

1-8-18

“If you don’t set goals, you can’t regret not reaching them.”

Yogi Berra

Market Information



The Market Update, in existence since 2012, is published on a weekly basis and is intended to be a source of lumber and commodities information for the present & future and pricing trend information. We appreciate receiving some of this information from Random Lengths and LMC.

Builders values the opportunity to serve its customers in Colorado & Nebraska and provide you with Lumber & Panel price guidelines as well as Commodities information.

THE BOTTOM LINE: Builders price motion this week:

Rail Service: Low velocity and High velocity has started in Canada again. Cars are shipping slow (or not at all in some cases). This will become more problematic as we move deeper into winter.

Lumber: Demand is stronger than anticipated across the entire country. Do not underestimate this market – the currently high SPF prices are predominantly from an under supplied SPF log condition over much of BC, that may be with us for a long time. Species switching may be the only viable solution if this market gets busy again.

An interesting perspective. Note that Simon does not fully take into account the lack of available fiber (logs).

12/26/2017 Lumber Rally Will Be Felled - Barron's

<https://www.barrons.com/articles/lumber-rally-will-be-felled-1514004818> 1/3

COMMODITIES CORNER

Lumber Rally Will Be Felled

By Simon Constable

December 23, 2017

DJ Commodity Index

It's time to flee the trees. Lumber prices have rallied mainly for reasons that don't seem sustainable for

much longer.

Active-month futures contracts for random-length lumber were recently trading at \$435 per 1,000 board feet, up nearly 30% from \$337 early last spring. Investors holding lumber-related futures should take profits. Those wanting to profit from a likely retreat in prices should sell May-dated contracts. Alternatively, they could write out-of-the-money call options with the hope that they expire worthless. There are no lumber exchange-traded funds, but the Guggenheim MSCI Global Timber ETF (ticker: CUT) tracks a basket of forest-product stocks. However, lumber stocks are subject to factors that may make selling short problematic for investors.

The causes of the lumber rally earlier this year give us more than a clue as to why prices probably won't stay high for long. "There have been a few things moving the price that are not repeatable events," says Shawn Hackett, author of the Hackett Money Flow Commodity Report.

As forecast in Barron's ("Lumber Prices Headed Higher," March 25), the U.S. in May slapped tariffs of approximately 20% or more on imports of Canadian lumber. That had an immediate effect of increasing futures prices. But the tariff won't continue to propel prices.

The next thing to hit the market was a series of brutal hurricanes in the southern U.S. during the late summer that destroyed real estate. The estimated cost of hurricanes Harvey and Irma could run as high as \$200 billion, with a significant portion related to the costs of rebuilding damaged or destroyed real estate.

More recently, wildfires in California have destroyed homes, as well. The reconstruction cost is estimated to reach a minimum of \$9.4 billion, although that seems likely to rise. Again, rebuilding is part of the price tag.

But these events are "artificial, and temporary price drivers had the impact of overshooting lumber prices beyond their normal fundamental value to the upside," states a recent report from Hackett. "We believe that the rebound effect to lumber from these artificial demand drivers has peaked and that most of the tariff impacts have already been priced into the current market."

HOW HIGH ARE PRICES? Pretty lofty, at least by historical measures. Back in the housing boom, lumber hovered around \$450 twice in 2004, before slumping after that, according to price data from Quandl.

It is also true that, at the time, construction of single-family homes was about twice the current level. Single-family homes use significantly more lumber than multifamily units (apartments) do. In January 2006, such structures were built at an annual rate of 1.8 million, according to Federal Reserve Bank of St. Louis data. That compares with data from November showing that new single-unit structures were built at an annualized rate of 930,000.

In addition to the increased temporary demand, there has been a supply interruption, notes Arlan Suderman, chief commodities economist at INTL FCStone Kansas City. He points to forest fires on both sides of the Canadian-U.S. border. "As a result, we've seen a lot more volatility in the lumber market," he says. "I anticipate that once we get through this, the price will start falling to an equilibrium level." In other words, expect lower prices unless the recent tax cuts and revived economy propel demand higher.

That's why futures prices are likely to slip. One good bet for investors would be to sell May-dated call options with a strike price 10% above current prices. The options benefit the buyer if futures prices rise. But if the price falls or doesn't move, then the seller keeps the option's sale price, or premium.

What isn't worth doing is borrowing stock in the timber companies to sell short. These companies have great "capital discipline," says Lila Murphy, portfolio manager on the alternative products team at

Federated Investors. That means management is focused on investing for shareholder returns. It also suggests that companies could make decent returns for shareholders even if futures prices fall back. That will make life hard for short sellers.

May-dated futures closed Thursday at \$435.90 per 1,000 board feet.

SIMON CONSTABLE is the author of The WSJ Guide to the 50 Economic Indicators That Really Matter.

Email: editors@barrons.com

Panels: The OSB market has stabilized for now. Look for a very narrow trading range of pricing over the next 30-45 days. Potential for another slight dip in the first quarter as more production comes on line.

Price Increases: Price increases are taking place (or already are in place) for Roofing, Siding, Insulation, Drywall, anything metal (coil roofing nails just announced another increase), Flooring, Cabinets and Windows to name a few.

Please make sure all of our customers are informed and prepared for these, well in advance.

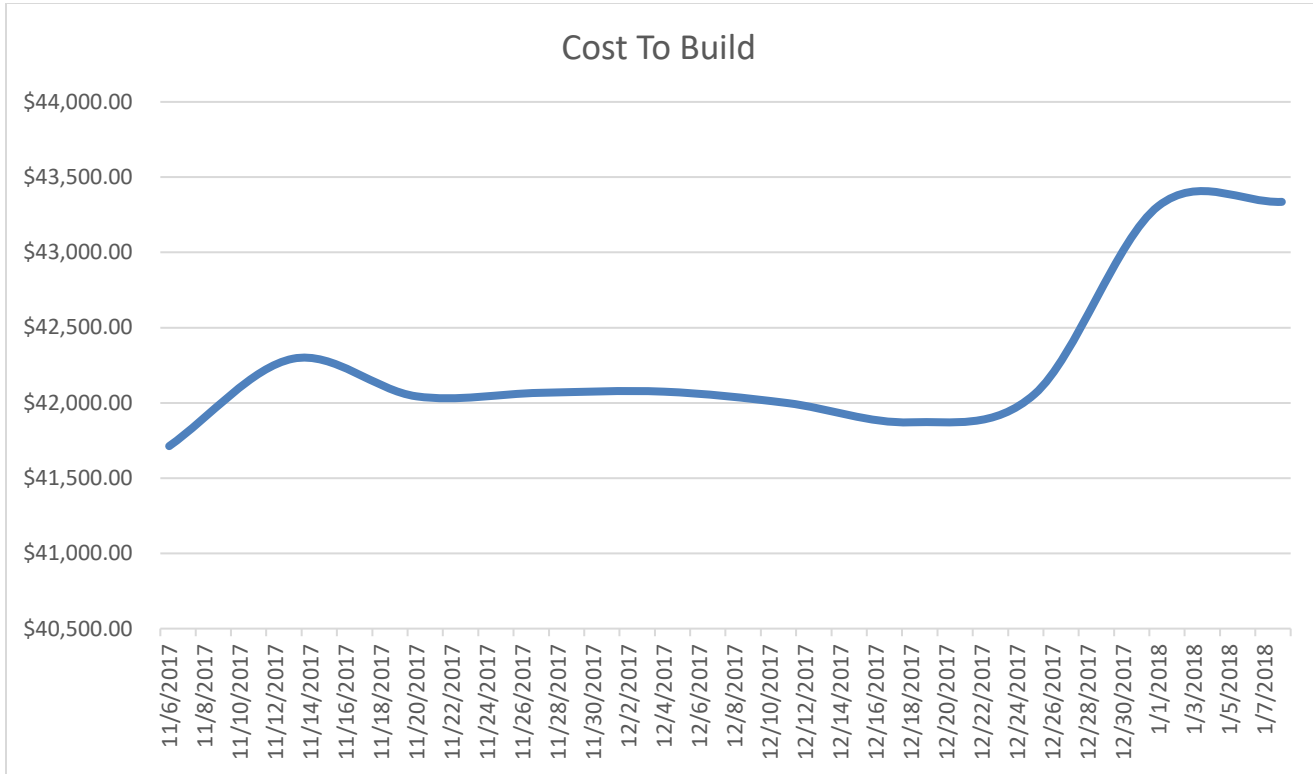
A new feature: The cost of a home, with pricing updated weekly, so we can get a sense of the total cost, not just studs or 7/16.



1,452 sq. ft. three bedroom, two-bath ranch w/attached 2-car garage

Includes: All framing materials from the basement to the roof, Pella windows, vinyl siding, aluminum soffits and trims, laminate roofing, entrance doors, insulation (installed), drywall, interior flush oak doors and trim, oak stair rail, closet shelving and hardware, treated deck, 2 egress windows with area walls and covers in the basement, fasteners. #44245 #E144768

Cost to build this home today:



January 1st price increases are in effect!

Price Change From Prior Week

Lumber Futures

Jan 15 Mar 16 **1/5/18** vs **12/29/17**
FOB Mill 7

Size	Coastal Hem Fir	Inland Fir	Redding Hem Fir	Doug Fir	Fir/Larch	#2 SPF Denver	Hem Fir North HQ	#2 SPF Grand Island	Hampton #2 Premium	Biewer #1 SYP
2x4										
#2&Btr	0	3	2	7	7	7	0	7	7	4
2x6										
#2&Btr	0	0	-2	7	-2	8	0	8	8	
2x8										
#2&Btr	0	0	-2	0	-5	6	5			
2x10	0	-5	-2	-10	-5	2	0	(Hem Fir)		
2x12	0	0	-8	0	-10	5	0	(Hem Fir)		
2x4 Util	0	0	0	0	0	0	0			
2x6 Utility	0	0	0	0	0	0	0			
MSR	GI				Denver					
MSR	DF 1800		DF 2400		DF 1800		DF 2400		DF 2850	
2x4	-10		0		-10		0		0	
2x6	-10		0		-10		0			

Studs

	Hem Fir #2 Studs	Swanson White Fir	Doug Fir #2	Fir/Larch	Western SPF Denver	Potlatch SPF	Premium SPF	
2x4 92	0	-5	0	0	0	0	0	
2x4 104	7	5	7	8	10	0	10	
2x4 116	5	5	10	8	10	NA	4	
2x6 92	0	0	0	0	0	0	0	
2x6 104	7	0	5	10	4	NA	4	
2x6 116	5	0	10	10	4	NA	5	

Denver OSB

ZIP

OSB	7/16	15/32	15/32 Struc 1	19/32	3/4 T&G	7/16	1/2	Advantech	
4x8	0	0	0	0	0	0	0	0	
4x9	0	0	0			0	5/8	0	R3
4x10	0	0				0	0	0	R6.6

Grand Island OSB

ZIP

OSB	7/16	15/32	15/32 Struc 1	19/32	3/4 T&G	7/16	1/2	Advantech	
4x8	0	0	0	0	0	0	0	0	
4x9	0	0	0	Durastrand	0	0	5/8	0	R3
4x10	0			1/4"	-5	0	0	0	R6.6

Quake Zone	110 7/16"	122 7/16"	134 7/16"		110 7/16"	122 7/16"	134 7/16"
Denver	0	0	0	GI	0	0	0

4x8 Plywood	3/8	15/32-4	15/32-5	19/32	23/32	23/32 UL
Western	2	3	2	5	8	2
Southern	0	10	0	5	5	0

OSB Composite



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Framing Lumber 5-year Overlay



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