



Weekly Market Wrap

Yaletown Lumber Industries Ltd. Prepared by Vince Bulic

For Week Ending Friday November 23, 2018					Cash prices as reported by Random Lengths		
Futures	Wk. Close	Change	High	Low	2x4 #2+Btr Base Price	\$351	Composite
Jan	362.30	↑ 10.90	371.00	347.00	Compared to Futures	Jan \$15 Prem	\$ 342.00
March	372.20	↑ 12.70	379.20	355.90	Last Week	\$347	Cdn \$
May	378.60	↑ 10.30	385.20	371.20	Last Year	\$489	1.3214

Cash: The market saw a slower pace of activity this US Thanksgiving holiday week. Western SPF mills entered the week with healthy order files and as such did not have to worry about the slower pace. Reports of field inventory levels were mixed – some say that end users are running very lean, while others say that is offset by ample product still available in the distribution pipeline. US October Housing Starts were up 1.5% to 1.228 million units, while starts fell 0.60% to 1.263. The Random Length Composite index was up \$2 to \$342.

Futures: The board saw another volatile back and forth trade this short week. A strong Monday morning open based on BC labour fears gave way to a sell-off into Tuesday before we rallied again on Wednesday as many decided they did not want to be short over Thanksgiving. The chart looks positive. But then again when you drop from \$650 to \$300 in five months the chart is ready to recover, and a bounce could be a \$100 plus move. Hard to believe we've recovered \$60 off the lows and it still looks like a bounce on the charts!

Looking ahead: Last year at this time all the Canadian mills were touting how the duties were fully passed on to the US customer. Since Canada only supplies approximately 30% of US lumber needs the laws of economics dictate that

it would be impossible for Canadian producers to fully pass on the cost of the duties to US consumers. All the stock market analysts who bought into this argument put forth by the CEO's on the conference calls were hoodwinked and need to go back to their Economics 101 textbooks. Now that the distribution system inventories are back in balance, the duties are doing exactly what the US Lumber Coalition intended them to do – specifically to make Canadian sawmills the marginal producer. With a 20% speed bump on their mill returns the Canadian mills will curtail before US mills are forced to. Without the duty speed bump the US mills are the marginal producer. So any talk that a producer who supplies a third of a market can fully pass on a cost increase is garbage. It always was. As for the potential labour disruptions in BC it looks like the union (so far) is shooting blanks. I guess it is tough to threaten your employer with rotating strikes when the employer views that as a needed, and cost effective, curtailment. On the other hand, the union bosses know that the membership would not have the stomach for a full blown strike – especially as we head towards Christmas. This issue seems like it will drag on for a while, but so far it has been little more than a distraction.

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Random Length Composite Price Index – the freefall has stabilized in the last 3 weeks.....

