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By Tony C. Dreibus

Feb. 5 (Bloomberg) -- Lumber futures rose, capping the biggest four-session rally since 2010, on mounting speculation that construction in China is boosting demand for imported wood.

Log prices in China surged to a record in the fourth quarter, sparking a 26 percent jump in imports from New Zealand and the U.S. during the second half of 2012, compared with the first six months, Seattle-based Wood Resources International said yesterday in a report. Futures in Chicago, up 44 percent in the past 12 months, may keep rising, said Paul Quinn, an analyst at RBC Capital Markets.

"China's back in" after prices touched a seven-week low on Jan. 30, Vancouver-based Quinn said in a telephone. Signs of higher sales "caused a little bit of a shiver to go down everybody's spines" because the Asian country appeared to have completed purchasing last year, he said.

On the Chicago Mercantile Exchange, lumber futures for March delivery jumped by the limit of \$10, or 2.7 percent, to close at \$379 per 1,000 board feet at 1:05 p.m. In four sessions, the price surged 11 percent, the most since December 2010.

Last month, lumber fell 6 percent on speculation that Chinese demand would ebb and companies including Vancouver-based Canfor Corp. reopened sawmills to increase production. Output should increase in 2013 because of elevated prices, Quinn said.

'Production Response'

"We still think the price trend is going to be down because of the production response," he said. "We preface that with slowing demand in China because of how much lumber they took in the fourth quarter. If they continue to take the same volume they did in the fourth quarter, prices are going to stay up here."

The gross domestic product in China expanded 7.9 percent in the fourth quarter of 2012 from a year earlier, the first acceleration in two years.

In December, U.S. housing starts jumped 12 percent to the highest since June 2008, boosting demand for lumber from Canada, the world's biggest exporter. Building permits, a proxy for future construction, jumped to a rate of 909,000, the highest since July 2008.

Lumber production in Canada fell 5.8 percent in November from October, the government said last month. Increased demand in the U.S. and China, combined with lower output, led to higher prices, Larry Hughes, the chief financial officer of Vancouver-based West Fraser Timber Co. Ltd., said in a telephone interview.

"What really drives the market is the expectation in terms of U.S. housing," Hughes said. "China has been a huge growth story. It's a very strong market for the western Canadian lumber industry. Now, we're in a situation where inventories are very tight, so it doesn't seem to take much to move the needle."

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