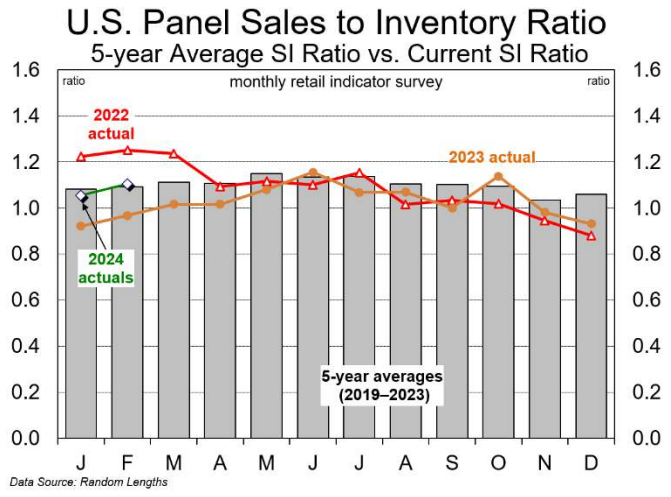
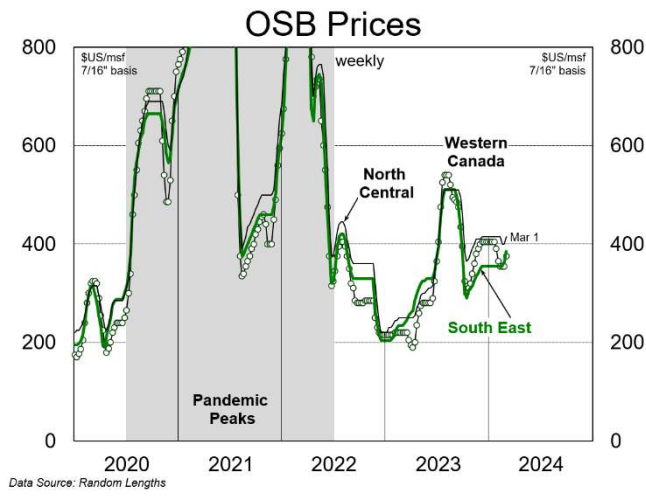




ERA Chart Of The Week

OSB Prices Are Moving Higher Again. Further Increases Expected Through Balance of Q1.

March 4, 2024



What the charts tell us: After posting modest declines earlier this quarter, OSB prices are moving higher once again. The OSB Composite price slipped from \$430 at the beginning of the year to a low of \$411 in mid-February but has since rebounded to \$439 (benchmark OSB prices are shown in the chart on the left). At the same time, data from the *Random Lengths Retail Market Indicators* survey show that U.S. structural panel dealers' sales-to-inventory ratios are also moving higher (exceeding 1.1 in February, chart right), likely setting the stage for further OSB price increases ahead of the upcoming spring building season.

Why it matters: We suspect that many OSB buyers delayed wholesale inventory replenishment when it looked like prices were set to roll over earlier this quarter (and new capacity was on the cusp of starting up). However, when OSB prices abruptly reversed course last month, those buyers were forced to pull out their PO books, leaving OSB producers in the driver's seat once again. In the near term, further OSB price increases seem assured, and while we still foresee a risk of oversupply for OSB in H2/24 and into H1/25, our outlook has become less negative for a couple of reasons. Firstly, although a significant chunk of OSB capacity is coming online in H1/24 (Tolko first, then Martco, for a combined ~1.4Bsf) and downward price pressure is expected in time, prices could be declining from a much higher starting point than we previously anticipated. Secondly, producers have been willing to throttle back production at existing mills, and have been running at reduced operating rates even in the face of historically decent (and profitable) pricing.

Who wins? For OSB producers LPX, WFG and WY, higher average sales prices for OSB will boost Q1 earnings. Similar market dynamics are also evident in lumber, albeit with slightly less positive sales-to-inventory numbers.

Who loses? Engineered Wood Products (EWP) producers BCC and WY (to a lesser extent) could see margins compressed as prices increase for lumber and OSB (which are the feedstock for LVL and I-joists).

How to trade it?

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