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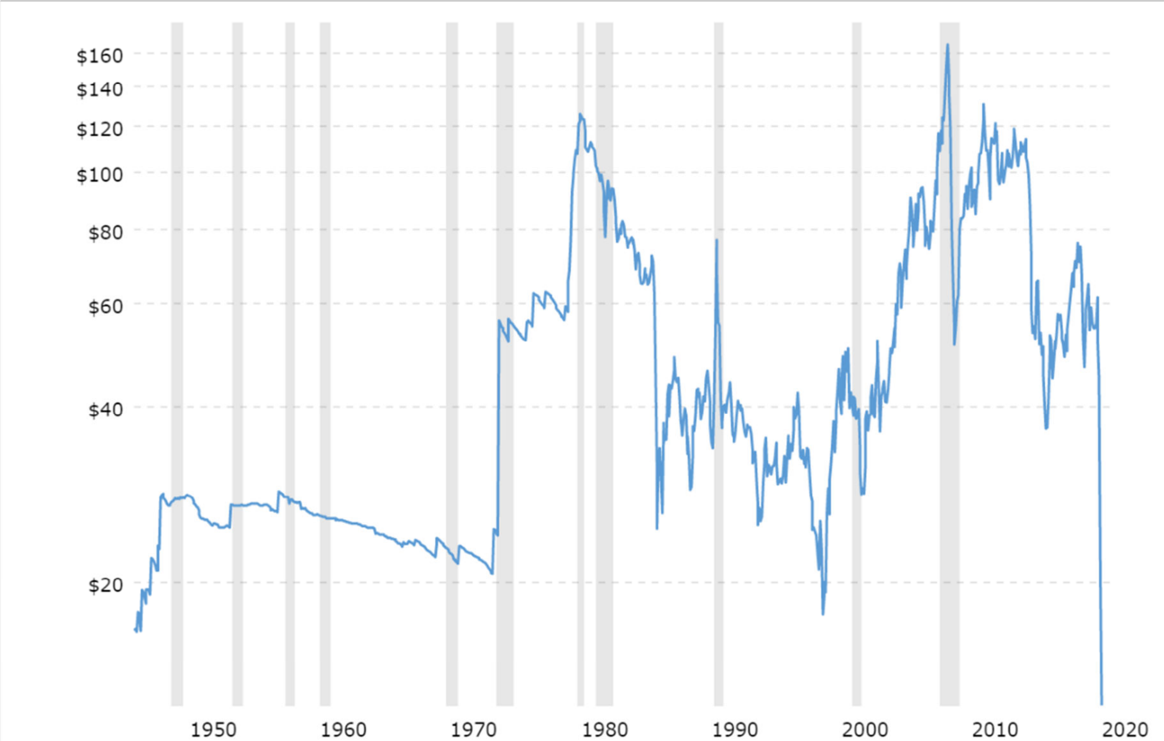
AG TECHNICALS & TRENDS

April 2020 Edition

I want to start off this month explaining a reason some don't know why oil prices went negative. On April 20th WTI oil futures on the May contract went to a low of -$40.32/bl, the lowest ever since records started being kept by BP in 1861. Most people have probably heard about the concerns that there will be no room to store the barrels of oil delivered in May. However, you may not know about how futures margin plays an important role. The June WTI oil contract now requires a margin of $10,000USD. Given that each contract is 1,000 barrels of oil, simple math tells us that $10/bl is a key level to watch in trading. Should crude fall under $10/bl mark, it could trigger margin calls. That could in turn force more selling to raise cash, which sends the price lower. It is called a ‘long squeeze’ - a situation where traders that have bought the oil futures contract thinking it would go up need to sell in a falling market. In essence, traders were willing to pay to have the oil taken off their hands because they might not be able to store it upon delivery. It is seeming like the only way the oil glut can be solved is by more production cuts. Saudi Arabia and Russia already agreed to a 9.7 million barrel per day cut, but that doesn’t start until May 1st.

Historical WTI Oil Chart

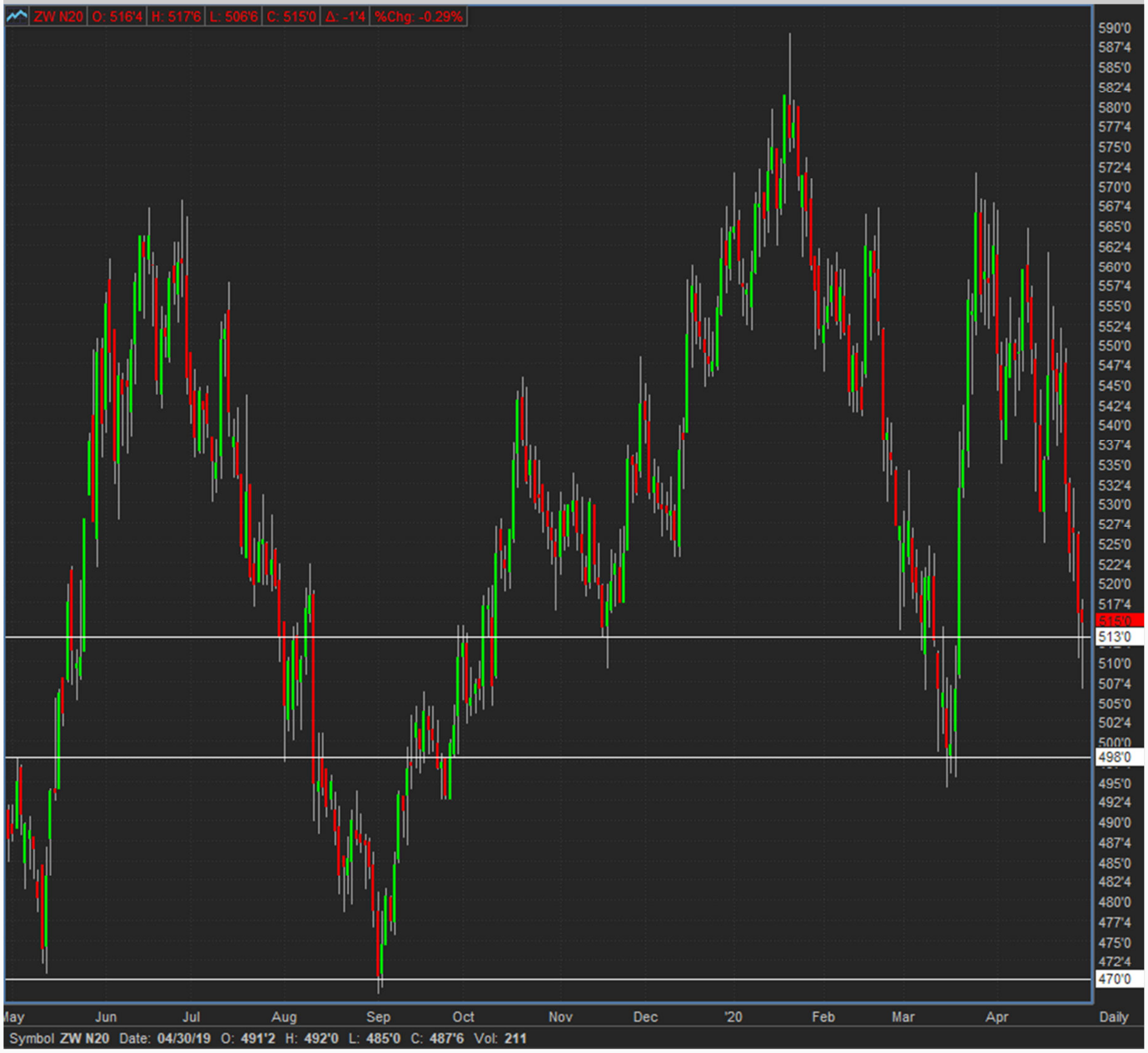


Wheat

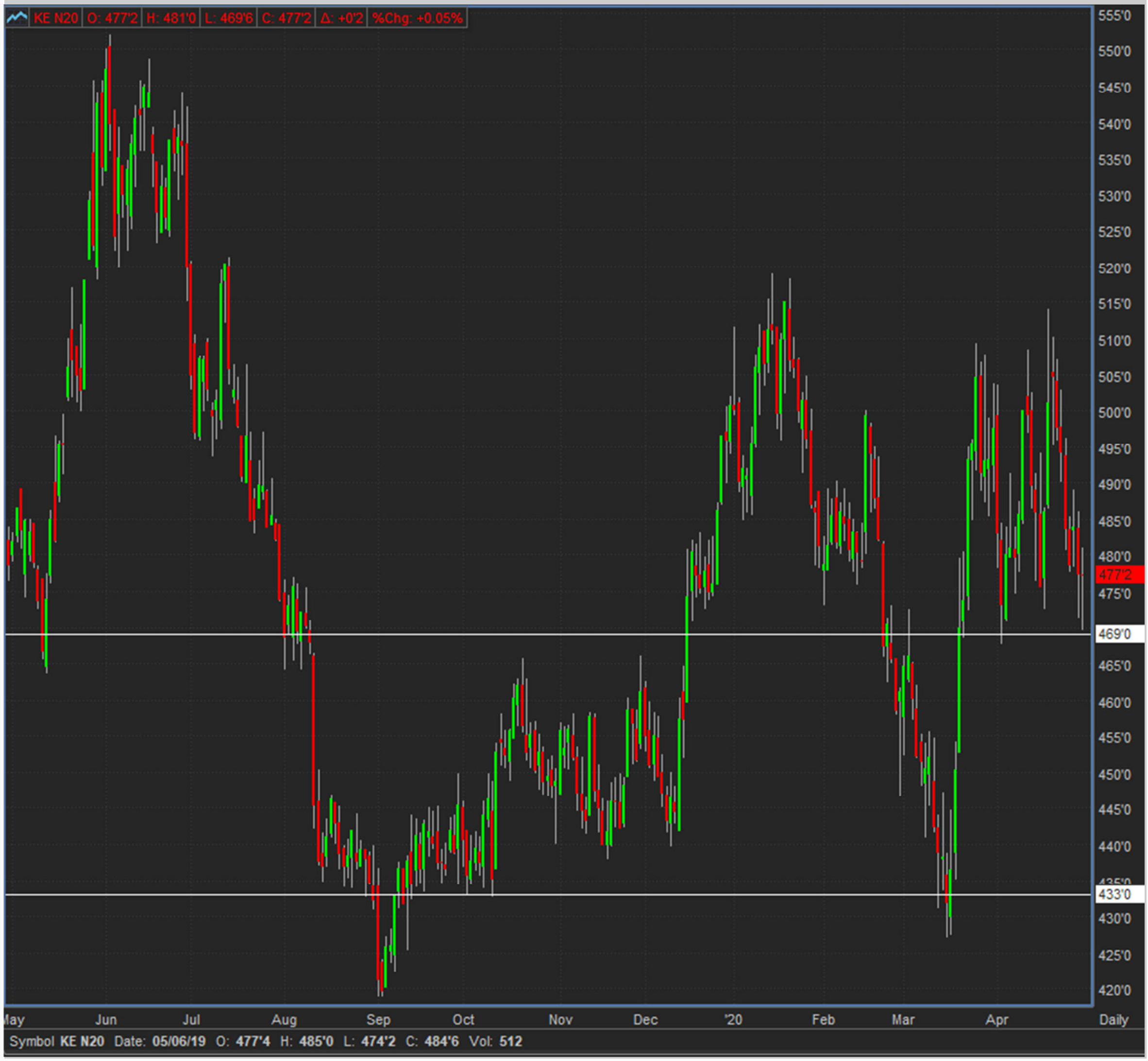
Indications that U.S. wheat exports will benefit from Russia's export quotas helped to underpin prices earlier this week. Also, a pullback in the U.S. Dollar became an additional source of strength. However, news of rain this week in the U.S. and again later in the week in Europe has contributed to more aggressive selling from speculators. Some important technical levels were broken and it seems funds might be going on the short side now. Chicago wheat futures are now rolling over on the charts. Minneapolis wheat fell to a new contract low while Kansas extended its pullback too. From a technical standpoint, a reversal higher today could lead to some more short term upside. However, longer term technicals are still pointing lower. This time of year weather can be a major factor for swings in the futures prices so I typically look at protecting on rallies.

I mentioned to clients back when we saw a mid-March rally now might be the time to sell some physical wheat or protect using futures or options. Producers may not know how much grain they have and might not want to sell more this time of year depending on how much they have priced. This is when futures or options can help you protect without the production risk.

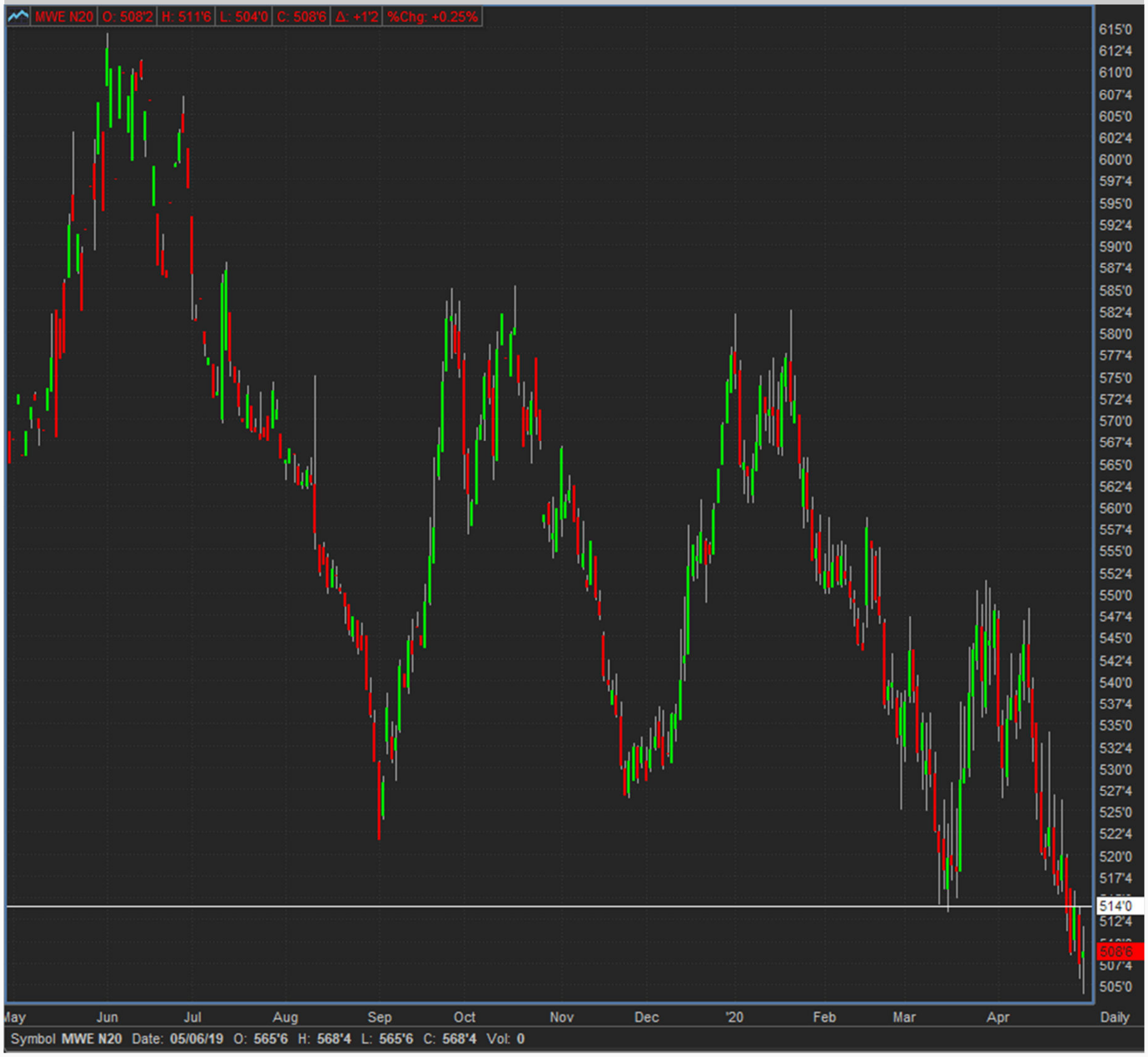
Chicago Wheat July Futures - 1 Year



Kansas City Wheat July Futures - 1 Year



Minneapolis Wheat July Futures - 1 Year



Canola

Since January 10th, March canola futures have dropped $32/ton approximately.

Soybean oil significantly increased in December with palm oil, which kept canola futures fairly steady.

However, palm oil has now turned lower and so has soybean oil (along with the whole soy complex).

Below is a chart that shows you why I watch soybean oil in relation to canola prices.

You can see from the end of December soybean oil (white line) decreased 16.85% and canola (red line) decreased 11% along with it.

The soy complex is going to be important to watch going forward for canola.

Agriculture and Agri-Food Canada (AAFC) estimate 2020 canola production to decline and forecast a 2% decline in planted aces to about 20.5 million.

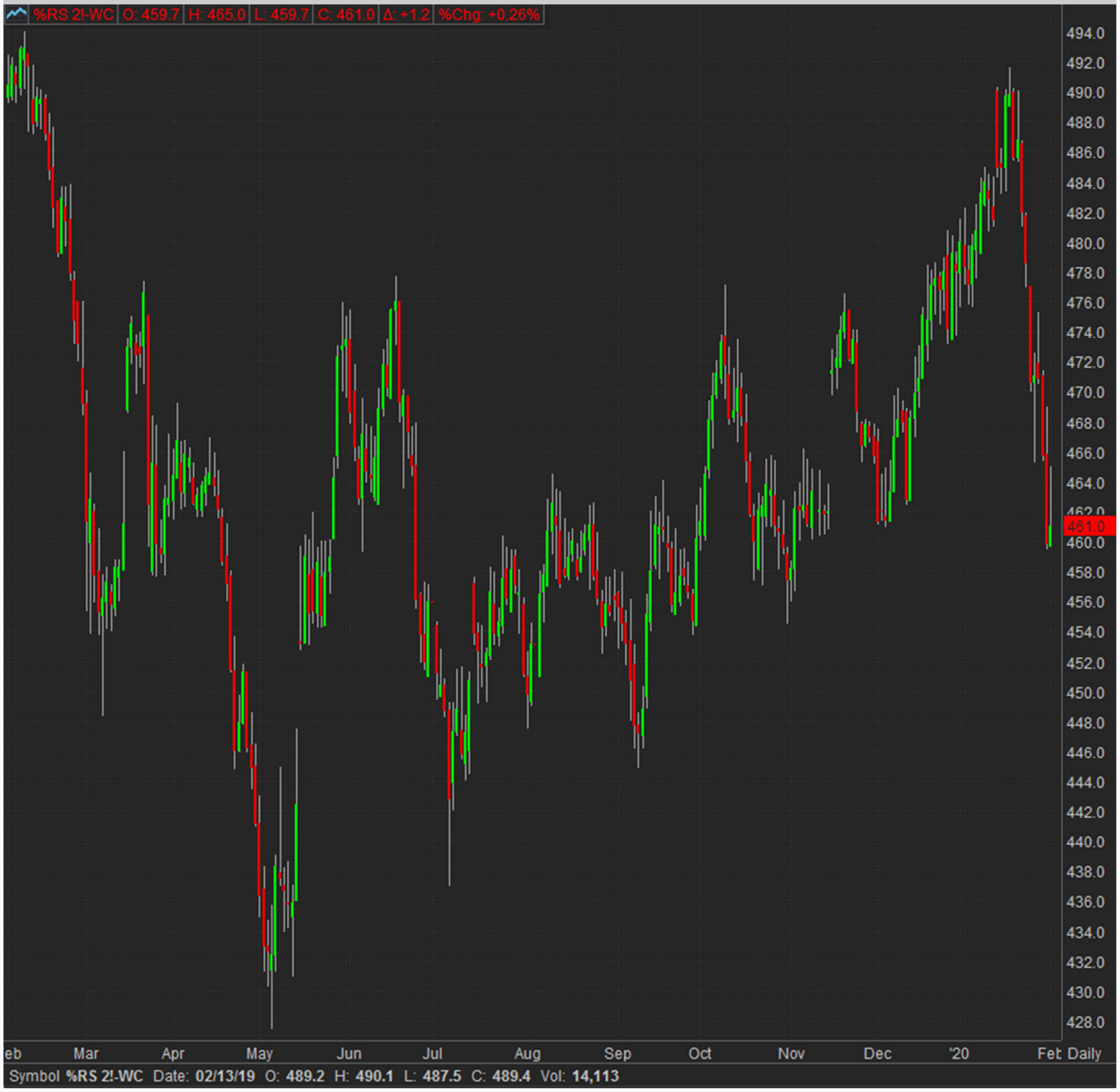
As well, production is to decline to 18.5 million tonnes, which would be the lowest amount in six years.

Ending stocks for 2019/2020 were pegged at 3.5 million tonnes and at 3 million for 2020/21.

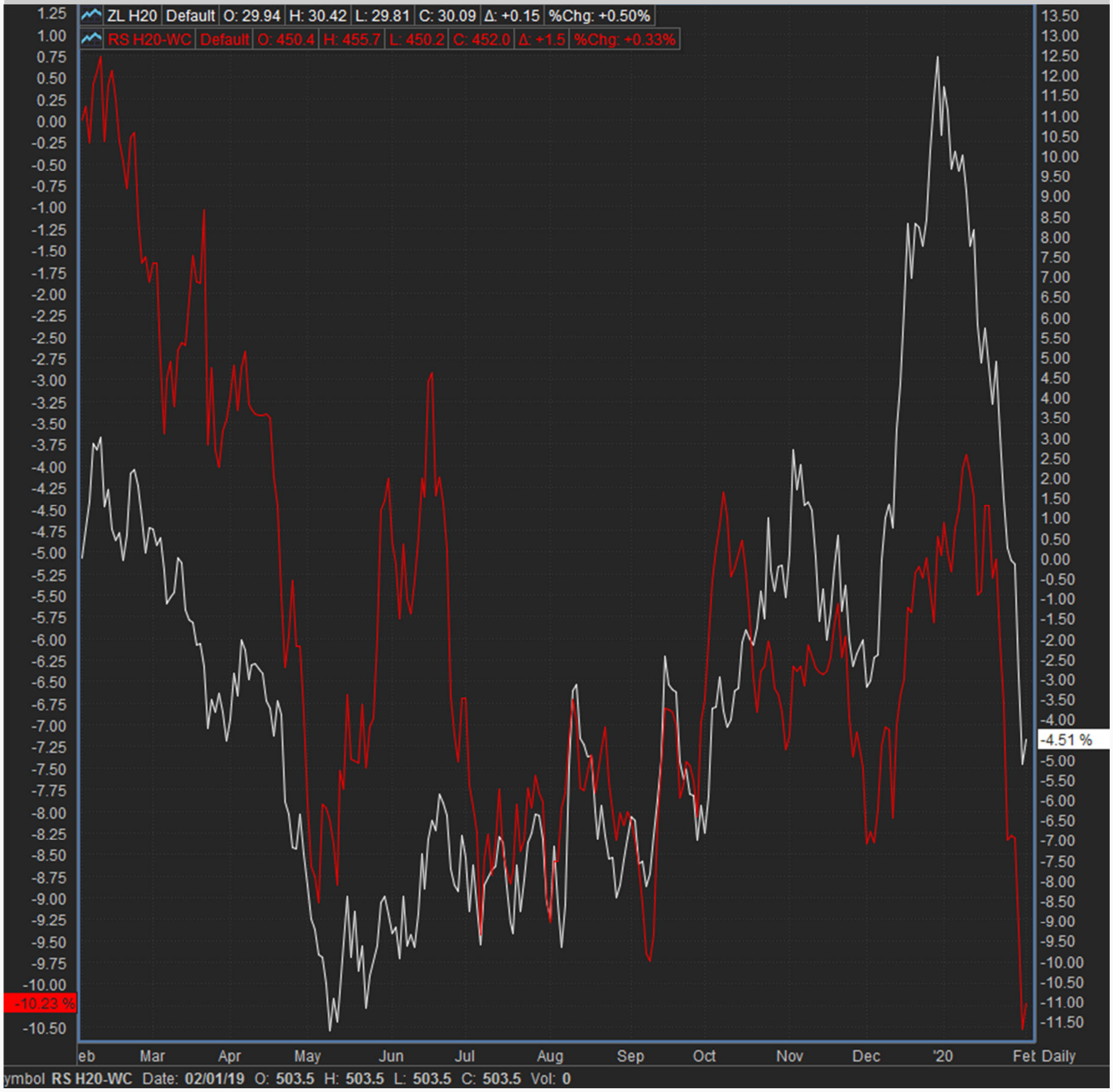
I'm going to be watching for May canola to hold around $460/ton.

The futures are right at support currently.

Canola May Futures - 1 Year



Soybean Oil (White Line) vs Canola (Red Line) March Futures - 1 Year



Soybeans

Last Friday, China reported their imports of U.S. soybeans and they surged in December from a year earlier.

This is positive news after the signing of the Phase 1 Deal.

China brought in 3.09 million tonnes of soybeans from the U.S. in December, 44 times the level a year ago, data from the General Administration of Customs showed.

Friday's data provided a breakdown of China's buying by origin after figures released earlier in January showed it bought 88.51 million tonnes of soybeans overall in 2019, just up from 88.03 million tonnes in 2018.

Soybeans made up more than half of its U.S. agricultural purchases in 2017 before the trade war erupted and are expected to make up a key part of any increased purchases.

For all of 2019, China brought in 16.94 million tonnes of U.S. soybeans, edging up from 16.6 million tonnes in 2018, when shipments nearly halved from the previous year due to the trade dispute.

China usually turns to U.S. soybeans in the fourth quarter of the year when the American harvest dominates the market.

The question is are purchases going to continue at the same level with the coronavirus.

Plenty of traders seem to want to stay on the short side of soybeans with the March futures decreasing 85 cent/bu since the beginning of January.

My thoughts on soybean futures are they are going to be lower until the peak of the coronavirus.

It is hard to think there i much more downside with the current oversold levels, but traders could keep pushing prices lower.

Soybean March Futures - 1 Year

Canadian Dollar

Earlier this month the Bank of Canada kept rates unchanged at 1.75%.

This was expected, however, it were the comments they gave after that sent the Canadian Dollar lower.

Ahead of the meeting traders were pricing in one 0.25% interest rate cut in 2020 in October.

A more negative outlook with a revision to the 2020 and 2021 GDP forecasts are now having traders questions how high the loonie is.

According to Canada overnight index swaps, rates markets are now pricing in a probability of 64% that a 0.25% cut will come in July – two months earlier than expected.

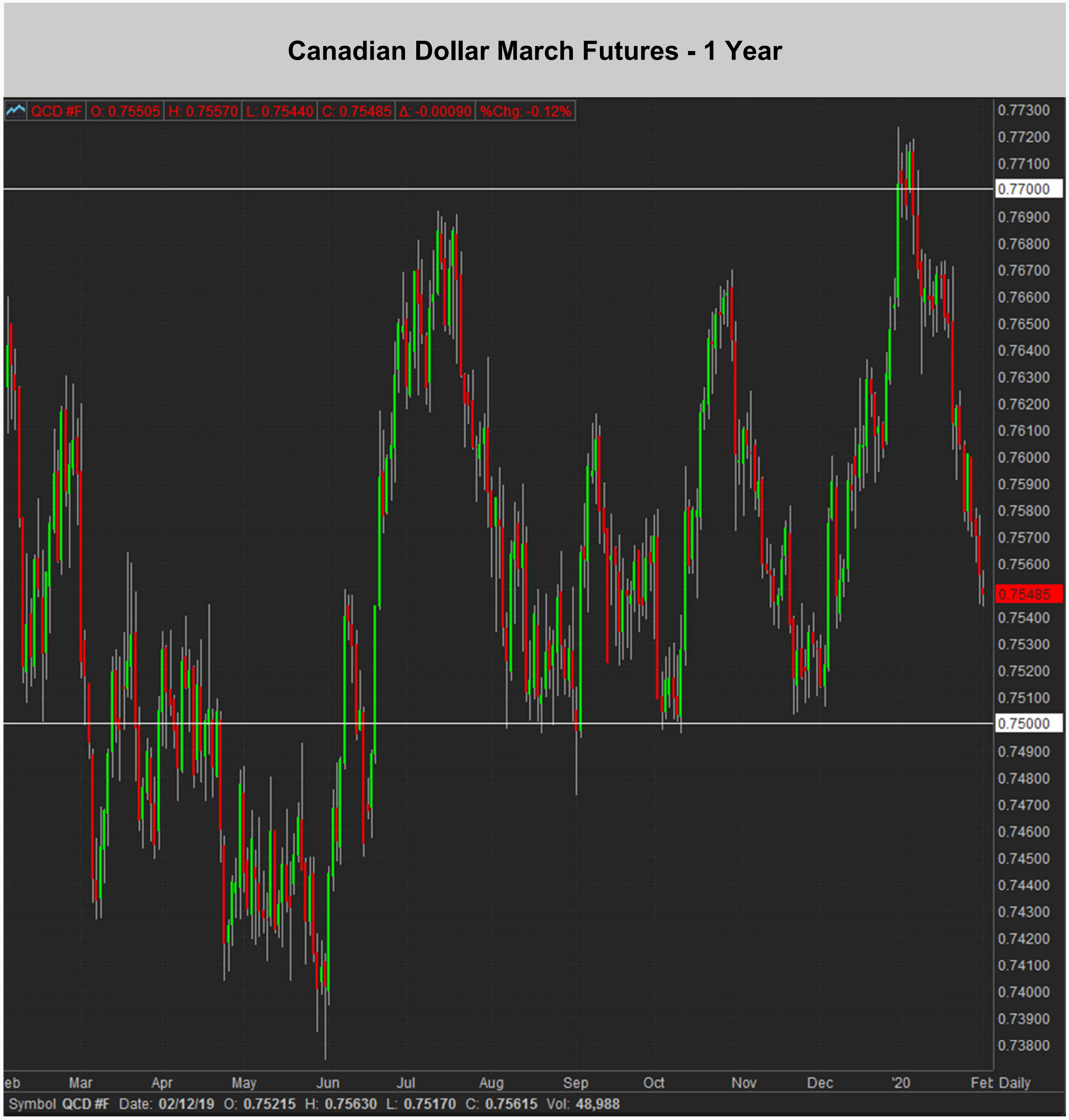
At the start of 2020, rate markets did not have any interest cut priced in, so this has been a drastic change in a few weeks' time.

I mentioned to clients that I didn't see the Canadian Dollar staying where it was around 77 cents.

My recommendation was to convert funds if large purchases were going to be made in the U.S.

To help protect clients grain prices, I'm going to be watching to hedge their Canadian Dollar risk closer to 74 cents.

This will depend on how the general markets perform over the coming months.


Canadian Dollar March Futures - 1 Year
QCD #F O: 0.75505 H: 0.75570 L: 0.75440 C: 0.75485 Δ: -0.00090 %Chg: -0.12%
Symbol QCD #F Date: 02/12/19 O: 0.75215 H: 0.75630 L: 0.75170 C: 0.75615 Vol: 48,988
Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec '20 Feb Daily

Cattle

This month on the nearby contracts feeder cattle declined $8.225/cwt (5.68%) and live cattle declined $7.475/cwt (5.88%).

Technicals are showing the market appears to have put in a short-term low.

Traders see positive packer profit margins, a relatively tight supply flow and a discount to the cash market as reasons to suspect a bounce.

However, it may take a rally in the beef market to see that demand has not been hurt significantly from the coronavirus.

Funds are still holding a large long position so it is difficult to determine when the long liquidation selling could slow.

There might still be more downside.

Overall, the technical action is showing there may be a bounce, but lower trending cash cattle is a negative force and it seems unlikely that funds traders will suddenly being to rebuild their net long positions.

Feeder Cattle March Futures - 1 Year
GF H20 O: H: L: C: 136.250 Δ: %Chg:
158.000
157.000
156.000
155.000
154.000
153.000
152.000
151.000
150.000
149.000
148.000
147.000
146.000
145.000
144.000
143.000
142.000
141.000
140.000
139.000
138.000
137.000
136.250
135.000
134.000
133.000
132.000
131.000
130.000
129.000
128.000
127.000
126.000
eb Mar Apr May Jun Jul Aug Sep Oct Nov Dec '20 Fet Daily
Symbol GF H20 Date: 03/07/19 O: H: L: C: Vol:

Live Cattle April Futures - 1 Year