

Plywood News: 30th Aug. 2019

We are back! It's a new season and we are excited, ready to go and happy to be able to reconnect with you. As always, we would like to share the good, the bad and the ugly about the market with you, our treasured clients & friends (we prefer friendly clients over none clientely friends 😊).

Global market:

Sorry but we have to mention it,... and yes it is getting really annoying but we cannot, but talk about Trump and of course Xi. Due to the China - USA trade war, many large US plywood buyers are rushing to other countries in the region to buy. The impact of this reduced demand is really being felt by companies that normally sell twin panels to the USA (less so on film faced panel producers). As we are willing to go into the politics of it, we do not want to say too much about this situation unless maybe that it does not unnecessarily need to be bad,... It in fact actually strengthens our believe in the future of the Chinese plywood industry

1.) Stronger economic ties between China and Europe

While Trump is alienating himself of the rest of the world, Europe and China are growing more towards each other. This gives me confidence that we will see increased trading between the two big economies.

2.) A weaker RMB strengthens exports:

The Chinese government is very much in control of the strength or weakness of the Chinese Yuan. They have been able to manufacturer a weaker rmb that has very much wiped out the impact of the import duties in the USA (see side note). A weaker rmb is good news for European buyers unless you are holding too much inventory. A strong government is always a good news for exports. What if the Chinese government would decide to refund all VAT paid on products that are exported? (which is the case in the West)

Side note:

At a rate of 7.15 the impact of a 25% import duty is reduced to 8.5% if compared with an exchange rate of 6.25 (which was the case 2 years ago. 8.5% sounds a lot less scary than 25% right? This combined with lower fuel prices, which makes sea freight attractive further reduces the impact of the import duties in the USA. It is therefor much more the sentiment and the insecurity that drives US buyers away from Chinese imports rather than the impact of the import duties itself.

3.) The fundamentals remain unchanged

The whole supply chain from raw-materials (huge poplar & euca plantations – and growing), glue manufacturers, machinery makers, ... are well developed in China and are further maturing. In addition I do not know any country that has a better infrastructure than China. New roads and ports are built. While salaries have increased significantly there is a ceiling to that raise due to the still vast population.

US buys a lot now from Vietnam market. But for European buyers it makes no sense to buy from Vietnam because:

- 1.) there are no import duties
- 2.) China has a much more mature production history
- 3.) China has access to raw materials whereas Vietnam imports from Laos (EUTR?) and China
- 4.) Vietnam is overdemanding from the US.

Of course we need to stay alert but we do not see any reason to believe that the future of the Chinese plywood industry is coming to an end.

Environmental protection:

During the summer holidays, the central government has imposed new blue sky initiatives on Linyi. Since the beginning of this year, the air quality in Linyi City of Shandong has continued to deteriorate. Because the local government was demanded to get the pollution under the required standards they saw only one solution and that was to stop certain productions for one month to achieve that goal. (July 15th to August 15th). Most of the rotary cutting plants were shut down reducing the output to 1/3. No one dares to disrespect the shut down out of fear for enormous fines and penalties. In Xuzhou similar actions were taken. Although no decision was taken to shut down factories, a plan was implemented to further strengthen air pollution prevention and control. The program requires special inspections of VOCs emissions at local production units and immediate request action or shut down in case inspections are not passed. This program is supported and its implementation guaranteed by the formation of a special force that has intensify inspections and has special clearance for unannounced inspections and enforcement.



Do not be mistaken, ... companies are still encouraged to produce but are forced to adapt quickly and respect strict environmental requirements. This will put out of business people that are not willing or cannot invest but will see a consolidation and fortification of those that are willing and capable to do so. In addition we believe that this extra push is no coincidence and that it is in preparation of the 70th birthday of the people's republic of China, which will be celebrated on the 1st of Oct.2019.

With the rising unrest in Hong Kong, the US CHINA trade war, the economic slow down in China, we expect a display of power, prosperity and progression. A message that will clearly communicate to the world: "China is now a (or "THE") world power".

Raw material:

Veneers:

As Linyi City – see above - is the main region that produces veneers, purchasing veneers is hard, especially for big size veneer sheets (3.05 x 1.5). Veneers prices have only increased slightly because the slow down of the market has off set the price pressure due to supply chain disruption.

Glue:

Is stable.

Sea freight:

Sea freight is very stable in recent months as the goods and space are relatively stable.

CE certification:

As we mentioned in our former news letter, the European union is pressuring local governments to better enforce CE certification of building materials. This has prompted the FOD in Belgium to start an investigation and enforcement program. The FOD Economy is responsible for checking the construction products placed on the Belgian market that fall under a harmonized standard. As part of this supervisory task, the FOD has decided to conduct a proactive campaign for a few product groups among which we can find wood sheet materials for use in construction (harmonized standard EN 13986). It is therefore worth being ready for potential audits and / or questions by the FOD. We at Treecraft take this very serious and support this by internal audits in our own lab, by third party audits and clear supportive documentation. **In addition we have decided to get Treecraft certified and we are currently conducting and setting up our own CE certification for all products carried by Treeraft. This is a significant investmen tto further ensure compliance for our clients.**

Conclusion:

The euro ~ rmb conversion is low but could even lower. Plywood prices have fallen a bit. They could further fall but we believe all things are already calculated in the prices already. Now output is adjusted to the new reality with the US buying more else where we do not expect a lot of fire sales (selling below cost). Seafreight is low and should actually be higher due to tension in the Middle East. We therefore believe they are unlikely to further drop. What has remained in these changing times is that september and October are harvesting months with fresh wood coming in, good production conditions (not too hot, too humid, too cold,...) and that historically this is the best time to buy. I would therefore preach caution but remain very optimistic.

Shirley Ye,
Probably the Best Plywood in the world