



Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

January 2018 Edition

Canola has traded in a sideways trend for the last month. The March futures reached a low on Dec 29th, 2017 of \$485/ton. It seems that the futures have staying in a tight range this month because of a couple different forces....

1. Soybeans - Higher soybean prices have occurred due to dry weather in Argentina which continues to eat into production estimates for the country's crop. This is helping canola likely to rise shorter term.

2. Canadian Dollar - This month the Canadian Dollar has increased 1.5 cents approx. on the March futures being supported by oil still increasing and the US Dollar declining.

Both the soy complex and Canadian Dollar increasing has seemed to create a bit of tug-of-war on canola prices depending on the day. The March futures have a short term resistance at \$500/ton that appears to be difficult for the price to get above. Depending on market factors like the soy complex and Canadian Dollar, producers should be ready with a strategy for if prices break higher/lower.



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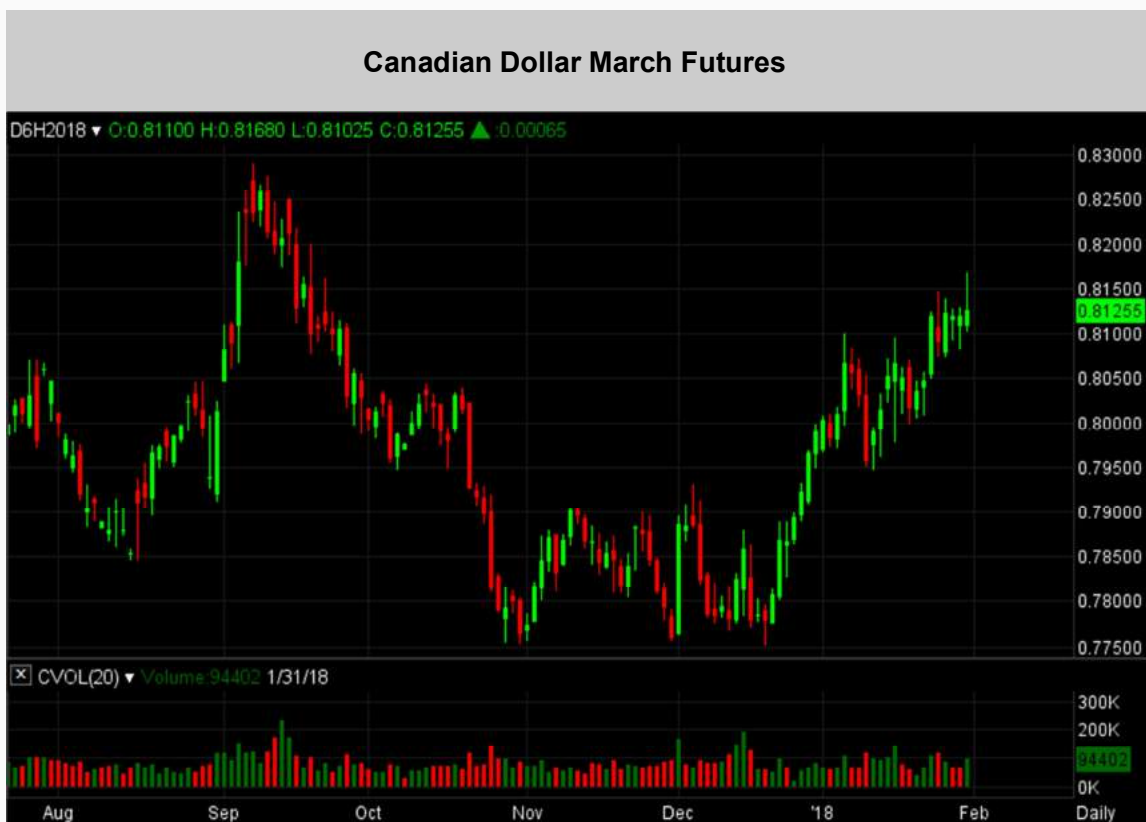
On Jan 16th, the Bank of Canada increased interest rates to 1.25%. When central banks increase rates it means they have confidence that the economy is strong. They now think that individuals and businesses can handle paying more for their variable loans, credit cards etc. Typically, when interest rates are increased the currency of that country increases too. The reason for this is because investors now see that particular countries economy is doing well and think they are worth investing in so they buy their currency leading it to increase. In January, the Canadian Dollar did increase 1.5 cents approx, but the move up didn't seem to be caused by interest rates increasing rather from the US Dollar decreasing. The price of oil too has been supportive for the Canadian Dollar (I discuss more on oil below). Overall, I'm



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watching 83 cents on the higher end and 80.50 cents as a short term floor. A longer term support (floor) would be closer to 77.50 cents.



Big money is betting oil can still increase despite risk of a correction. Hedge funds and other money managers continue to increase their bullish positions on oil. Their net long positions have increased in the six most important futures and options contracts linked to oil from 44 million barrels to a record 1,484 million last week. Since the start of 2015, such lopsided positions have usually preceded a sharp reversal lower. However, I've been reading reports

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Adam Pukalo

Commodity Futures Advisor

that some managers are unconcerned about a short term reversal lower because the fundamentals appear to be solid. OPEC and its allies have reiterated their commitment to output restraint and global inventories are falling. Now there are skeptics that are calling for this rally to end. This is when I combine fundamental and technical analysis to help my decisions be unemotional. Currently, the fundamentals support prices to keep going higher from the reduced supply. Technical trends are still positive, but we are starting to get in overbought territory. Overall, I am still positive on oil with the current situation we have, but evaluating each factor on a regular basis for material changes.

Oil WTI March Futures



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Commodity Futures Advisor

Chicago and Kansas City wheat March futures have had almost a 30 and 50 cents increase approx this month. Monday's US state crop conditions confirmed the dry conditions in the Plains with Kansas good/excellent rating at 14% versus 37% in December and compared to 44% last year. There are three years since 2006 when Kansas good/excellent crop ratings were 40% or below at mid-winter and the final yields in those years did not do well. In 2011, 2013 and 2014 with yields that declined in those years 17%, 13% and 40% respectively. However, as we all know weather can change very quickly and rain could still turn this crop around. I've been speaking with clients about implementing new crop wheat protection strategies. .



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Commodity Futures Advisor

Kansas Wheat March Futures



Minneapolis Wheat March Futures





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Commodity Futures Advisor

This month there has been dryness in Argentina helping the March soybeans to rally 50 cents. Soybean meal has been increasing too. Argentina is the world's number one soybean meal exporter and is expected to ship 31.2 million tonnes in 2017-2018. The short term forecast now supports for prices to decline as there has been reports for rain in the coming weeks in Argentina. For soybeans, managed money fund traders are currently short 103,397 contracts and the record short is 118,683. Even if there is lower production in Argentina from the recent weather, some traders are seeing higher Brazil production that would more than offset the loss. Consider where new crop prices are on the futures and how you can protect yourself given these profitable levels.



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On January 18th, the USDA cattle on feed report was considered slightly bearish. June and August cattle futures contracts could be under pressure from higher than expected December placements. Also, February and April futures contracts could also see selling pressure as the marketings in December came in slower than expected and left a few more cattle than expected on feed. The Cattle Inventory report released yesterday showed that the US cattle herd has increased for the fourth year in a row. However, in 2017 expansion was smaller than expected with the cattle supply up 0.7% on the year as compared with trade expectations for an increase of 1.3%

A few things I'll be watching the in the coming weeks/month....

1. Right now it seems that in the US a lot of heifers are being moved to the feedlots that has helped placements to keep increasing. If this trend continues, it will put pressure on prices for June/August.
2. There are drought conditions expanding recently in the Texas/Oklahoma/Kansas regions.
3. Seasonals still support live cattle futures to increase in March. The futures have been trading in a sideways trend for the last couple months and any news could send the futures closer to the \$130/cwt range.

For now, I have just been discussing with clients potential strategies depending on their operation.



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Feeder Cattle March Futures



Live Cattle April Futures



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