

# Commodity Comments



WOOD COMPLEX REPORT  
(issued to the trade)

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May Plywood: 198.80

July Lumber: 193.50

In our last report, no.4, we wrote, "Fundamentally this is still a bull market... (however) ... Our feeling is that the shakeout is not yet complete and that prices will break through the present levels of support, hitting bottom \$5.00 to \$10.00 lower ..." Our performance is documented in the accompanying charts.

At the present time we offer the same advice: we believe that over the long term this is essentially a bull market and we look forward to purchasing. However, we still view the short term bearishly.

Demand for wood products is strong. U.S. housing starts posted a 17% increase during March, climbing to a seasonally adjusted rate of 2,127,000 units. This is 49% higher than at the corresponding period last year and is the highest rate since May, 1973. Building permits - an indication of future activity - reached the second highest level on record.

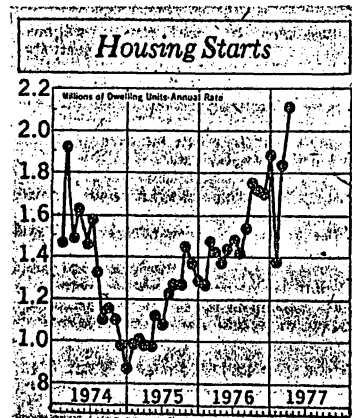
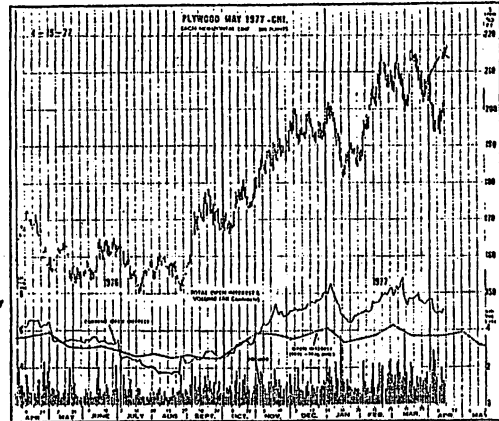
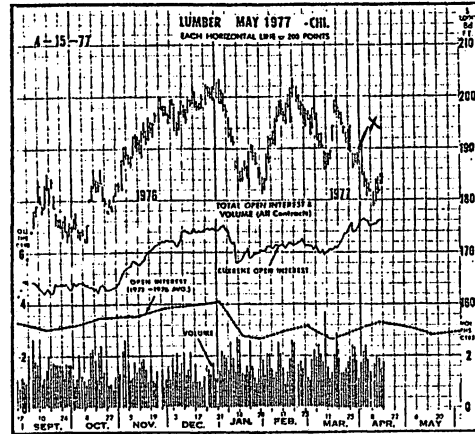
The release of U.S. housing start figures normally produces a significant impact on the wood markets. Given the bullish import of last month's data one could have forecast advances inhibited only by daily limits. Yet the market responded relatively weakly; retreating quickly after an initial rise.

The reason for this lack of firmness can be found by examining the basis, the difference between cash and futures prices. As we mentioned in our last report, cash prices have been lagging behind futures. Now they're dragging them down. Looking at the May contracts - the closest futures contract and therefore the closest to the cash market - we see plywood trading at a \$4.00 discount and lumber trading at a \$12.00 discount to July, the next nearest futures contract. The spread between July and September is only \$2.00 and \$5.00 respectively. The same gulf can be seen by comparing cash prices in Ontario - a hedgeable, though not deliverable grade in Chicago - with futures. (Note chart, p.2)

Over the past several months we have referred several times to the inventory positions of U.S. mills. (over)

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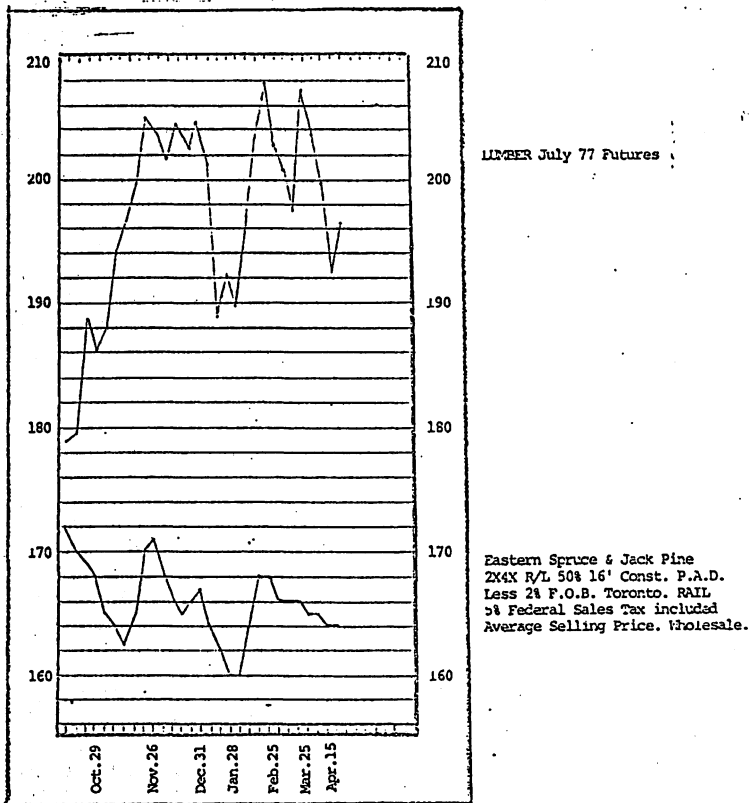


Its been well known that they have been growing as producers have attempted to hedge against potential summer forest fires. Apparently they've grown larger than intended and larger than can be accomodated by even the strong degree of demand we're now enjoying. It is this short term overabundance of supply which has depressed cash prices.

Our feeling is that the bears will not hold the floor for much longer. Inventories will be depleted by the building boom and there will be that much less supply later in the year. In addition, the threat of strikes in B.C. and the U.S. will give a strong boost to the bulls.

Conclusion:

Place stop buy orders at 205 basis May Plywood and at 198 basis July lumber.



David Rothberg  
Director of Research

All statements made herein, while not guaranteed, are based on information considered reliable and are believed by us to be accurate.