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TECHNICALS & TRENDS

April 2018 Edition

This morning Statistics Canada released their Principal Field Crop Areas report. Here is a brief overview....

- Canola - 21.4 million acres - down 7% from last year.
- Hard Red Spring Wheat - 18.2 million acres - up 15% from last year
- Hard Red Winter Wheat - 1.2 million acres - down 10.3% from last year
- Soybeans - 6.4 million acres - down 11% from last year
- Oats - 3.1 million acres - down 1.6% from last year
- Corn - 3.7 million acres - up 5% from last year

Numbers that stand out to me are HRSW and canola. The USDA already predicted their spring wheat acres were going to be down. After the Stats Can report, Minneapolis wheat futures were down 10 cents. I discuss my thoughts below in my wheat section on what I am looking at for clients. For canola acres, trade expectations were around 24 million. Down 1.5 million or 7% was a bit of a surprise. I'm not sure if this is overly bullish for canola going forward, but it is definitely supportive in the short term. Also, canola has stayed fairly strong being supported by the soy complex increasing and a lower Canadian Dollar. If the acres are around were they estimated, the projected 3.5 million carryout for next year will not only be around 2.5 million. I've mentioned here in my previous reports and to clients that I thought canola could increase higher in Spring. Even though we aren't getting that nice Spring weather are used to, this may be an area where farms could look at selling remaining old crop and pricing some new crop. $536/ton on the July futures seems like a hard resistance area to stay above. Factors may change and it could push higher (ex. the Canadian Dollar keeps dropping), but

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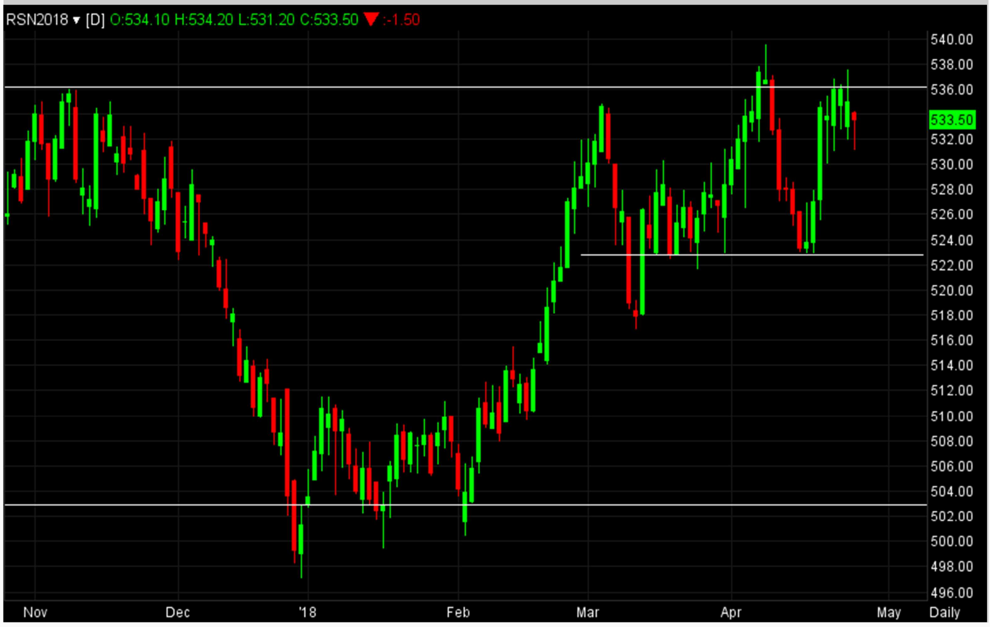
my goal is to always consider where there are good profitable levels for clients. A couple scenarios I am reviewing with clients for new crop:

1. Selling new crop at the elevator: You may be worried about missing out on higher prices if you sell your new crop now. A strategy would be to replace the canola you have sold with call options or futures if prices look like they could continue higher.

2. Not wanting to price new crop: Some clients do not want to price any new crop because they still don't know how much they'll have. A strategy to have protection without any production risk would be to buy a put option or sell the futures.

Canola July Futures



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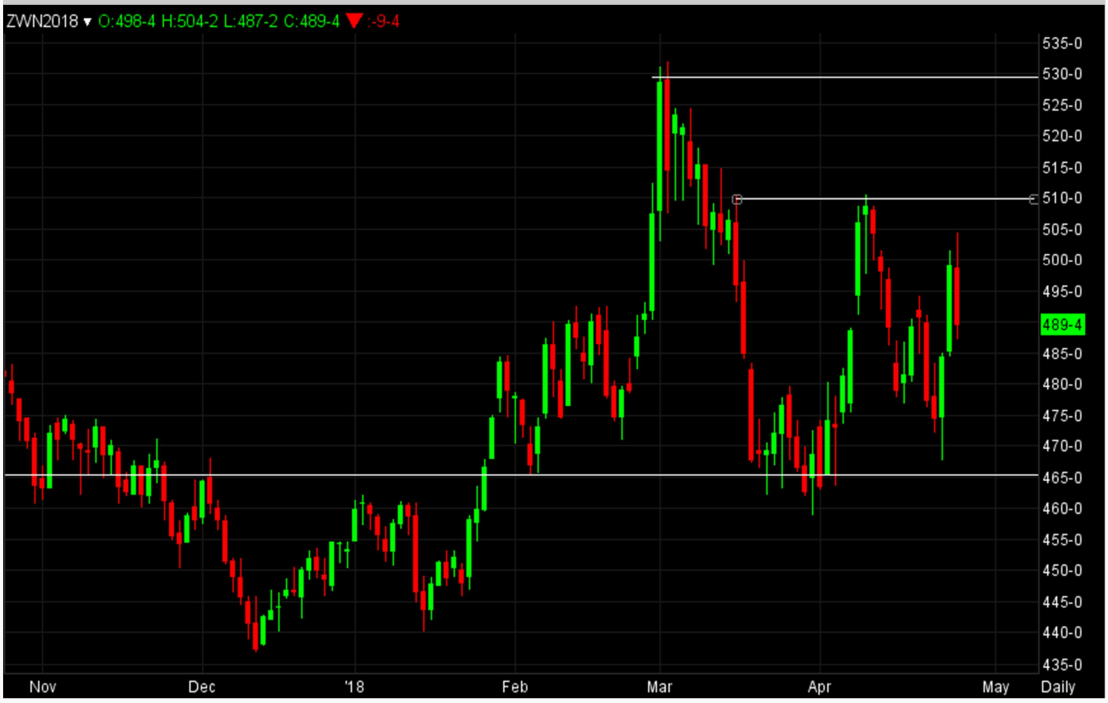
There are some lingering drought concerns on the Northern Plains, however, the main issue now is the cold wet weather delaying early spring wheat planting. Earlier this month Minneapolis wheat on the July futures increased 60 cents per bushel approximately. I recommended to clients around the $6:30 to $6.20 level could look at selling old crop or use the futures to protect from any downside. Since then, the July Minne futures have given back most of those gains. I'm currently watching closely the spread between July Minneapolis and July Kansas City wheat. Hard red wheat futures may gain relative to spring wheat because of supply concerns that the crop has experienced extremely poor conditions. In particular, rainfall amounts in Kansas between March to April are the third lowest in the last thirty years. I've read reports that none of the winter wheat crop in Kansas has developed heads as of yet compared to 23% last year. Next week the U.S. Wheat Quality Council Tour will start with traders anticipating poor results. Consider how you can take advantage of this potential opportunity using various futures spread strategies.

Chicago Wheat July Futures



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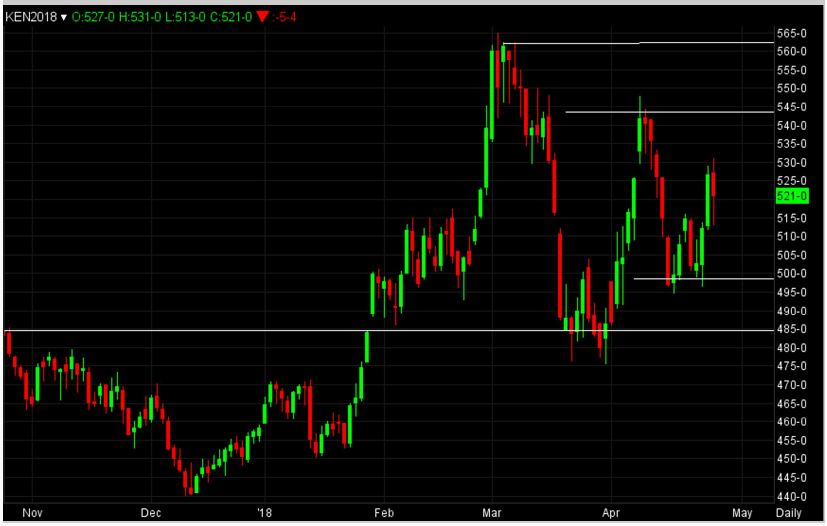
Kansas Wheat July Futures



Minneapolis Wheat July Futures

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It seemed this month the Canadian Dollar could get back to 80 cents. April 17th the high was 79.920 on the June futures and has declined ever since. There was a couple driving factors that helped our loonie increase almost 3 cents from March 19th. First, the price of oil has increased about 13% or $8 on the June WTI futures in the last two months. Second, on the political front trades wars between the US and China eased, plus positive NAFTA news. Last month I noted how the US Dollar has been in a sideways trading range since the beginning of the year. The decline in the Canadian Dollar this month simultaneously lines up with the increase in the US Dollar (chart below). 80 cents is a ceiling and 77.50 cents is a floor we could see the loonie hold unless there is overwhelming negative news. If the US Dollar keeps increasing, this could definitely keep adding downward pressure.

Canadian Dollar June Futures

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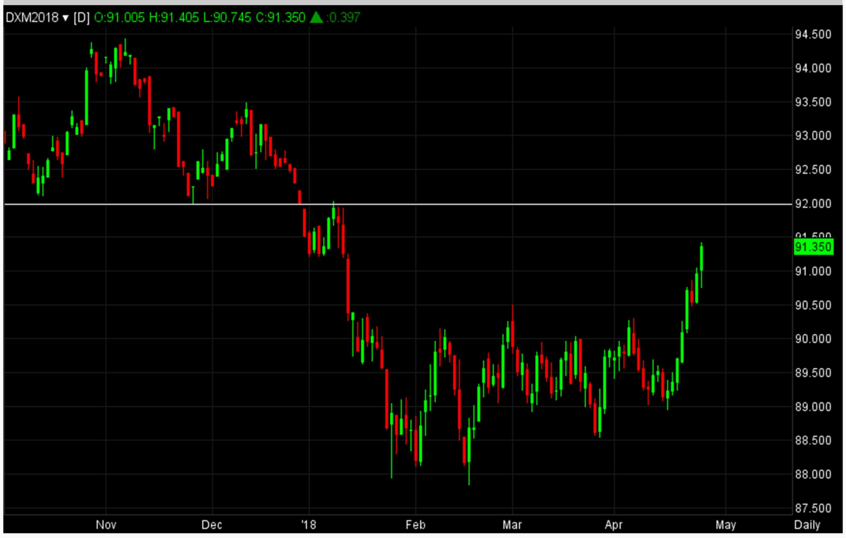
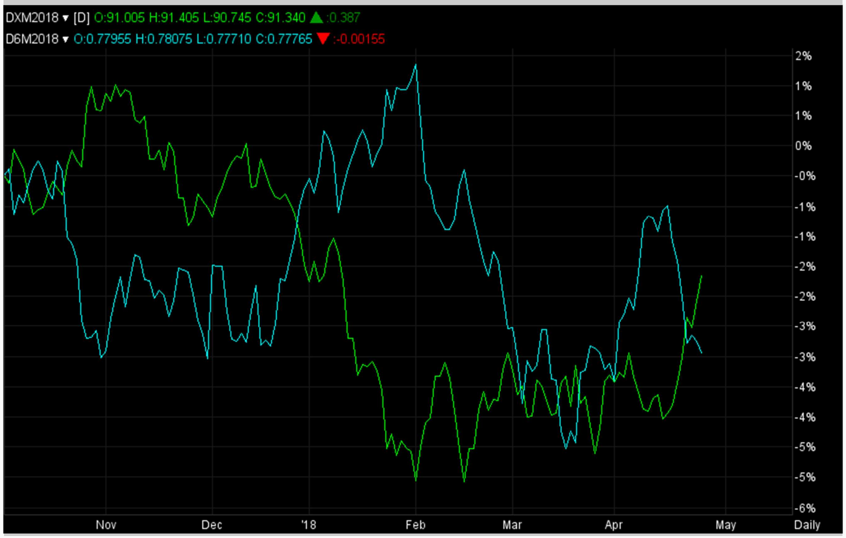
US Dollar Dollar June Futures



US Dollar vs Canadian Dollar June Futures



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Oil prices are continuing to increase on forecasts for robust oil demand growth and concerns that output from OPEC producers would grow at a much slower pace in coming years. OPEC and other major producers agreed to cut combined output by about 1.8 million barrels per day to drain a global oil glut. The agreement begins in January 2017 and runs through the end of this year. Technically, oil futures still seem like they could trend upwards. To break an upward sloping pattern, I would watch around $64 on the June WTI futures. On any weakness seen, I'm going to evaluate protecting operations from higher oil prices using various option strategies.The contracts of oil come in 500 or 1,000 barrels so typically only larger operations can do these strategies.

Oil WTI June Futures

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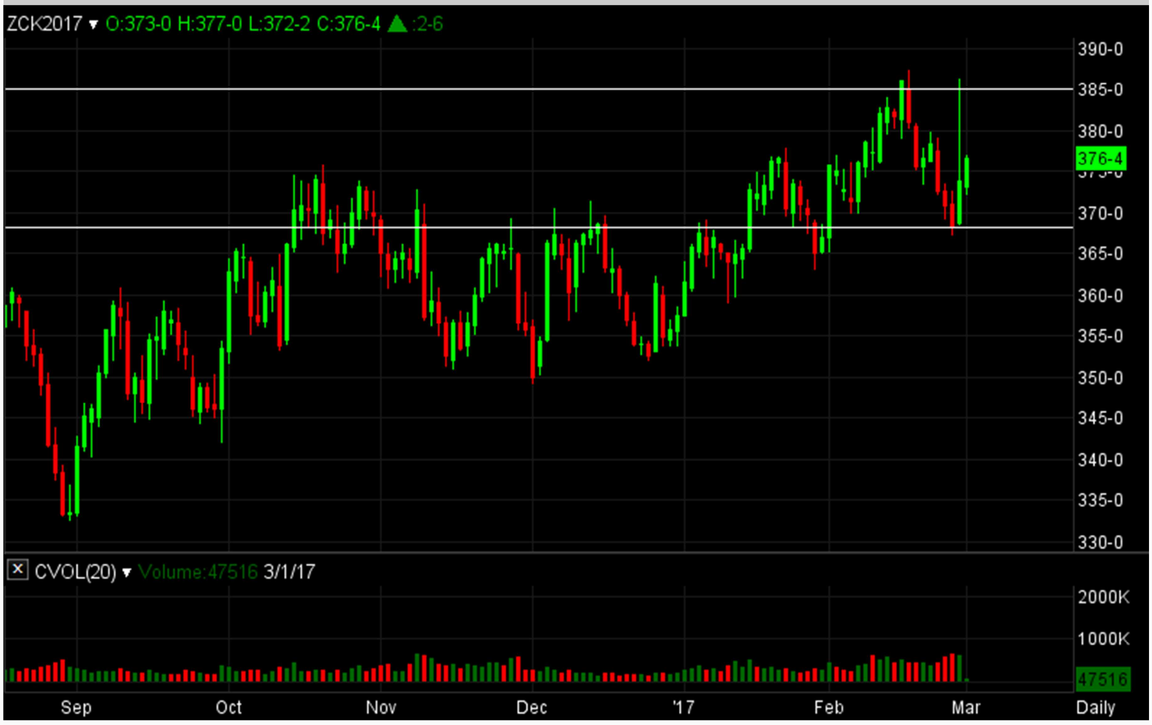
Corn could be in a position to increase during planting. The world and US ending corn stocks look to tighten significantly for the new crop season. This should help provide support from corn decreasing lower and set the stage for a rally. Last week there were reports of possibly more snow in South Dakota, Nebraska Iowa and Wisconsin. This may keep producers idle late into April. There are also concerns on Argentina and Brazil's production being lower. South American corn production could ultimately be 20 million tonnes or more below from a year ago. I am going to be watching closely the first new crop season projections from the USDA supply/demand outlook released May 10th. I've been discussing with producers strategies to take advantage of a rally in corn. Specifically, producers that may have sold their corn can look at replacing it or livestock operations that have corn price risk because of their feed.

Corn May Futures



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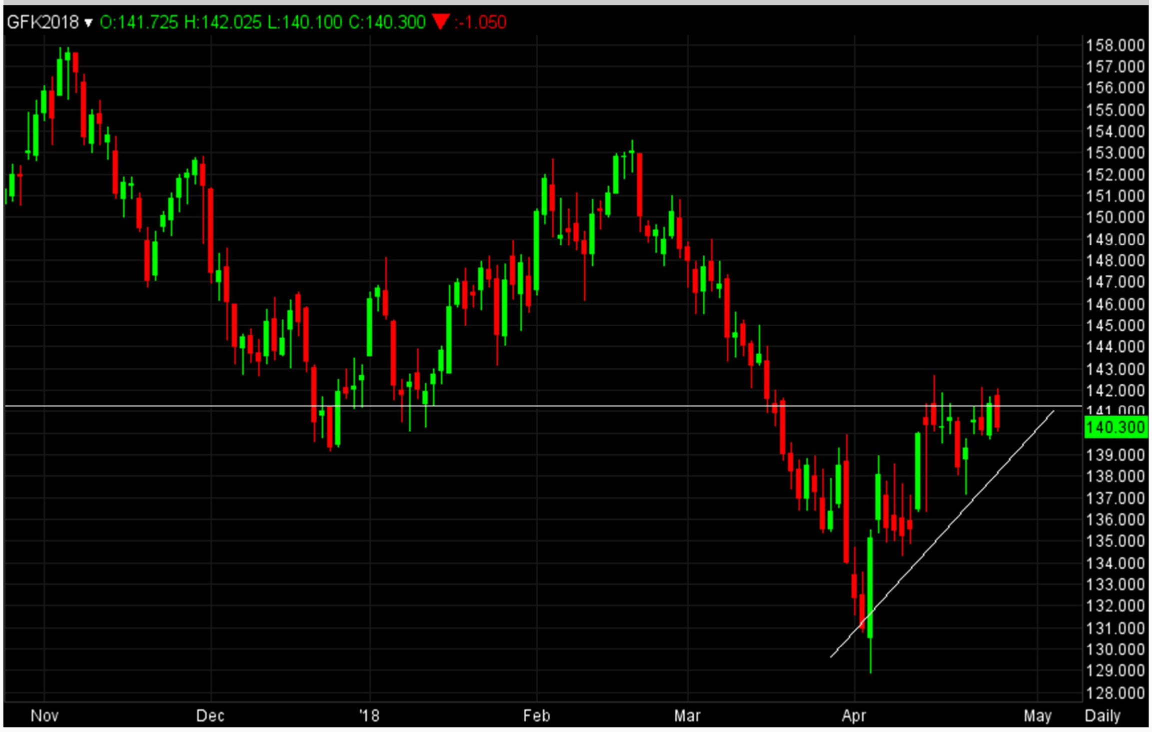
In my weekly radio show on April 5th, I mentioned how cattle futures might be experiencing a reversal. The term 'reversal' means a change in the direction of a trend, which can be positive or negative. For the case of cattle futures, it would be the trend changing positive. I thought this reversal may be enough to spark some increased short covering, which would cause the futures to keep increasing. This might have been what happened leading to feeder and live cattle futures increasing 8.50% & 7.20% respectively from the lows this month. Short term here ideas that the harsh winter in the Northern Plains may have caused significant problems with calves could support buying. Also, the futures are still at a large discount to cash and the cash prices are starting to increase more, creating an even bigger discount. More managed money short covering is still possible. These are all positive factors, but I still want to be aware of the 10.2% predicted jump in US beef production for the second quarter. I'm preparing clients to protect at higher levels because I don't know how long this rally will last.

Feeder Cattle May Futures



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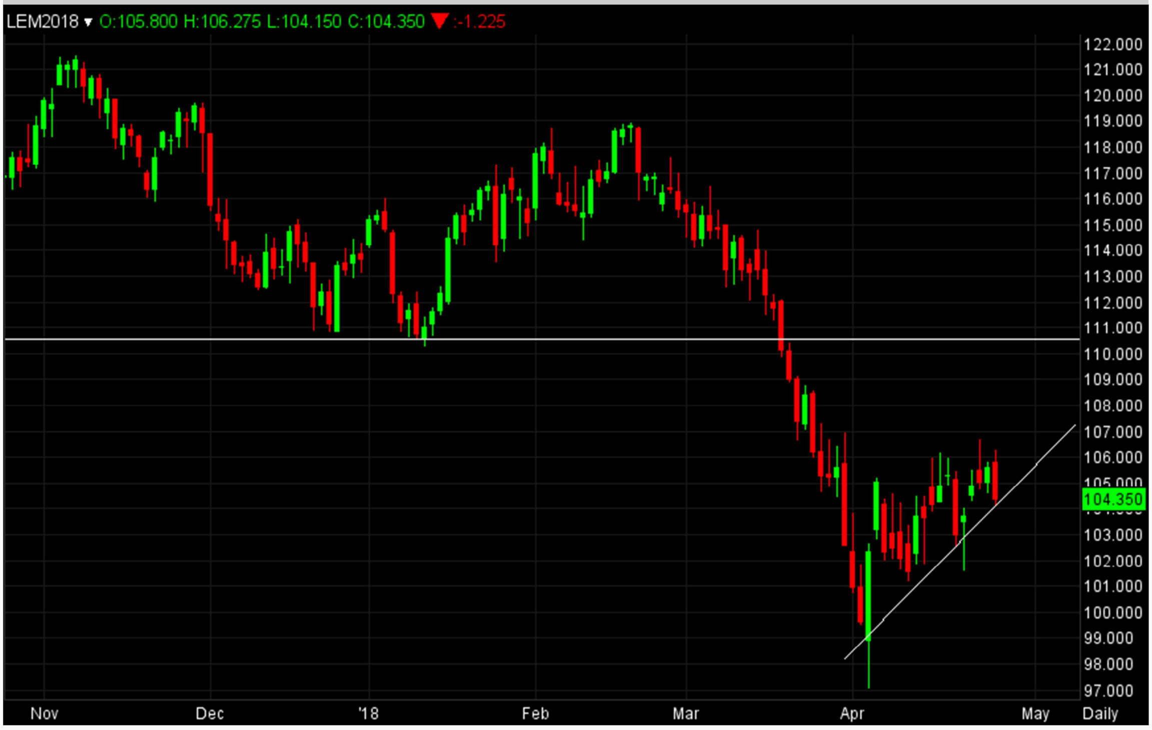
Live Cattle June Futures



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