

June Lumber Market Analysis

By Kéta Kosman

July 26, 2013

OVERVIEW

Perception ruled June. A falsely bearish perception driven by fear. It is almost unheard of that sawmill order files should go from three or four weeks in March to barely a few days in May. The tenacity of this negative sentiment is as difficult to explain as it is to deny. Secondary suppliers and resellers pointed to ever-eroding prices to justify their absolute halt in buying, saying they wouldn't come back into the market with volume orders until they knew they wouldn't get stuck with overvalued product.

Just after the mid-point of July the Canada Revenue Agency announced that the softwood lumber export tax on Canadian wood exported into the US will be 10 per cent for Option A provinces (BC, Alberta). Producers north of the border had been unsettled by the prospect of the tax coming back on, and indicated that they would ship more wood into the US in the weeks prior. Preliminary export volumes do not seem to bear out any follow-through of this intention.

In July, lumber prices bounced off the previously-elusive bottom the week prior to the CRA announcement. Buying momentum and soft inventory levels served to maintain sales volumes the following week, with prices on most lumber and some panel commodities recovering nicely from recent lows.

Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	325	320	+5	294	+31	298	+27
WSPF KD R/L 2x6	300	290	+10	272	+28	294	+6
WSPF KD R/L 2x8	305	286	+19	282	+23	308	-3
WSPF KD R/L 2x10	345	345	0	322	+23	360	-15
WSPF KD PET 2x4 Stud	310	300	+10	280	+30	355	-45
WSPF KD PET 2x6 Stud	280	275	+5	275	+5	355	-75
Douglas Fir Green R/L 2x4	325	325	0	273	+52	280	+45
Douglas Fir Green R/L 2x10	398	385	+13	340	+58	300	+98
ESPF KD 2x4 8ft Stud	380	380	0	355	+25	395	-15
OSB Ontario 7/16" (CDN\$)	270	261	+9	375	-5	252	+18
CSplywood Toronto 3/8" (CDN\$)	387	372	+15	335	+52	421	-34

Even the most veteran lumber producers and buyers were confused by the lack of movement in prices through June. By all indications, sales volumes should have been relatively stable and prices shouldn't have dropped so low after the massive bounce of February and early March.

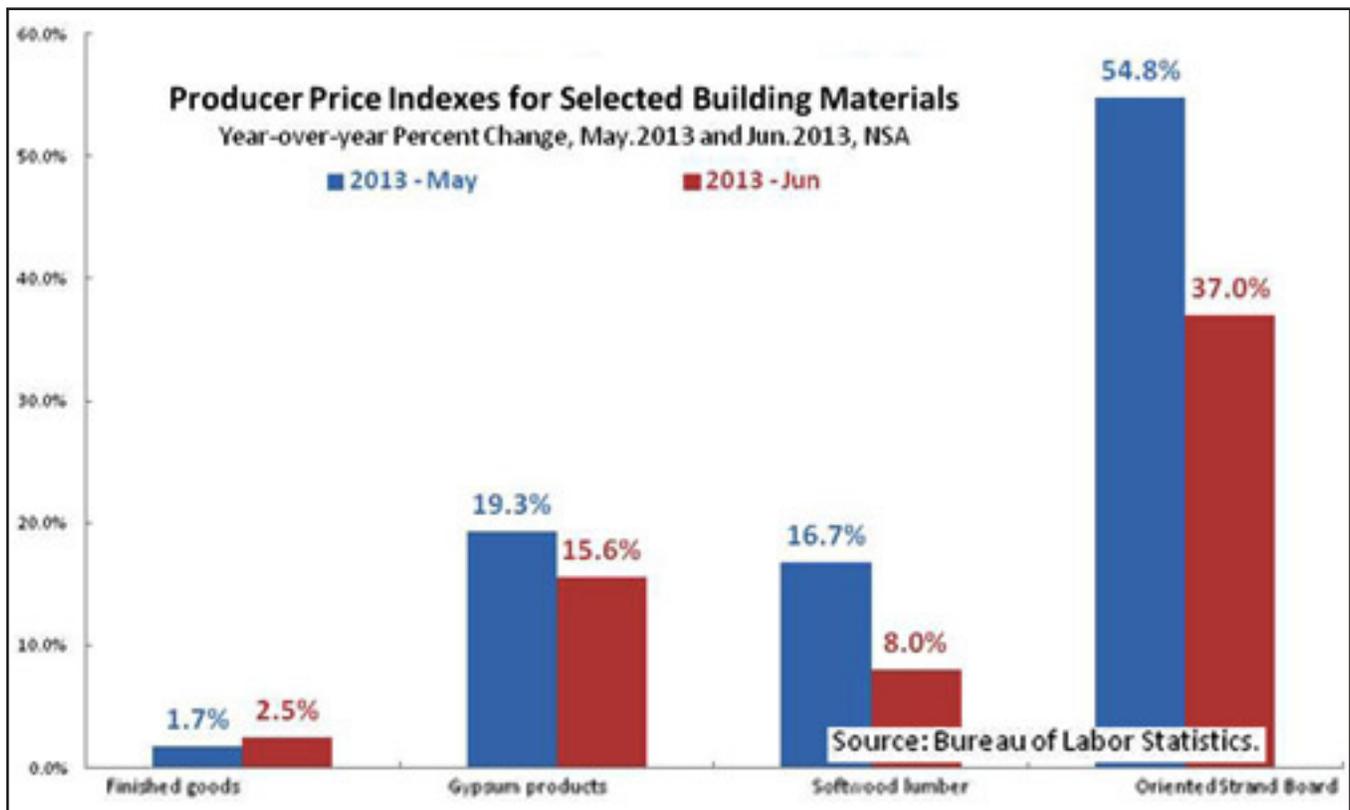
Most likely it was stormy weather in the Eastern North America which stalled lumber selling. June US housing starts, released in mid-July, showed single-family building flat over May but up 10 per cent from June 2012. Permits showed a similar trend. This is very encouraging for Canadian and US lumber producers and sellers; as the macro-economic problems in the US continue to play out, new home construction should start to find its way back up to the 1 million annualized range.

Through June and into July, customers stubbornly maintained their recent-years' habit of just-in-time buying. Reloads and other secondary suppliers continue to eschew true replenishment of lumber stocks. This practice could become troubling if there is a major wildfire in any of the important timber harvesting areas, like BC, Quebec, Washington State or Oregon. Also, if the United Steelworkers Wood Council and Canfor cannot come up with a pattern agreement soon there might be some labour disruptions in BC come August. Currently the sticking point at the negotiating table is Canfor's pension plan concerns:

"Negotiations between the two Parties are expected to continue once the Industry consolidates their pension plan position", says a USW release dated July 11.

Key ideas for June 2013 lumber and panel markets:

- Even a midweek jump in lumber futures wasn't enough to reverse from weak sales volumes.
- The unrelenting hesitation of buyers from all markets forced prices to ever-lower levels.
- The gloom of June continued as prices dropped further on most commodities.
- Traders were hopeful following good sales volumes to China around midweek.



Even a midweek jump in lumber futures wasn't enough to reverse from weak sales volumes.

JUNE WEEK ONE RECAP

- As May closed, some sales hustle was generated by up-limit lumber futures. Even though lumber futures popped up-limit again in the middle of the first week of June, customers did not sit up and take notice.
- Prices of Douglas-Fir logs in Washington State and Oregon dropped significantly into

the beginning of June. The few mills remaining that produce green fir lumber worked through their high-priced log decks so they could get access to cheaper stems.

- In the first week of June, one large Canadian producer of WSPF studs had their "best week of sales in a long time". An apparently "tremendous" amount of low grade stud-products went overseas that week, but not to China.
- Eastern panel traders hoped the retracements in the beginning of June would be the last, and they may even be seeing the light at the end of the tunnel on OSB prices. Announcements of downtime from panel producers generated some much-needed sales buzz.

SHORT TERM ANALYSIS

Cautious customers refused to see that lumber prices had reached, and passed, the bottom. This despite repeated warnings from Madison's in June that incremental price increases were looming. The added uncertainty of whether or not the softwood lumber export tax would come into effect for Canadians pushed some producers into shipping excess wood into the US.

In this tenderly recovering market, one thing has remained consistent: there is not enough inventory throughout the supply chain. Extreme price volatility of lumber and panel commodities will continue until secondary suppliers, like reloads and wholesale yards, stock wood at volumes similar to 2004. As long as this just-in-time buying habit continues customers will all be ordering direct from sawmills, which puts the mills firmly in control of pricing. As long as buyers keep making small orders from producers every three days, prices will fluctuate as radically as they did from February to June of this year.

Only when there is plentiful wood available from primary sawmills AND secondary suppliers will a proper two-tier market emerge. For the time being, the trend of continually making small orders every few days is giving mills the opportunity to raise prices as soon as their order files are out two weeks or longer. By the time that happens customers have no choice but to pay higher prices, or else risk paying even more should they decide to wait before purchasing.

The unrelenting hesitation of buyers from all markets forced prices to ever-lower levels.

JUNE WEEK TWO RECAP

- In the second week of June, American traders watched in dismay as buying interest petered out after Monday.
- As the lumber futures board lurched down-limit mid-week, ESPF traders had trouble drumming up tangible business.
- Into the middle of June, studs at least enjoyed some palpable sales in the overseas arena. Domestic studs' business continued somewhat bleak.
- Sales volumes of Eastern OSB were improving, but prices struggled.

SHORT TERM ANALYSIS

A large Canadian producer firmed their pricing on benchmark Western-Spruce-Pine-Fir 2x4 #2&Btr, but many smaller mills were willing to undercut that level to keep volumes moving.

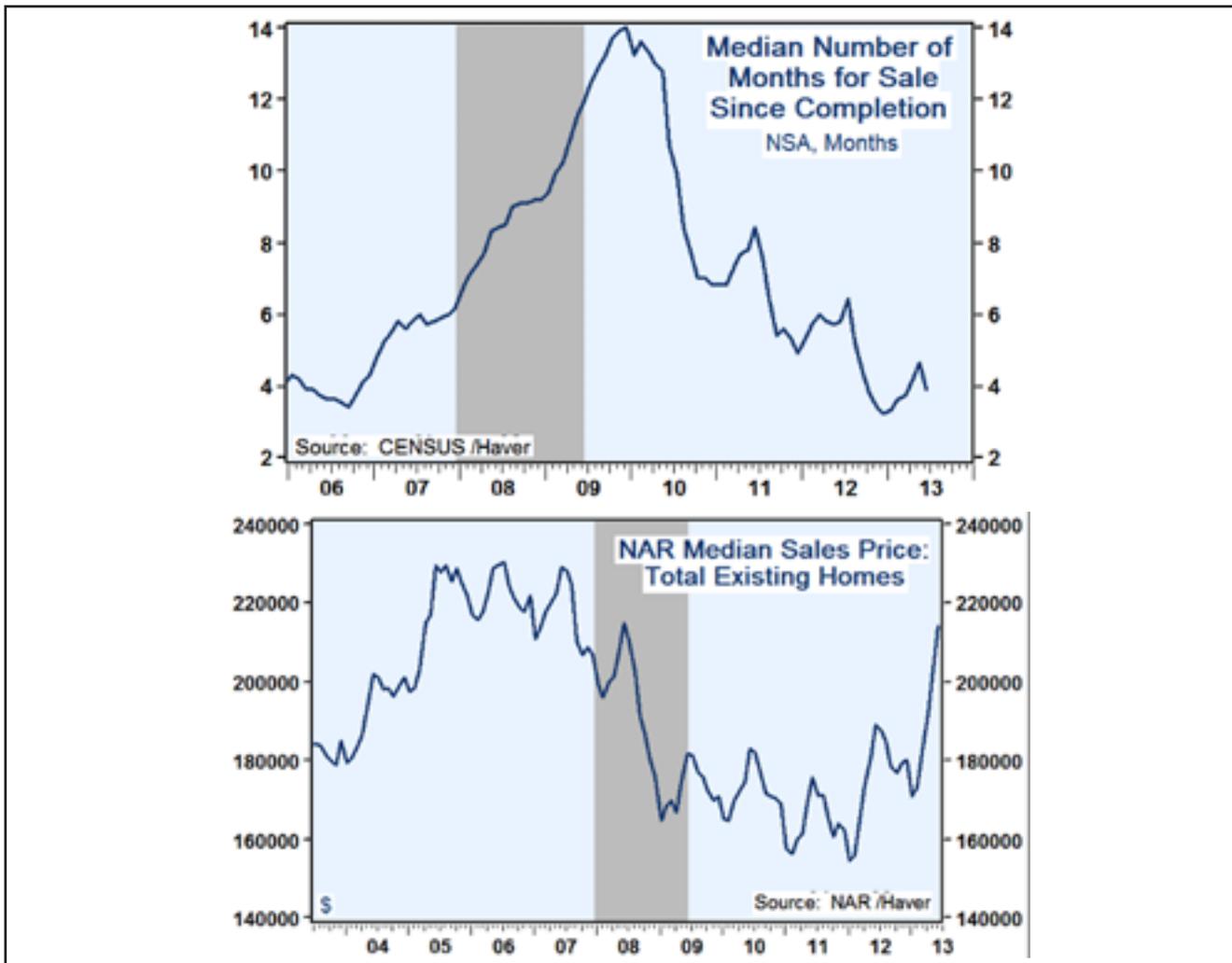
The highest two months of production traditionally – April and May – came and went this year. Traders were hopeful that the current problem of over-supply might solve itself quickly.

Just like those of green Douglas-Fir, producers of dry Doug fought each other and pushed numbers lower, though not as drastically as prices on fresh fir.

The unrelenting hesitation of buyers from all markets forced prices to ever-lower levels.

JUNE WEEK THREE RECAP

- In the third week of June, prices drifted lower on all but the widest WSPF dimensions.
- In mid-June, ESPF producers had the most success with their Canadian customers, as American buyers were preoccupied assessing the much lower-priced WSPF flowing over the border.
- Fortunately for green Doug-fir players, prices actually reached their low-points after mid-June.



- Some sizes of kiln-dried Doug-Fir showed solid sales movement, and even encouraging pricing. Concurrently, many KD fir sawmills announced they would be pulling back the reins on production.

SHORT TERM ANALYSIS

June was expected to be an auspicious month, filled with sales and maybe even some price-rallying. However the stubborn reluctance of customers to purchase sizable volumes until they were sure prices would fall no further delayed price recovery. By

early July lumber prices had started climbing back up. Panels were not far behind. With no wood on hand, buyers could do nothing but book orders even as prices rose with each passing day.

The gloom of June continued as prices dropped further on most commodities.

JUNE WEEK FOUR RECAP

- As June waned, WSPF traders caught a break in the form of Chinese customers pouncing on huge volumes. Every western Canadian sawmill had loads of business from China.
- Studs' sales were also touched by China's presence.
- Enough Douglas-Fir sawmills finally scaled back production to be rewarded with sharply improved pricing on most KD items.
- By the end of June, only plywood enjoyed a good sales clip for panel traders. OSB sales continued to struggle.

SHORT TERM ANALYSIS

It was in the last week of June 2012 when the market began an impressive upward rally after months of frustrating stagnation, and folks hoped for a repeat this year.

At the end of June, the pace of the price-descent slowed – and, in some cases, flattened out – and sales of all commodity sizes improved. Log-supply was ample, and harvesting would likely resume in the next few weeks as weather conditions in the bush dried up. The possibility of a late-July/early-August export tax on cross-border shipments was barely on the radar for producers; they weren't even offering product out that far.

CONCLUSION

Seasonal lumber price trends of years past have still not returned, and likely won't for another couple of years as the tenuous supply-demand balance recovers from years of low production and even lower demand. Traditionally, lumber prices start rising in February, and level off around May then start a slow slide downward into autumn. Often there will be temporary uptick, of maybe a few weeks, around Labour Day. The old adage is: Labour Day long weekend is the beginning of the end of higher lumber prices each year, and US Thanksgiving is the end of the end. By early December, prices have historically been at their lowest in any given year.

Due to the absolute crash of US home building in 3Q 2006, these 'usual' seasonal trends have evaporated in recent years. In 2010, China started buying enough volume to affect price trends. Players have been learning the purchasing habits of this important new customer; it is still too soon to be able to declare a new trend.

In the next couple of years, as US home building recovers and China keeps buying at similar volumes to 2012, the North American lumber market will settle down into whatever will become the 'new normal'. For now all players can do is try to capture as much business as possible from existing customers.