

Market info 6th, January 2017: Happy New Year!

While you are getting ready for a new year, I'm getting ready to celebrate the end of the year on the 26th of January 2017. We hope that next year – the year of the rooster or more simply put the year of the chicken – will be less complicated than 2016.

Things however do not look very bright . . .

We do not only have Trump in power in America – being a Chinese I really feel this is bad news - but in addition raw material prices (veneers) fail to drop after the harvest season. Normally raw materials soar in October due to the redirection of harvesting logs to harvesting crops but then normally drop again in December. The supply of logs and veneers however remains sluggish due to heavy rains which complicates logging. Soaring oil prices have also had an impact on glue prices which are up by 29%.

The heavy rains as mentioned in my first paragraph, have not only made logging more difficult it also results in very wet veneers. We have been rejecting a few shipments already because the panels were too wet. A high moisture content can cause serious delamination and we are therefore very careful and keep a very close look on the potentially dangerous situation.

A new element is that due to the bad air conditions (heavy pollution) in China the government is paying great attention on environmental governance. Although most air pollution is caused by electrical plants fueled by coal also some plywood factories pollute. We have knowledge of about 64 factories that have been closed down because of non-compliance. Luckily none of our partners has been forced to close down.

The sudden reduction of supply (64 factories) closed has put pressure on the remaining factories. Closed down factories try to redirect their orders to the remaining factories or buyers try to place their orders with the remaining factories and this when most factories already have very heavy pressure to ship out goods before Chinese New Year. Hence pressure on the deliveries and prices (we estimate that a 5% to 7% increase will be inevitable).

What is way more worrying is the evolution of the sea-freight. Sea-freight now increased by double! Even at those high levels we find it hard to obtain sufficient space for our cargo. Add the increased demand because of Chinese New Year in the mix and you know we are in for trouble. Even though it is sometimes hard to understand, construction in China remains bullish. The local market for panels is good. The export market is also good due to reduced supply although margins are not as good as for local clients.

Finally currencies... the only thing that was helping a bit, is the fact that the yuan was getting a bit weaker. The euro however also kept sliding which minimized this effect. Today however it was very

clear that the government wants to stop the decline of the yuan and has taken measures to support the currency. All in all everything rallies against the euro which would even further push up prices...

As always every situation has its opportunities. In an up-going market the earlier you buy the better deal you get. Of course we have to see what will happen after Chinese New Year, but we will be back to take your orders!

TREECRAFT CHINA

Room 605, 1st Building, Jiujing Road 655,
Jiuting Town, 201615 Shanghai

P. 0086 21 5988 3287 | F. 0086 21 5988 3242

TREECRAFT BELGIUM

Pathoekeweg 130-1, 8000 Brugge,
West Vlaanderen

P. 0032 51 301 669 | F. 0032 51 311 101

VAT: BE0674613323