

LUMBER



Contract

The **Random Length Lumber** futures trades at the **Chicago Merchantile Exchange** (CME) which is part of the CME Group. The futures' ticker symbol is '**LB**' for Lumber.

Contract size is 110.000 board feet with expiries every second month starting in January (January+2).

The board foot is a measure of volume matching a 1 inch thick, square board of 1 foot length and width (= 2.36 liters). One contract is therefore equivalent to 259.600 liters or 259.6 cubic meters, filling a cube of 6.4m lengths, height and depth.

The lumbers' length is allowed to randomly vary within a range of 8 to 20 feet (= 2.4m to 6.1m). But height and width is specified to be 2 x 4 inches.

Price quotation is USD per 1000 board feet (1 mbf). That leverages the futures contract to a factor of 110 (= 110.000 board feet / 1000 board feet).

Maximum daily price movement is USD 10 above or below the previous day's settlement price, but can be subsequently extended to USD 15.

The futures' final settlement is by physical delivery of lumber manufactured in selected Western States of the U.S. or the Canadian States of Alberta or British Columbia.

Dependencies

Demand in lumber will be directly related to **housing construction and remodeling** activities. In fact, the monthly published figures of new privately-owned **housing starts in the U.S.** are often closely linked to the random length futures price (see chart 1). You may instead also compare to the U.S. new building permits, which naturally are never going to deviate for long from the housing starts figures.

Affordability, i.e. general economic prosperity and expectation as well as low mortgage rate levels, would have a positive influence on the expansion of the housing market.

But influence on lumber prices is not limited to domestic U.S. demand. International construction activities would spur exports out of North America and therefore increase lumber prices, too. Especially **China's rapid and ongoing urbanization** led to an overwhelming demand during the last years. China is likely to continue to be the 'global gorilla' driving global log and lumber demand just as it determines other raw material prices. When the U.S. overcomes its recent mortgage and housing

crisis, a bidding of lumber supply between China and the U.S. could send lumber prices towards the 2004 historical peak of over USD 590 per mbf.

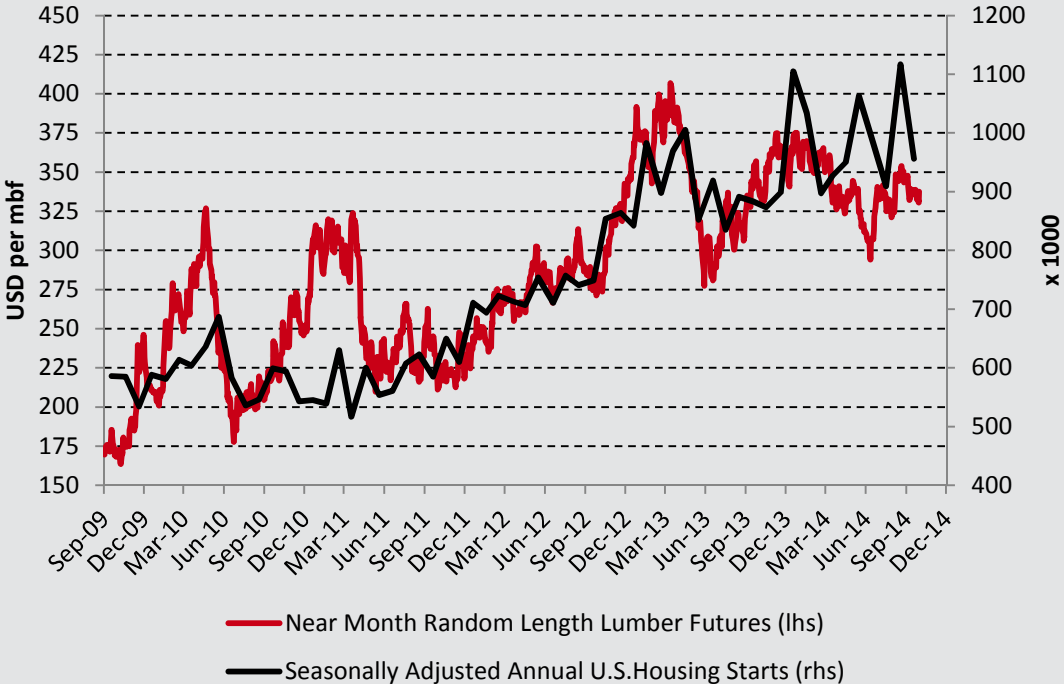


Chart 1: Lumber Futures prices relate to U.S. housing starts.
Source: U.S. Census Bureau

Natural disasters, like earthquakes (Haiti & Chile 2010) or hurricanes (Katrina 2005 & Sandy 2012), might spike demand in lumber to repair or rebuild houses. If these devastating events occur during Northern hemisphere wintertime, when inventories are on the low side anyway, then they would have an even higher impact on prices.

Like all natural products, trees are at risk of **pest infestation**. Unusually hot summers or mild winters in Northwest America would increase the local pine beetles population. Then otherwise healthy trees are in danger of being attacked and large areas of forest are threatened to die (British Columbia 2003).

Man-made shortage of lumber supply is caused by lumber mill worker **strikes** (Thessalon, Ontario 2010 and Sutter Creek, California 2012).

One could also reveal an energy component to lumber prices: Higher crude oil prices would typically increase the incentive to use **wood pellets** as energy source. That is even more relevant for Europe where the potentially cheaper natural gas alternative is often still linked to the crude oil price. The additional demand in wood would indirectly also make lumber dearer.

Main Exporters

Mostly the forest-rich countries of **Canada**, **Russia** and the **U.S.** provide the world with wooden building material. All these countries supply to China.

Russia, due to its geographical location, delivers also to the EU and the Middle East.

The by far major competitors in the growing Chinese softwood lumber market are Canada and Russia. Together they held combined more than 80% market share during the last years (see chart 2).

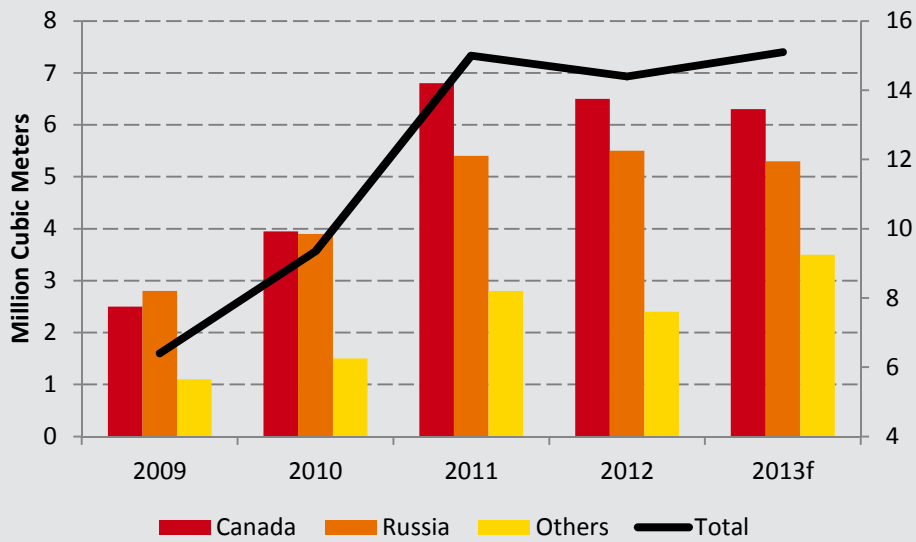


Chart 2: China's Softwood Lumber Imports. Source: RISI

In addition, during the last years, **New Zealand** has replaced Russia as China's major log (as oppose to lumber) supplier. The U.S. and Canada follow Russia in the log ranking list.

Main Importers

China overtook the **U.S.** and is now by far the largest lumber importer. Still, the lion's share of U.S. lumber imports is from its neighbor Canada. **Japan** is another solid buyer of lumber.

Useful Links

- U.S. Census Bureau. New Residential Construction data and release dates <http://www.census.gov/economic-indicators>
- CME Group. Random Length Lumber Futures specifications http://www.cmegroup.com/trading/agricultural/lumber-and-pulp/random-length-lumber_contract_specifications.html
- Wood Markets <http://www.woodmarkets.com/>
- US Forest Service <http://www.fs.fed.us/>
- British Columbia <http://www.gov.bc.ca/for/>
- Random Lengths <http://www.randomlengths.com>
- RISI <http://www.risiinfo.com>

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