

## Market info (5<sup>th</sup> of April, 2016)

### **Before CNY**

#### **Log supply & holidays:**

Before China New Year all factories had a very full order book. Naturally this can be explained through the fact that overseas buyers wanted to have sufficient buffer stocks to overcome the long Chinese holidays (sometimes up to 45 days). This effect however was enlarged because of the fact that there was a limited supply of eucalyptus and poplar due to bad weather conditions. Rain, rain and once more rain. Difficult to properly harvest and dry the core veneers. Luckily we always have solid staff (solidiers) on the ground to check moisture content. This pushed up prices for raw materials, slowed down production and created a bottleneck in shipments.

#### **Sea-freight crooks:**

Because of this sea-freight prices more than tripled just before Chinese New Year and created heavy losses for shippers like me. In addition because of the serious price hike carriers did overbook and left containers standing in the port over Chinese New year whilst at the same time still charging the peak tariffs. Although we have been reasonably, saved from this we still had some containers that were travelling for an abnormal period of time.

The learning here is that we need to more proactively plan and ask you to pass orders earlier – the latest by end of Nov. – to avoid abuse by carriers, stress for late delivery or increased risk for delamination. We already do this but we should be more proactively doing this. In contrast with some of my competitors I'm happy to say that we have been able to pump out most of the volumes before CNY. Having some Solid staff (solidiers) on the floor has greatly helped. We know for a fact that a lot of orders got delayed of buyers who have less influence or presence.

### **After the holidays – Trying to look into the future**

#### **Poplar stable ~ Eucalyptus still under pressure:**

The weather is getting a bit better and the supply of poplar has normalized back to normal levels of beginning of December. The pressure on eucalyptus stays on and even increases. Although the weather is getting better there is still a bottleneck in veneer production in Guanxi province. The migrant Vietnamese worker who normally harvest the eucalyptus return slowly back to the plantations so there are not enough workers present. In addition, getting eucalyptus transported out of Guanxi province is getting more expensive because increased demand on trucking capacity due to the fruit season. The government has cancelled the road toll for fruit transports so you have to pay a premium to get your veneers shipped. Some manufacturers are trying to get the raw materials out of Vietnam. Some successfully others not. The pressure on eucalyptus should improve middle/end of June.

### **Bankruptcy & misery:**

Not sure if you remember but in my December newsletter I predicted that a lot of plywood factories would cease to exist after CNY. Unfortunately, I have been right. The most famous company going belly up is FUSANG. It is really a shame because they had great machinery and good quality products. They however were too big and too inflexible to survive in this extremely deathly competitive environment... So I hope that we will get a bit a healthier environment without players who undercut prices as they try to survive.

### **Sea-freight & currency:**

After CNY the sea freight dropped by 1/2 which is big difference. These fluctuations are deathly I would love to be able to say that our margin can overcome this however this is unfortunately not the case. The problem now is that we have limited control over it. Every beginning of the month it will increase heavily and maybe 2 weeks later it will drop back to normal. Important is to note the word normal... if it does not go back to normal we are in trouble. From first of April the sea freight will increase almost by double. We have sufficient volume (a consolidated volume of +/- 2000 containers) to make long-term deals however the problem with that is that we cannot follow the market if for example the prices drop. So far we have not yet hedged our sea-freight position because it hinders our reaction capability.

### **Markets:**

The market in China is soft. This has caused some factories normally focused on selling locally to shift their attention to exports. This creates further confusion in the market because their way of finding customers is hiring a graduate and ask him or her to blast e-mails out to whomever has something to do with plywood. The problem with this is that prices of too low grade of Chinese panels get distributed everywhere. It creates unreasonable expectations of the market related to pricing. In addition factories used to supply incredible amounts of plywood to the middle East, now also find their market sluggish due to the low oil prices and the crisis in Syria that inflicts the whole region. They as well are trying to get a piece of the not so great European market again with low quality products (too low for Europe). It all puts pressure on prices and margins. Finally America fails to impress so we will for sure see more bankruptcies in the near future. In the meantime we however at Solid are proud to say that we have grown our volumes with 30% thanks to your formidable support and trust. I believe we achieve this because we keep our organization extremely lean, we work with extremely thin margins and we do offer value through a thorough quality inspection, better packing, better communication, just in time delivery and honest transparent feedback.

### **Looking forward:**

Things to keep in account are the harvest season. Every year we see a slow-down in panel production due to the harvest season middle of June and late October. Workers will go and help their home farms to harvest the crops. Therefore, it might be a good idea to consider to place orders before end of April with shipment before middle of June with arrival end of July to avoid having no

stock at the beginning of September. In addition following this strategy might avoid having to pay for the sea-freight increase that reoccur every year for shipment after the middle of June ~ middle of August.

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