Montréal Wood Convention Presentation 2023

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The Future is Now!!!

v LBR Random Length Lumber Futures Contract Specifications (the only game in town come 5/16/2023)

Size: 27,500 Board Feet (27.5 mbf) – Physical Delivery Contract (truck sized, 4=1)

Pricing unit: Dollars per 1,000 Board Feet (mbf)

Tick size: 50 cents ($0.50)/mbf ($13.75 per contract)

Ticker symbol: LBR

Daily price limit: 10%/mbf;

Contract months: Jan(F), Mar(H), May(K), Jul(N), Sep(U), Nov(X)

Last Trading Day: Business Day Prior to the 16th Calendar Day of the Maturing Month

Trading Hours: Monday – Friday: 09:00 – 15:05 Central Time (CT)

Notes:

1. IMPORTANT: No daily price limits beginning on the first day of a delivery month thru the last day of trading
2. No Expanded Limits. 5% Dynamic circuit breaker.
3. Normal Daily Settlement Prices are based on the 14:59:30 − 15:00:00 Central Time (CT) trading activity

ho Uses CME Lumber Futures?

- Commercial/ Industry participation (think the vertical food chain of softwood lumber production/ consumption)
- W & E-SPF sawmills, Euro-wood Producers, DF, HF & SYP Producers
- Wholesale Distribution & Brokerage, Buying Groups, Retail Yards (national & local)
- End Users, Single-Family Home Builders, Multi-Family Developers & Private Equity
- Industry Speculators
- Commodity Funds
- Algos

asons to use the Lumber Futures as a Risk Management Tool

Sto

Price protection against inherent price volatility (lumber $70-$120 annual price swing (obviou
2018 and now 2020-2022 have exceeded this greatly)

Reduction of risk (Is there less risk the higher lumber prices go?) The speculation is that
today's prices are here to stay

Increases market share without increasing exposure (creation of secondary customer base)

Liquid part of your inventory

Less working capital required than cash

The idea of a secondary customer base – Can build your order file beyond the traditional one
two-week cash order file.

Can budget profitability 30, 60, 90 days out along the futures price curve

Your competition is using it

aracteristics of a Successful Risk Management Program

Crystal clear directive from the decision maker(s).

Who is in charge? Who is making the trading decisions?...Who has trading authority…Group decision?

Decisions need to be made in real time.

Spell out the trading objectives up front (define the trading parameters).

What are you trying to accomplish?

Are you speculating or hedging? (speculation is ok, just define as such)

k Management vs Speculation…No Thyself!

Sto

SK MANAGEMENT 101:

You should always ask yourself…Where is my risk?

Not the industries perceived risk…Walk through your own yard before answering this question.

The Blanket Approach doesn't work in developing and trading a risk management program!

k Management vs Speculation…No Thyself!

A futures program should compliment your traditional cash business

Another tool in the toolbox

It should function as a secondary customer base

Is there something I wish I could be doing in my underlying cash business? Does futures allow me to do that?

Can I capture (sell) a premium// Buy a discount?

PRODUCTION & INVENTORY MANAGEMENT

Price protection insurance

Helps mitigate price volatility associated with owning or producing inventory

The ability to lock-in attractive price levels on future production/ futu inventory

Creates a secondary market to sell cash

Forward Price Protection

The concept of selling future cash production/ cash inventory in the futures market

Can sell 30, 60, 90 & 120 days out (anything further out becomes too illiquid)

Extremely flexible, reduced cash outlay, not locked into a fixed contra

tential Issues in Developing a Risk Management Program

Sto

The idea of margin calls…Does management understand the idea of margin requirement and the use of leverage with futures?

The concept of buying or selling wood based upon future consumptio future sales.

From a financial reconciliation standpoint…You must match the cash gain/or loss against the futures gain/ or loss to truly understand if the program is successful.

Do you have the patience to have losses in futures today against physical cash jobs 30, 60, 90 plus out?

tential Issues in Developing a Risk Management Program

Sto

Back-month liquidity – Can I buy/sell 60 to 90 days plus?

**Deliverable contract – Don't want to stick around in the spot month with less than 4(
contracts and/or with one week to contract expiration unless you plan on taking
delivery of the wood.**

**The spread relationship between the different contract months is critical to
understanding how and when to roll the front-month position (systematic reduction/
liquidation of front-month as we get closer to expiration)**

**Need to take advantage of the commodity fund rolls as they influence the spread
structure**

**Are you liquidating the contracts based upon a upside/downside target? The
liquidation of physical cash? The answer can be both**

arket Terminology Cont.

Taking/ Making Delivery From The CME???

1. Buyers = long futures into and after expiration of contract

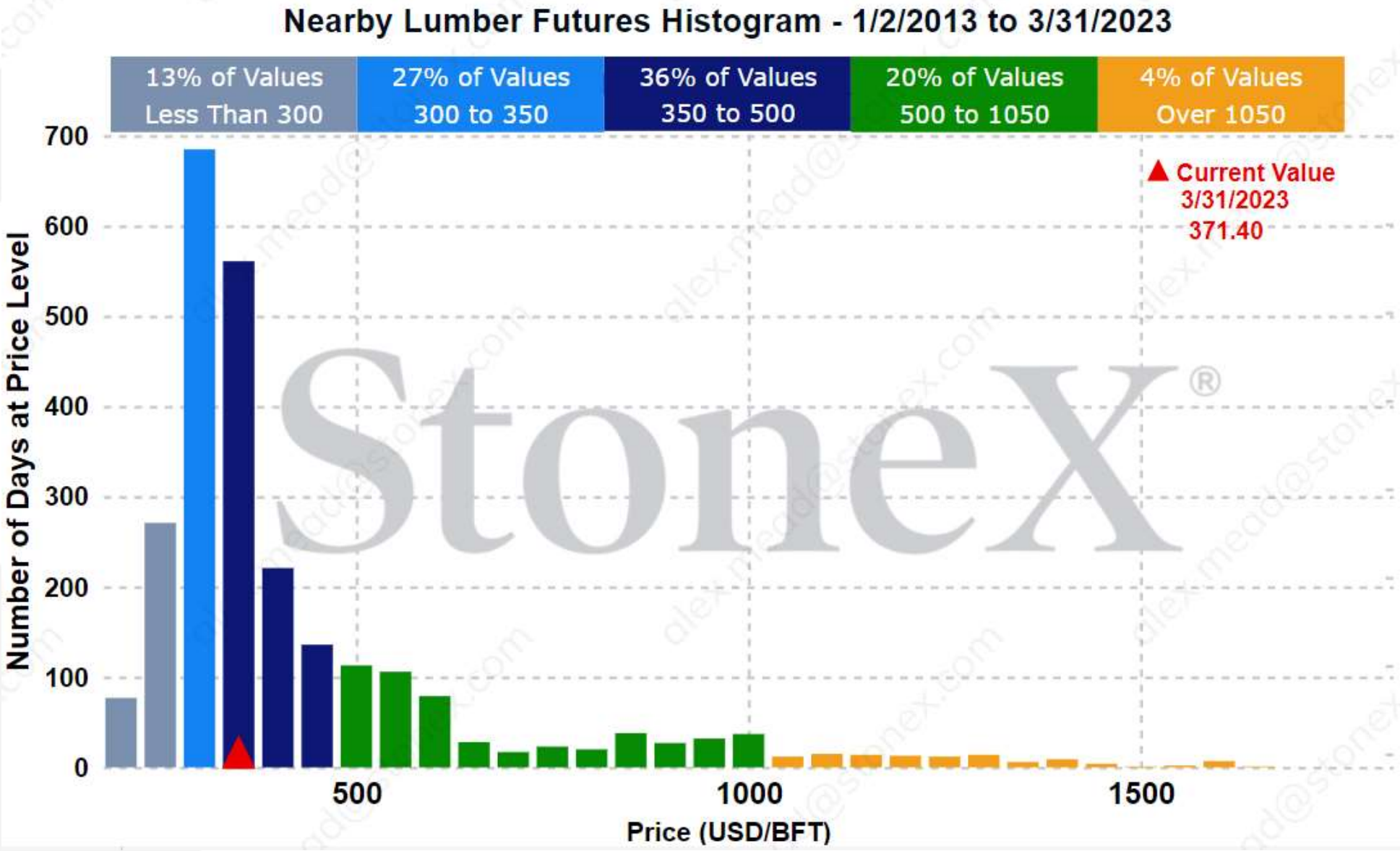
2. Sellers = Short futures into and after expiration of contract

3. CME gives notification on intent to delivery (preferences increments of 4 contracts upon assignment).

3. Mill or short futures holder receives intent to deliver a standardized futures contract (then the two are matched up, futures is offset for both sides with a physical car or truck of lumber)

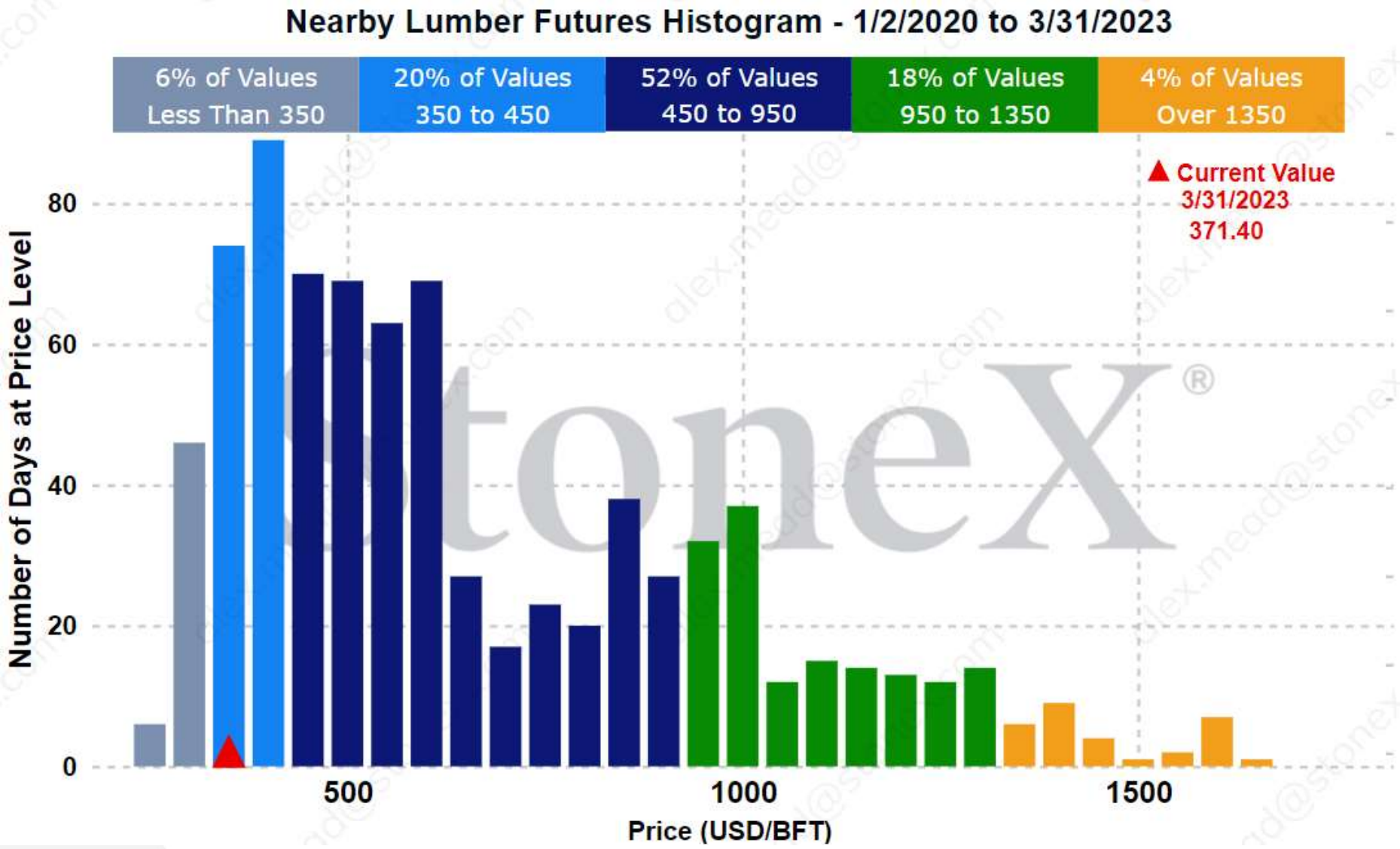
4. Less than 2% of futures contracts traded will ever go through the delivery process (it has to be advantage to go down this road)

Lumber Futures Price Volatility 10 Year Histogram



Lumber Futures Price Volatility 10 Futures Chart

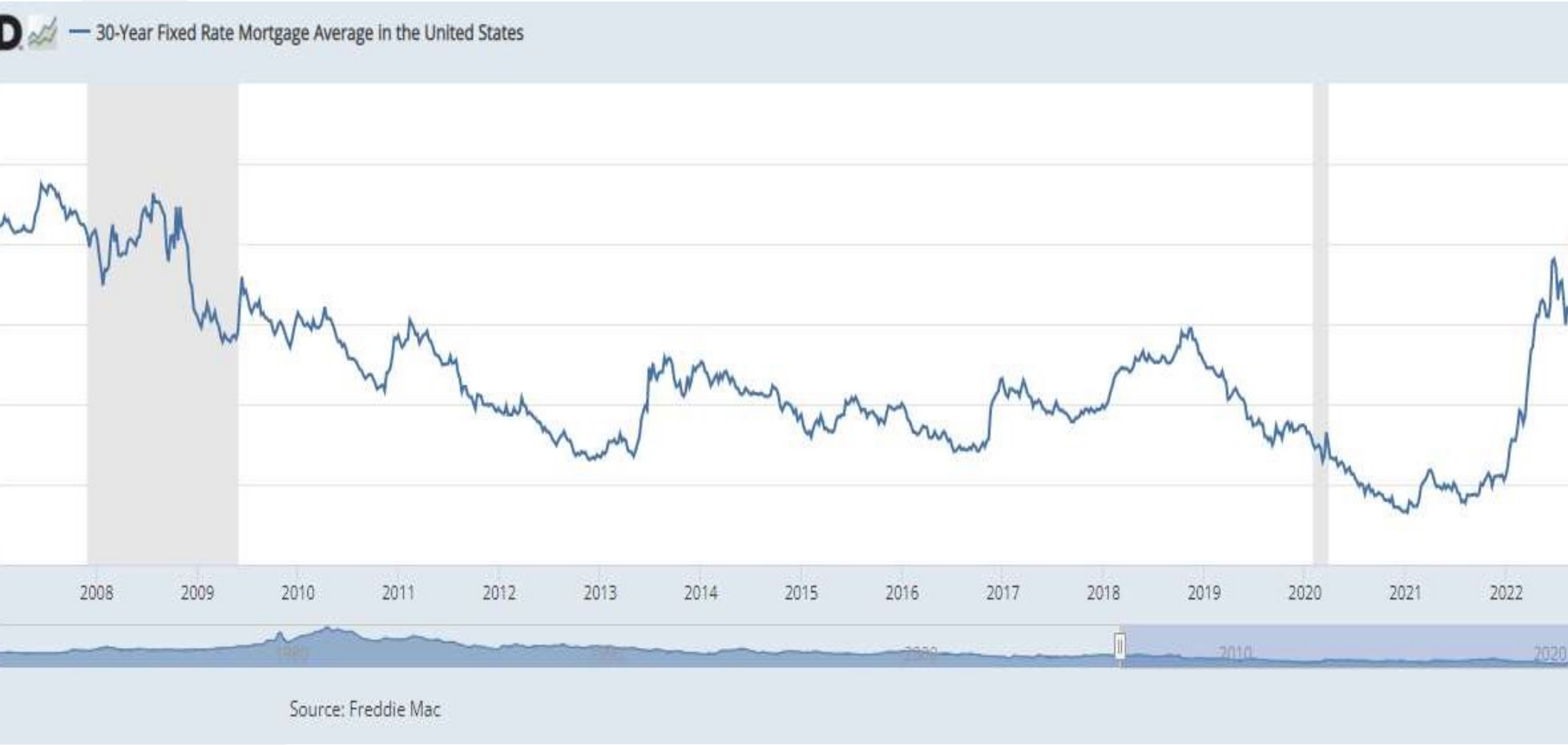
Lumber Futures Price Volatility 2 Year Histogram



Lumber Futures Price Volatility 2 Year Histogram

Interest Rate Price Volatility

Interest Rate Price Volatility



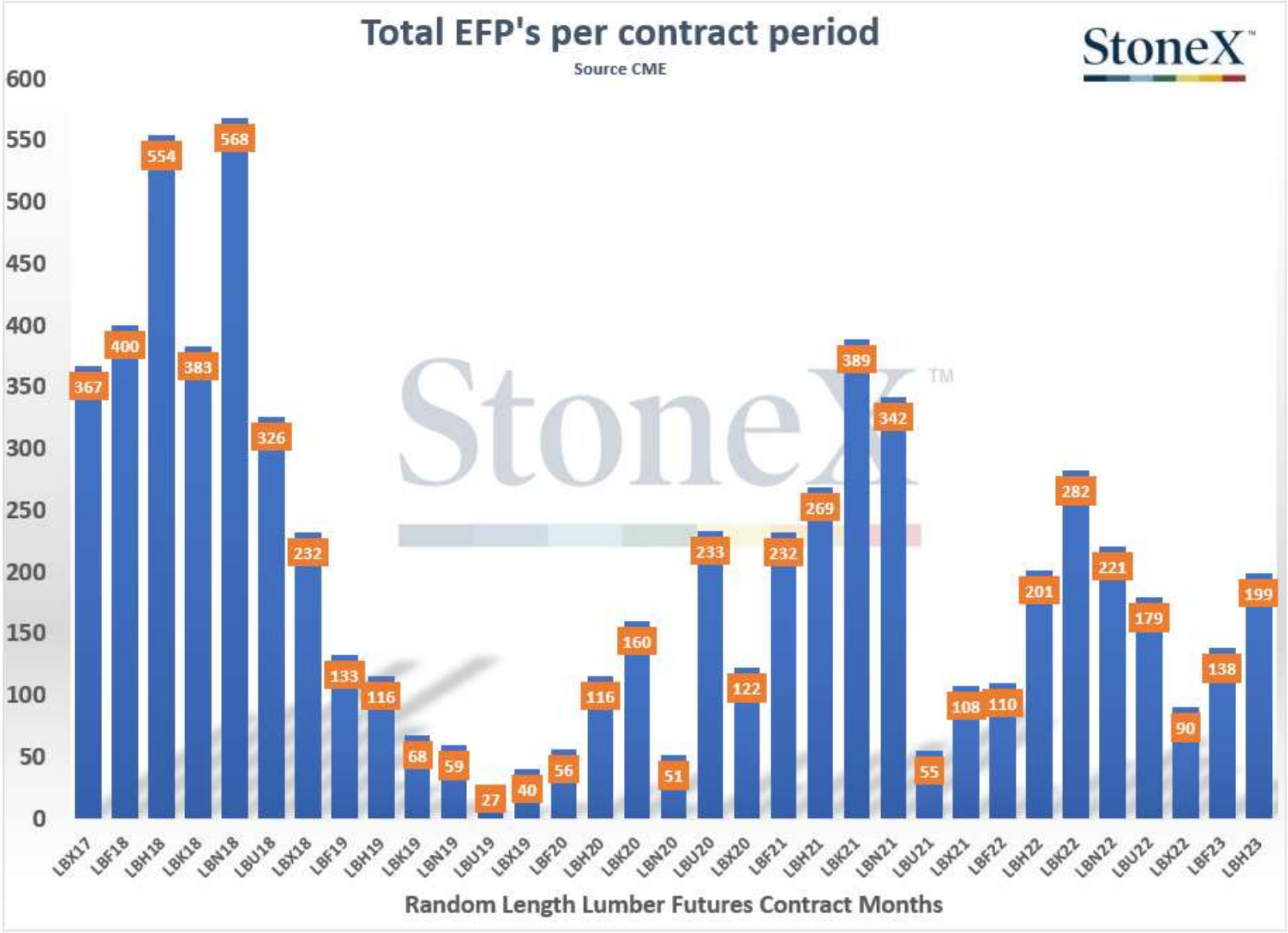
Exchange for Physical

Exchange for Physical (EFP)
Converts ("exchange") a cash market position for an underlying futures position
Commonly used to offset (unwind) positions of two hedgers

1. **Mill = short futures and Buyer = long futures**
2. **Cash/Physical contract negotiated between Mill and Buyer**
3. **Mill receives a long futures, Buyer receives a short futures**

Definition: is a transaction between two parties in which a futures contract on a commodity is exchanged for the actual physical good. This transaction involves a privately negotiated exchange of a futures position for a corresponding position in the underlying physical.

EFP's Per Contract - May 2017 – Current



Questions?