

Current Scenario in the Teak wood market

Teak Wood in Indian market has traditionally been a relatively stable commodity in terms of prices given the nature of the product, limited supply-demand scenario, small and well defined set of suppliers and buyers and a relatively stable Indian currency. In the middle of 2013, the Indian currency saw a steep slide from around INR 55/USD to INR 68/USD in a period of 3 months (approx. 24%) which hit the teak importers badly and demand diminished due to economic unviability at prevailing prices. Thus started a steep decline in teak wood prices.

Since then, teak prices have seen fluctuations, they were at the peak in the first half of 2014 due to very limited supply in the last quarter of 2013 along with macro-economic factors. Later the increased prices led to an oversupply specially from Central and South America resulting in decline of prices. In 2016, there was a fumigation issue from all exporting countries which led to the decline of supply due to restrictions on few countries which were not able to fulfil the requirements of teak imports by India. This led to confusion amongst the exporters and importers however it also had a positive impact in terms of limited supply due to restrictions and lack of clarity on the situation.

So from time to time, there have been positive movements in the market however generally speaking since the last 4-5 years, oversupply of wood from Latin America has been a factor impacting the prices. Recently Ghana has also contributed to the same apart from various other supply chain and macro-economic factors that has led to volatility in prices of regular quality teak wood.

Teak Prices are currently at their lowest in the last 5-6 years. To have an idea, the drop in sales price in India / CBM (Hoppus) of regular quality teak wood from Costa Rica in September 2018 from May 2014 would easily be more than \$100 in addition to increased costs of exports.

The recent drop in prices can be attributed to various factors, prominent ones of which are as follows:

- New tax regime (GST) 2017 in India led to increased taxation on teak imports and stricter compliance policy.
- Demonetization, 2016 led to shortage of cash in industry which was earlier an important component of financial transactions in the teak business in India at the importer and retailer level.
- Various big-scale banking frauds were uncovered in 2017-18 which has led to stricter banking norms.
- Buyer's credit which was a commonly used financial instrument in the timber trade became unavailable and thus leading to a credit flow problem and therefore the capacities of importers reduced leading to liquidity crunch in the market ultimately resulting in reduction in prices.
- The Indian rupee has once again fallen drastically over a period of last 3 months from INR 66 / USD levels to INR 72 / USD levels (9%) which again translates into a reduction in price significantly.
- The Indian real estate market has also been impacted severely by Demonetization, *Benaami* Property Act, GST, banking frauds and overall fragile global economy which directly impacted the demand of teak wood.

- The volumes of average (14-18 years) and below average quality (10-14 years) wood from Latin America and Ghana have not declined significantly even after a steep reduction in prices. Thus ground stock still remains higher than consumption capacity in all major teak importing ports in India which are Mundra, Chennai, Tuticorin, Mulund, Nagpur.
- Also, due to the rise in oil prices over the last year, the costs of exports have increased significantly. The shipping line freights have gone up by almost \$500 per container since the start of 2018. Similarly, other logistics cost has gone up as well.

Although the market is currently at its lowest since last few years, there is a hope that the market may see a slight upward correction. However, given the macro-economic factors and the supply projections, the new normal of the market has clearly shifted few notches below where it was even a year ago. The general sense in the industry is that the sales price in the Indian for the start of next year exports should be around \$30-\$40 per CBM less than the prices that were at the start of this year.