

# CME Lumber Futures & Options

April 19, 2023

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# Agenda

1 Why Futures Exist

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2 Importance of Hedging

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3 New Contract Overview

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4 New Contract Performance

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## Purposes of Futures

- Price Discovery
  - Centralized place to price commodities
- Price Risk Management
  - Hedge with futures and options
- Efficient Commodity Allocation
  - Specific to agriculture



# Price Discovery & Price Risk Management

- **Price Discovery**

- Market for discovering price determined by buyers and sellers.
- CME Group publishes intraday and settlement prices at the market close for all our contracts.
- Allows everyone in the cash industry – farmers, processors, end users – an idea of the current (and future!) values of these commodities.
- This benefit is conferred to everyone, not just those managing risk with positions in the futures market.

- **Price Risk Management**

- Futures Markets are used by agricultural market participants to hedge against adverse price movements.
- Cash price and futures price are highly correlated.
- Futures effectively “lock in” prices you will pay or receive.
- Mill will sell futures, because if the price goes down, they can buy “back” while distributors will buy futures because if the price goes up, they can sell them.

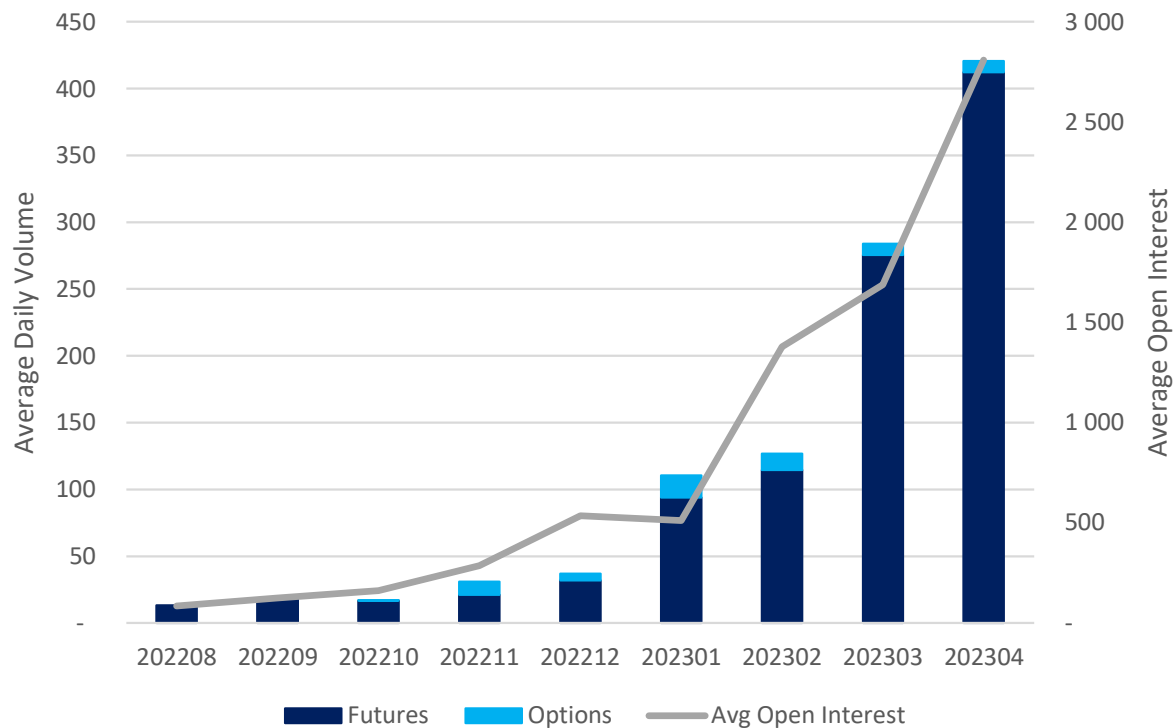
## Importance of Hedging

- If you have physical exposure and are not hedging, you are speculating!
- Hedging is not a tool to make money, it is a tool to smooth price fluctuations and mitigate risk.
- For true hedging, you should be taking a position in the futures market that is opposite your cash position, so that a cash loss results in a futures gain and vice versa.
- The Lumber contract is for only certain species, sizes, and is delivered to Chicago. But this does not mean you should only be hedging 2 by 4 SPF that will be shipped to Chicago!
  - Other species can have high price correlations to SPF/deliverable species.
  - Other sizes, like 2 by 6s, can have high price correlations to random length 2 by 4s.
  - The vast majority of volume traded through the Exchange never goes through Exchange delivery. Positions are rolled or EFPs are executed via bilateral negotiations.
- CME and brokers are here to answer questions and to help.

## New Contract Overview

	Existing Contract (LTD May 15th)	New Contract
Globex Code:	LBS	LBR
Contract Title:	Random Length Lumber Futures	Lumber Futures
Rulebook:	CME 201	CME 63
Size:	110,000 mbf (railcar)	27,500 mbf (truck)
Species:	Western SPF, Inland Hem Fir, ES, LP, ESLP	SPF, Doug Fir, Fir Larch, Hem Fir
Pricing Instrument:	FOB Mill Prince George	Delivered Chicago Switching District (CSD)
Delivery Location:	Buyer Specified	Facility in CSD
Tick Size:	10 cents per mbf	50 cents per mbf
Termination of Trading:	Business day prior to the 16th day of the contract month	Business day prior to the 16th day of the contract month
EFP Window:	Business day prior to the last business day of the contract month	Two business days prior to the 26th day of the contract month

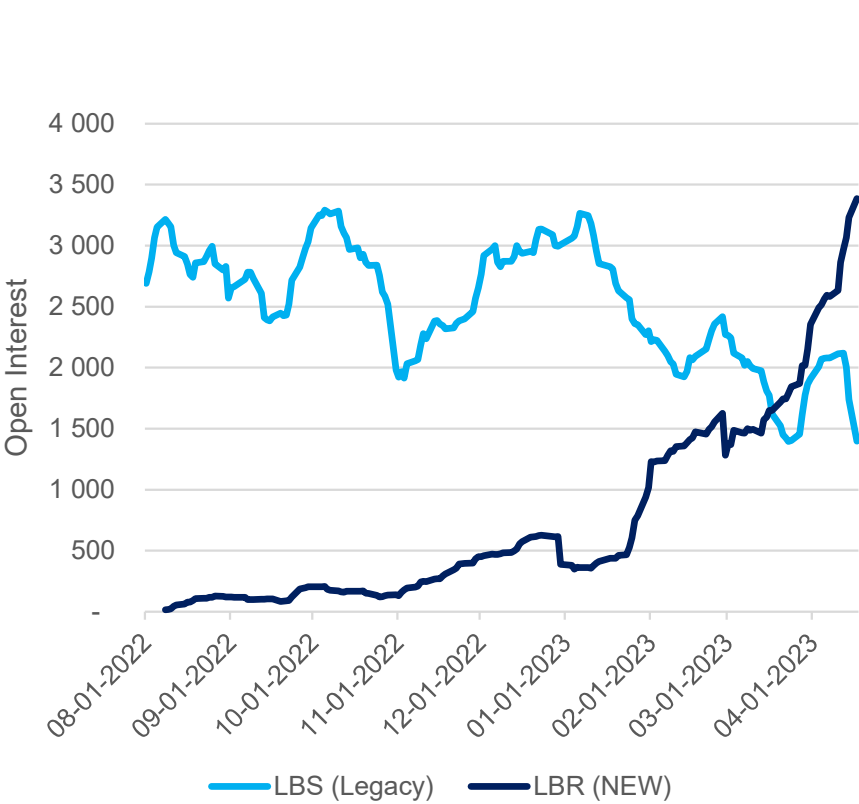
## New Contract Performance



- Continuing to set Volume and Open Interest records
- **Open interest** currently out to the September 2023 contract
- **Average Daily Notional Volume** in March was approx \$4M or 7.5M board feet traded per day
- Primarily traded on CME Globex, but is available for Block and Cross trade



# Legacy vs New



X	CC	Product	Description	Status	+	Qty	Bid	Ofr	Qty	Change	Settl...	Volu...	Open ...
Lumber Future													
x	LBR	Lumber Future	May23	Open	+	4	499.5	500.0	2	↓ 498.5	+6.0	492.5	180 1,042
x	LBR	Lumber Future	Jul23	Open	+	7	516.0	516.5	2	↓ 516.0	+10.0	506.0	300 1,318
x	LBR	Lumber Future	Sep23	Open	+	2	534.5	538.5	1	↓ 534.5	+3.5	531.0	19 82
x	LBR	Lumber Future	Nov23	Open	+	1	535.0	574.5	4			539.0	
x	LBR	Lumber Future	Jan24	Open								545.0	
x	LBR	Lumber Future	Mar24	Open								551.0	
x	LBR	Lumber Future	May23/Jul23	Open	+	2	-16.4	-16.0	2	↓ -16.5	-3.0	-13.5	100
x	LBR	Lumber Future	May23/Sep23	Open	+	1	-44.9	-34.5	2			-38.5	
x	LBR	Lumber Future	May23/Nov23	Open	+	1	-75.1	-35.0	1			-46.5	
x	LBR	Lumber Future	May23/Jan24	Open								-52.5	
x	LBR	Lumber Future	May23/Mar24	Open								-58.5	
x	LBR	Lumber Future	May23/May24	Open								-64.5	
x	LBR	Lumber Future	Jul23/Sep23	Open	+	1	-21.2	-17.6	2	↓ -21.3	+3.7	-25.0	16
x	LBR	Lumber Future	Jul23/Nov23	Open	+	1	-70.9	-18.0	1			-33.0	
x	LBR	Lumber Future	Jul23/Jan24	Open								-39.0	
x	LBR	Lumber Future	Jul23/Mar24	Open								-45.0	
x	LBR	Lumber Future	Jul23/May24	Open								-51.0	
x	LBR	Lumber Future	Sep23/Nov23	Open	+	20	-30.0	9.4	4			-8.0	
x	LBR	Lumber Future	Sep23/Jan24	Open								-14.0	
x	LBR	Lumber Future	Sep23/Mar24	Open								-20.0	
x	LBR	Lumber Future	Sep23/May24	Open								-26.0	
x	LBR	Lumber Future	Nov23/Jan24	Open								-6.0	
x	LBR	Lumber Future	Nov23/Mar24	Open								-6.0	
x	LBR	Lumber Future	Nov23/May24	Open								-6.0	
x	LBR	Lumber Future	Jan24/Mar24	Open								-6.0	
x	LBR	Lumber Future	Jan24/May24	Open								-6.0	
x	LBR	Lumber Future	Mar24/May24	Open								-6.0	
x	LBS	Lumber110 Future	May23	Open	+	1	382.7	383.7	1	↑ 384.0	+1.3	382.7	149 2,090
x	LBR/LBS	Lumber Future/Lumber110 Future	May23	Open	+	1	114.6	117.6	1	↓ 116.8	+7.0	109.8	17

LBR: 1 tick or \$13.75 Bid/Ask Spread

LBS: 10 ticks or \$110 Bid/Ask Spread

Source: CME Direct on 4/11/2023

# Q&A

