



Lumber Market BRIEFING

Softwood Framing Lumber Market Forecast & Trading Strategies

It's easy when you know what's coming.

Matt Layman, Publisher

Week #04 Thursday, January 24, 2019

Another Dimension Current Disruptions Becoming No Factor

When it comes to our lumber market, the recent disruptions are rapidly becoming a "NO FACTOR".

- Trade with China and Canada.
- Government shutdown.
- Interest rates.
- Housing affordability.

Why are they becoming irrelevant? Time.

February is the big presales month for large home builders. This next month will give a preview of 2019 housing starts. Builders are coming off of a strong December. When the higher Jan HMI (builder confidence) was announced last week, folks were bullish on housing. The reason builders were more optimistic was the quality of December shoppers and better sales than expected.

Builders can and will nullify the affordability objection right out of the chute in February. Interest rates are not the issue; down payment is. Lenders are offering 3-5% down with PMI in lieu of 20% down, and without interest rate or closing costs penalties.

Trade disputes will settle not impact U.S. housing. Lumber, yes, but not housing. Gov't shutdown is adding to strong pent up demand and that is bullish for lumber.

In short, the new home construction season is 30 days away and will happen regardless of disruptions.

Existing home sales will be remedied with lower sales prices...or new homes will get the order. This is still a sellers housing market.

Lumber Market Condition Housing Hurdles Cleared; Lumber Going Higher!

The media is saying it but they don't see it. Mortgage rates are drifting lower. Lenders are offering low down payment mortgages. Lumber & OSB prices are low. Labor shortages are being remedied by off-site fabrication. Lots are being added to outer perimeters of metro areas. The circles are widening with plenty of lots available every where but northeast and west coast. Builders are committed to a lower price tag in 2019. ALL buyer objections have been addressed.

2019 housing hurdles are being cleared. Contractor yard supply is adequate based upon lowered sales expectations. There is nothing in the way of a strong building season start and consequently, hearty spring lumber sales. Seasonal lumber buying is happening now which will run its course through February. At that time, buyers will retreat to reassess inventory positions relative to builder requests for delivery. That will create a short pause in price advances.

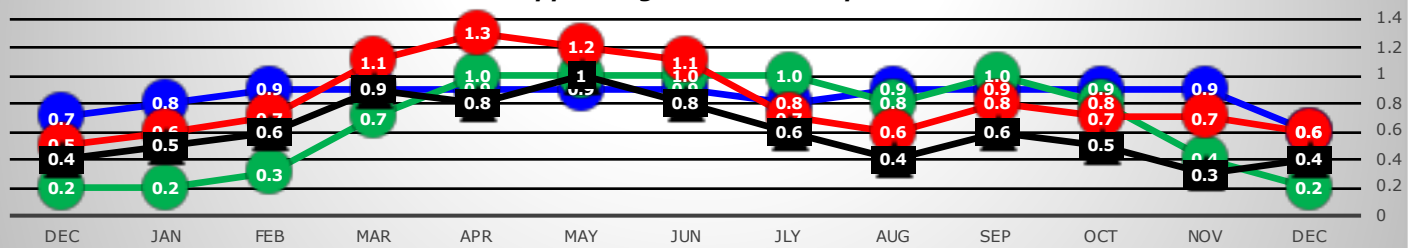
After just a couple of sidelined weeks in early March, lumber buyers will see the writing on the wall and realize they are under stocked for April and May, the best two months for jobsite deliveries. That is when our lumber market will bust loose, in all likelihood taking us right back to \$600 2x4's, FOB mill..

So, what can you do with this forecast? As quickly as possible, cover needs through May. That may take a few weeks, or if cash and space permits, just a few days. Position to avoid buying in April and May.

Seatbelts on. Arms and hands inside the ride at all times. Let's roll. *Looking Forward...ML*

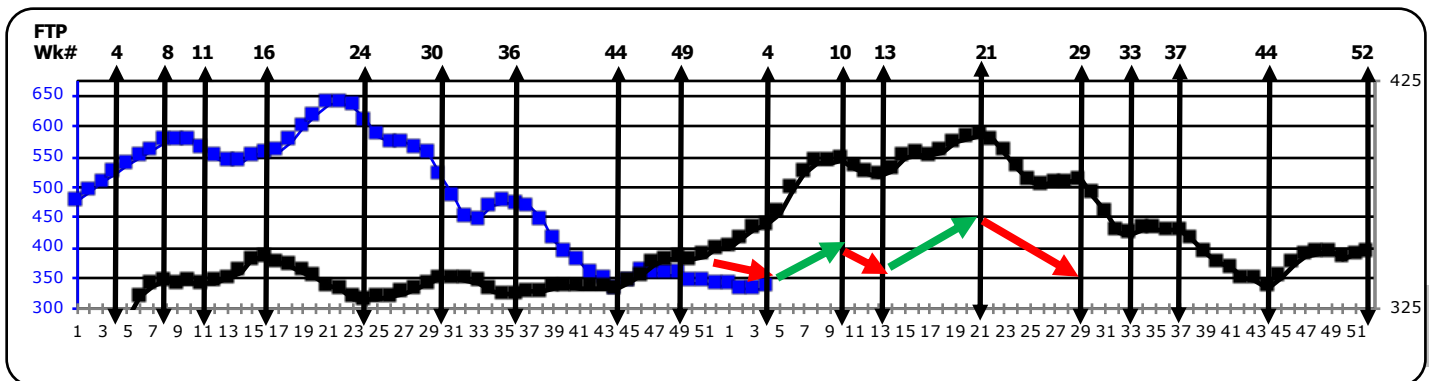
Lumber Production With Builder Jobsite Delivery, Supply Side Inventory, & Lumber Market Cycle

This happens regardless of disruptions!



LLG 2x4#2 Composite (SYP-E, SPF-W, HF GDF) 2018-Current

FTP's Forecasted Turning Points: Vertical arrows project times of reversals or accelerations.



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Forecasts & Strategies

SYP Lumber: It's that time of year when lumber dealers make treated commitments for spring and summer. Wood preservers are partially bought in preparation.

Component manufacturers are about to get buried in quotes and orders. February is a buy month for those two segments. Combined they consume 50+% of all SYP production, and an even higher percentage of #2 and above grades.

Place 90-120 day lumber locks to avoid repricing in April and May. If needing to split, go 30 then 90.

Canadian SPF: Canadian mills, particularly in the west are trying to find the sweet spot where there is slightly less production than needed. At current curtailed production levels, SPF is under-produced for March, April and May. 90-120 day price lock will reduce exposure to the market's top in April and May.

Western U.S. Dry Fir: Buyers are digesting last week's lumber gulp. There is huge pent up demand, just waiting for builders to open the gates. Lock prices for 90-120 days. Weather in this regions hot bed of consumption, So Cal and AZ, will be prime beginning in February.

Green Doug Fir: GDF is priced to sell, or buy. Ignore the reasons to delay buying. Cover spring needs now.

OSB: The price is right. Prepare inventory for strong spring sales and price appreciation. Cover through May.

Whatever your inventory strategy, plan to include being covered through May, anticipating the market to peak that month. That does not mean buying it all now, rather keep adding as space and cash permits until able to sit out until the end of May.

Midweek Snapshot

Week #	Wed	Sun	Sun	Last	All
	4	4	3	Year	Time High
#2 2x4 SYP-Mill	390	390	390	520	625
#2 2x4 SPF-W Mill	340	335	330	505	660
#2 2x4 KD HF Mill	350	350	345	515	665
#2 2x4 Grn DF PrtInd	260	260	265	530	610
Lumber Composite	335	334	333	518	640
7/16 OSB SE Mill	180	175	175	285	470

	FROM LAST		UNTIL			Change			
	Sunday		TODAY						
SYP	East	West	East	West	East	West			
2x4 #2	390	365	390	370	0	5			
2x6 #2	315	330	315	340	0	10			
2x8 #2	305	285	310	295	5	10			
2x10 #2	310	260	310	270	0	10			
2x12 #2	445	490	455	505	10	15			
Composite	353		356		3.0				
Canadian	East	West	East	West	East	West			
SPF	Bstn	BC	Bstn	BC	Bstn	BC			
2x4#2 Prem		365		370		5			
2X4 #2	405	335	405	340	0	5			
2X6 #2	425	350	425	360	0	10			
2X8 #2	420	315	420	320	0	5			
2x10 #2	470	360	475	365	5	5			
2X12 #2		425		430		5			
US West	HF	FL	GF	HF	FL	GF	HF	FL	GF
2x4 #2	350	385	260	350	395	260	0	10	0
2X6 #2	350	400	300	355	415	305	5	15	5
2X8 #2	290	385	220	295	395	225	5	10	5
2x10 #2	340	410	290	350	425	295	10	15	5
2X12 #2	350	430	360	375	440	360	25	10	0
OSB	7/16"			23/32"TG					
Region	Sun	Today	Sun	Today					
Southeast	175	180	5	410	415	5			
Southwest	175	180	5	405	410	5			
North Central	210	210	0	390	390	0			
Midatlantic	195	200	5	430	430	0			
Eastern Canada	185	190	5	385	385	0			
Western Canada	155	155	0	375	375	0			

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(WRT) Weekly Rail Traffic Originations Lumber & Wood Products

	Last Week	Prior Week	4-wks ave	YTD ave
U.S. Cars	3518	3392	2843	3110
%+/-	3.6%			
% Vs 2018	5.1%	8.2	3.2	4.9
Canadian Cars	3540	2993	2358	2761
%+/-	15.5%			
% Vs 2018	16.1%		-12.1	-3.0

Source: Association of American Railroads. www.AAR.org

Flatbed Trucks: *RPM: Average Rate/Mile *LTR: Load/Truck Ratio (Loads Posted Per Available Truck)

	Current Week	YoY	
LTR Load/Truck Ratio	21.7		YoY LTR Range
% Change	-11.0%	-49.0%	15.9 (abundance) - 109.1 (shortage)
RPM Ave. Rate/ Mile	\$2.38		
% Change	1.7%	4.3%	

Source: DAT.com

Same loads may be posted multiple times daily on the DAT load board to keep them near the top of the list.

January 13 - 19

Watch Out For B.C. Congestion

The pick up in mill lumber and OSB sales over the past two weeks is reflected in the jump in rail car loadings. Canada was up 15% last week, nearly 550 carloads. U.S. shipments were up 3%. Nearly 1000 more cars were shipped than the previous week. Canada's 4-week average is 12% below this time last year. Lots less bought this year so far...OR...CN & CP are now rationing congested rail space through Vancouver for cars headed toward the port. So far no delays coming south...but its fodder for a disruption.

January 13 - 19

No Flatbed Shortage This Winter

Capacity has returned to the market following the holiday season. Flatbed load posts fell 2%, while truck posts increased. Compared to last year, LTR is down 49%. No truck shortage this year...so far.

As a result, the national load-to-truck ratio fell from 25.1 to 21.7 loads per truck.

The national average freight rate for flatbeds declined 4¢ to \$2.38 per mile

(FPI) Framing Package Index **9.28** (8-week average)

Wkly Stats	This Week	Year Ago	YoY Hi	YoY Lo	*Y/Y Chng
Del'd \$Tot	18000	26200	34900	17900	- \$44.3
Jobsite \$/sf	9.00	13.10	17.45	8.95	

2018-19 Month-End Framing Package Cost to Builder From Lumber Dealer.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
27200	30200	29700	31300	34900	30900	24000	25200	23900	18700	19900	18300
13.60	13.81	14.85	15.65	17.45	15.45	12.00	12.60	11.95	9.35	9.95	9.15

Estimated framing cost to build a 2,000 SF home with 2-car garage and covered porch.

*[Based upon 30-year 5.0% mortgage...\$540/\$100,000]

Framing Package Contributes to Affordability

After last year's lumber spike sent the FPI soaring above \$17 per square foot, the 2019 building season begins below \$10. That represents a 42% lower cost for builders. From this time last year, the FPI is 31% lower. Great ammo for builders to knock down new home prices.

The FPI represents a sample price builders would pay for a lumber framing package from a lumber dealer.

(ROC) Rate of Change & (V.I.) Volatility Index

(Weekly price change estimator.) ROC	Current 52-wk		Volatility	
	Price	Volatility	Index	
2x4#2 SYP-E	\$11.8	\$390	\$615	1.58
2x4#2 SPF-W	\$16.4	\$340	\$855	2.51
2x4#2 KD HF	\$12.5	\$350	\$635	1.81
2x4#2 GDF	\$13.8	\$260	\$720	2.77
Lumber Composite	\$13.6	\$335	\$706	2.11
7/16 OSB-SE	\$11.8	\$180	\$620	3.44
Average ALL	\$13.3	\$304	\$689	2.27

New Volatility Index

This feature measures 52-week historical volatility against current trading price. At the current Rate of Change and price, OSB would experience 344% volatility over the next 52 weeks. Canadian SPF has the highest ROC at \$16 per week. That is double this time last year.

ROC is the 52-week average rate of weekly price change expressed in \$/mbft

YoY Total Volatility is the sum of all weekly changes (+/-) for 1 T/L purchased per week.

Volatility Index is the relationship of current price and the total of all price changes over the past 52 weeks.

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Running to Top \$400

We have now broken out of the weekly wedge to the upside after two strong days of trading. The upside target is the 50% retracement at \$417.50.

It is difficult to accept that in a market which feels as though it has done very little in 2019, we are setting up to begin the spring \$100 higher than last fall's lows.

That has happened while our lumber market has been peppered with fear and doubt. Regardless, it continues to follow the long term forecast. There will be resistance at \$380, the previous pivot high.

\$380 could very likely turn out to be the giant booster step that propels lumber to \$400. Breaking these resistance barriers is very bullish. Volume is still on the light side, however it has risen with this week's higher prices. That is bullish. Open Interest is declining, which sends a mixed signal. Volume and Open Interest should both rise as price rises to confirm a bullish environment. We see below that OI declined the past two sessions with price and volume both higher. Keep in mind that OI is for the previous day.

Cash: SPF 2x4 #2	340	Mar-19	May-19	Jly-19	Sep-19	Nov-19	Jan-20	Mar-20	Vol.	O.I.	Ave 5-day close all contracts	370
Thursday		359.4	365.6	373.5	378.4	372.3	370.0	365.8	442	3736	Ave-5-day volume all contracts	482
Friday		354.9	361.3	369.4	374.3	368.2	365.9	361.7	368	3711	Ave-5-day open interest all contracts	3699
Monday		-	-	-	-	-	-	-	-	-		
Tuesday		363.4	369.0	375.4	380.3	374.2	371.9	367.7	467	3693		
Wednesday		366.1	372.5	380.0	384.9	378.8	376.5	372.3	650	3656	O.I. is previous day.	
Low Limit - Thursday		351.1	357.5	365.0	369.9	363.8	361.5	357.3				
High Limit - Thursday		381.1	387.5	395.0	399.9	389.2	386.9	387.3				
LBR Spread		(6.4)	(7.5)	(4.9)	6.1	2.3	4.2					
Cash Prem or Disc (-) to Futures		(26)	(33)	(40)	(45)	(39)	(37)	(32)				
Carry = \$.030/mbft/day		16	34	52	70	88	106	124				
Basis (Cash v. Futures at delivery)		-7	5	17	30	54	74	96				

Prices are the CME 1:05 "settlements", not the Globex "last" trade.

Cash is Canadian SPF 2x4#2, fob British Columbia, CD mill.

Carry charges include interest, storage and insurance.

Basis is the cash price plus carry charges - futures.

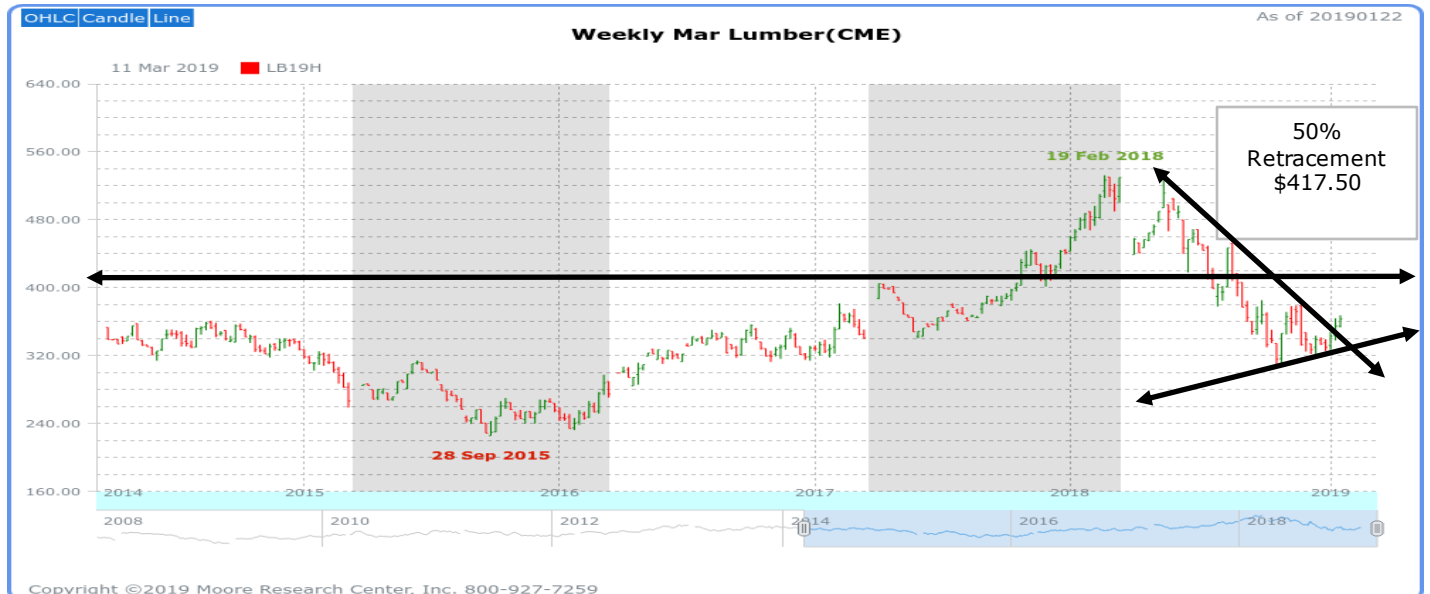
"Vol", volume is total daily contracts traded. Heavy volume is >1000.

Light volume is <500. Volume includes all contract months traded.

"O.I." is open interest; total open trades one long and one short, each contract.

Prices rising, with volume and open interest rising, the market is strong UP.

Prices declining, volume & OI rising, market is strong DOWN.



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Futures prices are rounded to the nearest dollar. Cash is contract grade #2 2x4 W-SPF.

The last trading day, or expiration, is the last trading day before the 16th of the contract month. Forecasts and observations are based upon technical and fundamental criterion at the time of publication and are not offers to buy or sell futures or the cash equivalent.

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Layman's Lumber Guide Forecasts Bi-Weekly and Monthly Publication Subscription Rate: \$129/month-to-month. \$1299 Annually.

Matt Layman, Publisher, PO Box 905, Belmont, NC 28012...Phone:336-516-6684 Fax:888-811-6917

Email: matt@laymansguide.org

www.laymansguide.org

TWITTER @Laymansguide