

# LUMBER FUTURES - (LBON5)

## Softwood Lumber Futures Contract (Long)

### Investment Thesis

Softwood lumber, primarily used for paper and construction, is likely to increase in price due to increasing demand and tightening supply. On the demand side, recent natural disasters like the California wildfires require large amounts of lumber to rebuild and repair buildings. On the supply side, President Trump threatening tariffs on Canada would increase the cost of lumber. Over a quarter of softwood lumber used in America comes from Canada.

### Thesis Highlights

- **President Trump's tariff threats will decrease the supply of lumber**

If President Trump implements the 25% tariff on Canada, this would significantly increase the price of lumber. As Canadian softwood lumber makes up 25-30% of the supply in the United States, this would tighten the supply very quickly. This "paused" tariff ends in early March.

Even if President Trump doesn't implement the tariff, the fact he already threatened a tariff increases the likelihood of Canadian sawmills to start scaling down operations. Exports of Canadian lumber to the United States already has a 14.5% tariff. The proposed tariff by President Trump would add an additional 25% levy on Canadian lumber. With a potential 39.5% tariff, Canadian sawmills are more likely to start decreasing production.

- **Domestic sawmills are already near capacity, while Canadian sawmills have decreased production**

Sawmills in the United States are already working at around 85% capacity. With a tight labor market, it would be difficult to increase the supply of lumber from domestic sawmills. Also, with California losing lots of trees due to the recent wildfires, this also hurts the supply of lumber. Canada already started to slightly decrease production months ago, which further constricts the supply of lumber.

- **Increased demand for housing**

With interest rates slowly declining, this will help increase the demand for homes. Also, the United States has an estimated housing shortages of up to 4.5 million homes. With this, homebuilders have a strong demand for their products, incentivizing them to build.

### Thesis Risks

- **President Trump cancels the Canadian tariff**

In the very short term, this would decrease the price of lumber. Without the threat of tariffs, Canada could start to increase their sawmill operations again. While the actual supply would take months to see a real difference, the news of a US/Canadian trade war ending would hurt our play.

- **President Trump allows federal lands for use of lumber supply**

President Trump recently claimed he has an Executive Power which could give sawmills access to federal lands to use for lumber. While this is somewhat unrealistic, any increase of supply would hurt our play.

Lumber Futures Price



# DMG

February 12th, 2025

Futures contract rating: Buy

Price Target \$694.65 (10%)

Current Price \$631.50

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### Contract Information

Commodity Softwood Lumber

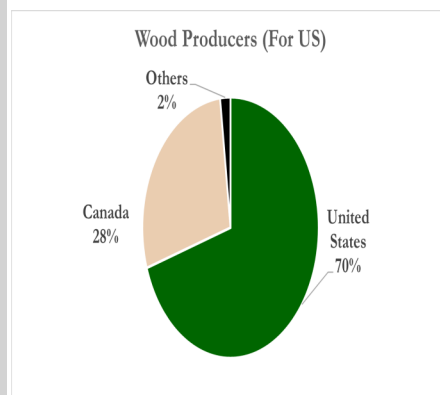
Amount 27,500 board feet

Per 1,000 feet \$631.50

Total Cost \$17,366.25

Execution July 15th, 2025

### Lumber Suppliers (For the US)



### Recent Volatility

One Month Chart

