian product. No significant supply problems are reported and products are currently available for reasonably prompt shipment.

Consumption of okoume plywood in the main European markets of France, Netherlands, Italy and Spain, remains very sluggish. This business has become increasingly difficult during the course of 2010 with, on the one hand, margins squeezed by rising raw material costs due to the Gabon log export ban and, on the other, mounting competitive pressure from lower priced alternatives such as poplar combi plywood.

## **European demand for African sawn lumber still subdued**

European forward orders for African tropical sawnwood have remained subdued during the third quarter. An improvement in the euro-dollar exchange rate, which decreased the competitiveness of African hardwoods relative to Asian alternatives, reinforced the usual slowdown over the summer vacation period. There is still little sign of any significant improvement in orders at the end of September. Many European importers continue to reduce their stock holdings of African sawn lumber in the face of sluggish consumption and on-going supply difficulties.

Following CIF Europe price rises for African hardwood sawn lumber in the first half of 2010, prices have remained broadly stable over recent months. However, there are some signals that the rise in prices for sapele sawn lumber, probably the most significant tropical joinery species traded in Europe, may resume during the last quarter of the year. This reflects low stocks both in Europe and in the African supply pipeline which has resulted in long lead times. New forward orders of sapele lumber are unlikely now to be shipped prior to Christmas.

European demand for sipo sawn lumber is currently very subdued and FOB prices are stable. Demand for iroko sawn lumber is a little more buoyant which, against a background of very limited availability, is encouraging some exporters to push for higher prices.

The Gabon log export ban has led to a decrease in availability of lumber of more specialist African species such as padouk, ovankol, and bubinga in the European market. Significant volumes of these species were formerly cut from Gabonese logs in European mills. These species are likely to remain in limited supply until such time as African mills respond by increasing levels of processing for the relevant European niche markets.

In contrast to the situation with African sawn lumber, there are reports that weakening of the dollar against the euro during the third quarter, combined with rising prices for sapele sawn lumber and low landed stock levels encouraged a pick-up in European forward orders of Malaysian meranti sawn lumber during the third quarter.