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Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

August 2017 Edition

Before I start this month's review, I want to review some of the July 31st Crop Production estimates released today by Statistics Canada.

In million of tonnes:

- Total Wheat: 25.54
- Canola: 18.2
- Oats: 3.68
- Soybeans: 7.7.

Most of the crops were in line with expectations, but there was one that was a surprise. Durum wheat was estimated to be around 5 million tonnes and only came in at 3.9 million tonnes. The important thing to remember with this crop production report is that these numbers are all a month old. A lot has happened in that amount of time in the crop development so one can argue that these numbers are just "good to know". The one number that stands out to me is canola. I'm starting to hear better than expected yields being reported in key growing areas of Saskatchewan. It will be important to see how Alberta's crop comes off for the year's final production numbers. If Alberta's canola is better than expected, we could see closer to 19 million tonnes. Now, onto our monthly review starting with wheat.

It was another negative month:

- Minneapolis wheat down 15%
- Chicago wheat down 13%

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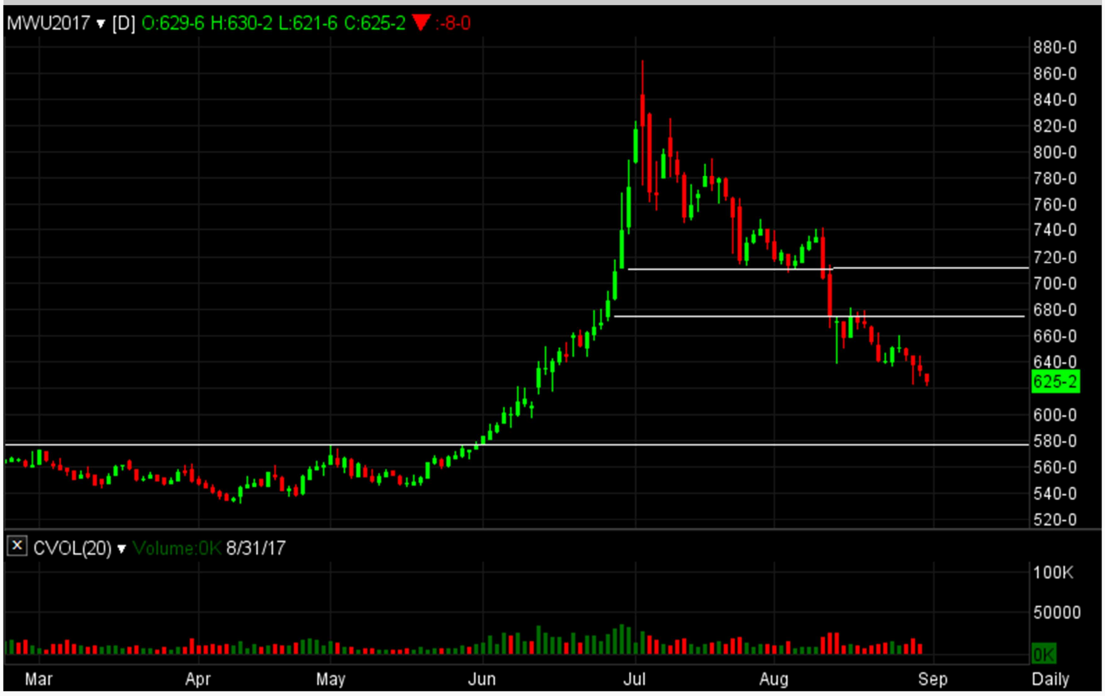
Commodity Futures Advisor

- Kansas wheat down 14%

It seems that harvest selling pressure is the trend again this year. Some clients have been asking me if we will see higher Minneapolis wheat prices. While fund money could push the futures up, $8.50 per bushel may not be seen again. At the peak Minneapolis wheat had a $3 premium over Chicago wheat. Typically, we only see a $0.40-$0.60 premium for Minneapolis over Chicago. Traders are probably taking profit now and the next level we could see Minneapolis wheat come to is $5.80 per bushel.

Minneapolis Wheat September Futures



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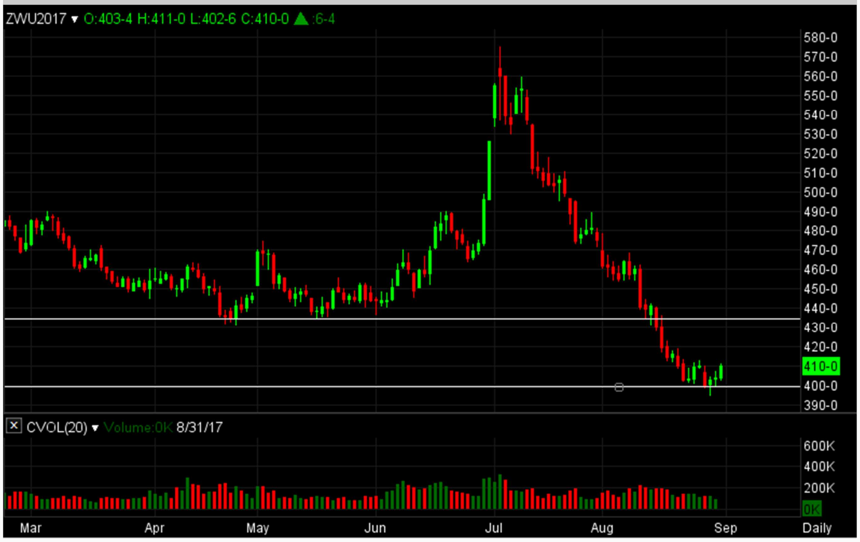
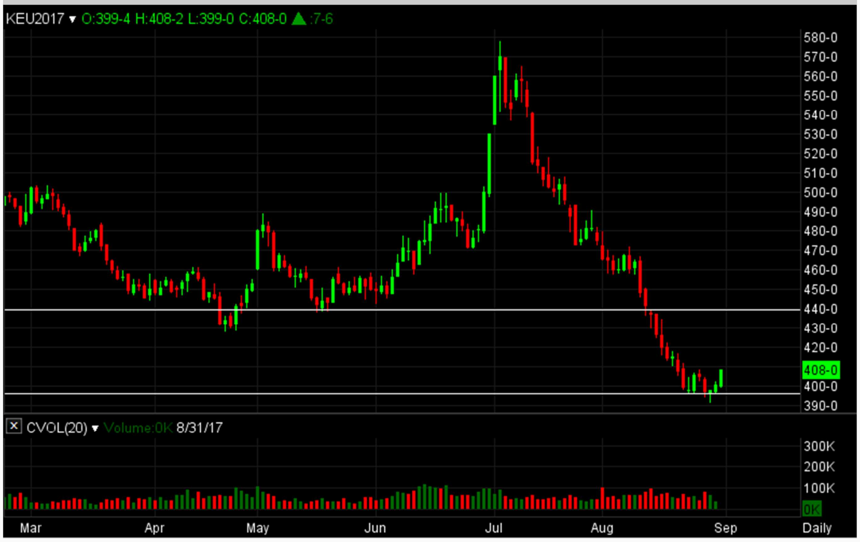
Chicago Wheat September Futures



Kansas Wheat September Futures



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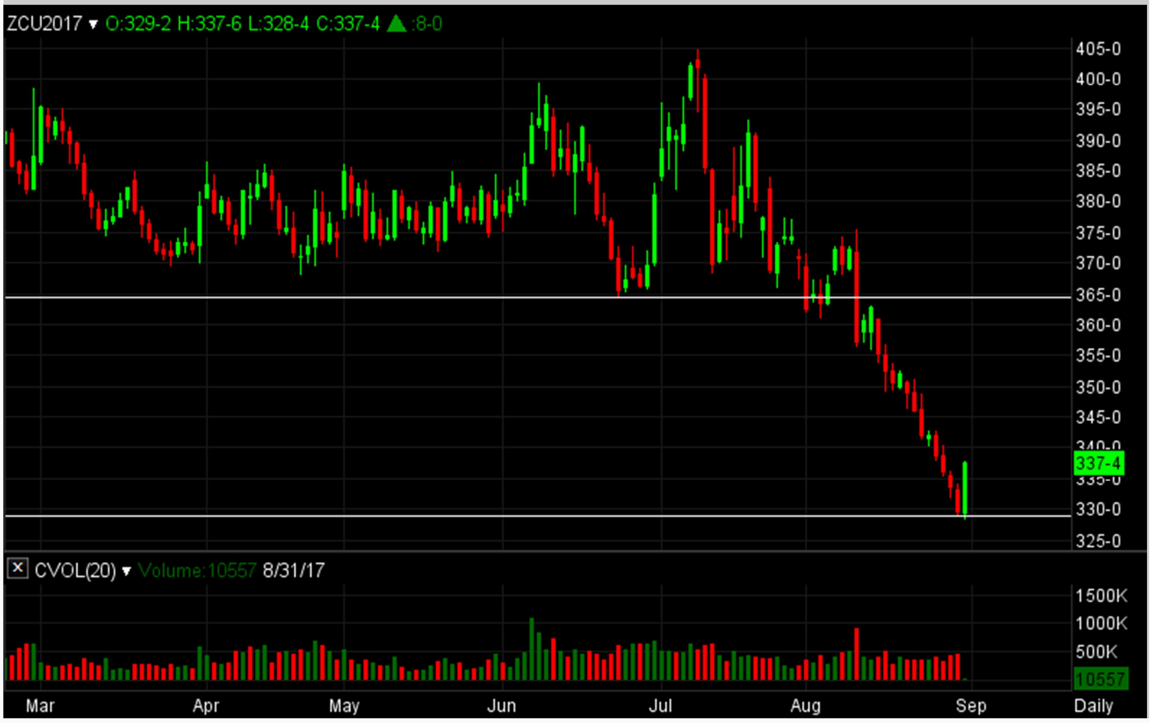
Commodity Futures Advisor

Last year corn made a low on August 31st. Holding true to the day we could be seeing the same thing happening today...only time will tell. When the September futures declined past $3.65 per bushel it broke an important support (floor) level. Since then, corn has steadily gone lower throughout the month with traders probing to see how low they can push the futures. Cash sources in the U.S. continue to point out that there was plenty of unpriced old crop corn that has been sold in the last few days as the delayed pricing contracts needed to be priced prior to September 1st. I'm going to be using $3.30 per bushel on the September futures and $3.45 per bushel on the December futures as lows for clients going forward.

Corn September Futures



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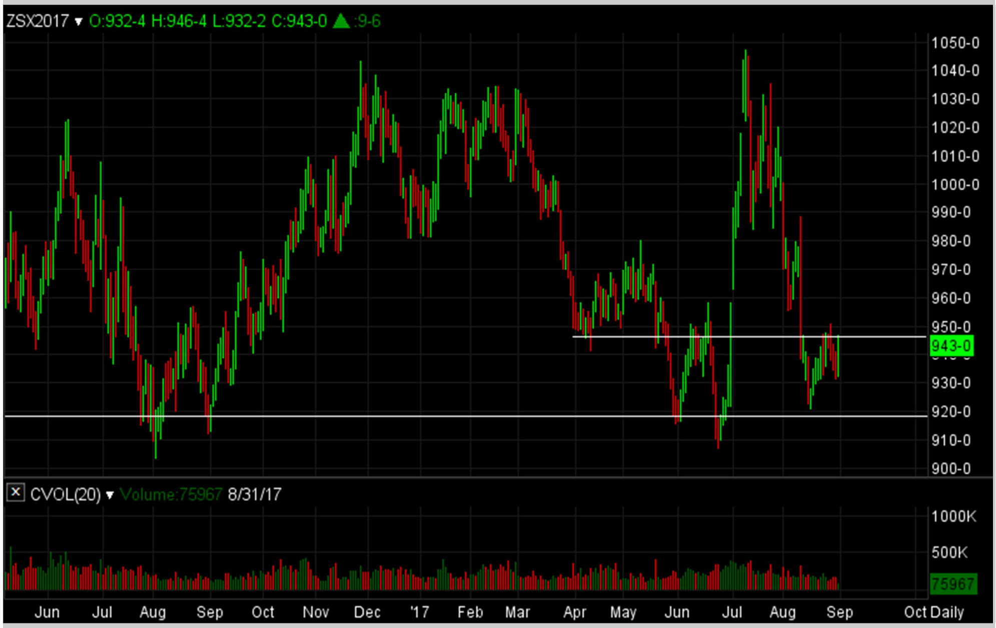
Commodity Futures Advisor

Soybeans have been staying at the lower end of their range. In August, the U.S. soybean growing regions have had good weather and improving crop conditions. The next USDA report is on September 12th and given these positive growing developments there could be a bearish feel to the report. Crop conditions improved from a low of 57% good/excellent in late July to 61% by August 27th. There is a possibility that the USDA could raise their yield estimate from 49.4 bushels/acre and if it goes to even 49.9 bushels/acre this would cause a record production of 4.426 billion bushels. If production increases and there is higher beginning stocks, the 2017/2018 stocks could increase to a whopping 542 million bushels, up from 475 million last months. This would be the second highest ending stocks on record. There could still be some daily increase that could excite the bull camp, but overall this situation looks like soybean futures could still go lower.

Soybean November Futures



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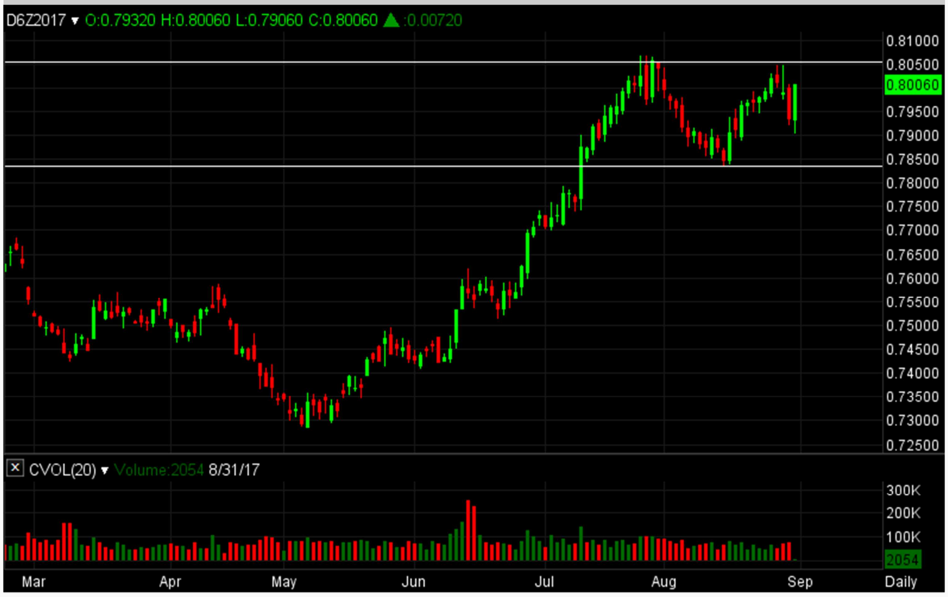
The Canadian Dollar has traded between 80.5 cents and 79 cents on the December futures. Last night we reached 79 cents again, but there was strong GDP than expected causing the loonie to rise a cent from its low. I've been mentioning to clients they may want to consider protecting their Canadian Dollar risk if we see a pullback. I believe the Canadian Dollar could still go higher longer term and a couple cents lower may give a good opportunity to protect at. Both Bank of Montreal and Bank of Nova Scotia said they expect the next rate hike to happen in October, though they didn't discount the possibility of an earlier move at the bank's next scheduled rate announcement on Sept 6th. After October, the next rate announcement could come January 2018. Even though GDP was strong today, the BOC may was to see this strong growth continue before raising rates. Given the range we are in, traders could use 80.5 cents as resistance (ceiling) and 79 certs as support (floor). I'll be looking to protect clients Canadian Dollar risk before the October possible rate hike.

Canadian Dollar December Futures



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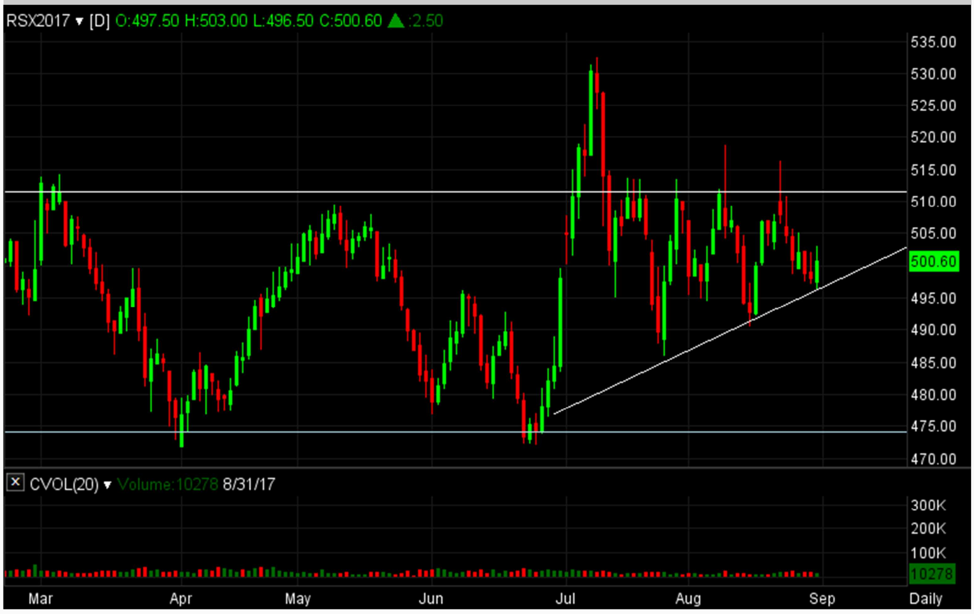
Commodity Futures Advisor

This last month canola has stayed in its sideways trend. On an intraday basis, canola has increased above $510/tonne, but has not closed above that level. For more active clients that use futures, this is a level that I have been using to go short. I've been cautious about actively adding in any hedge protection using options because of this sideways trending market. There may be two main contributing factors that could cause canola to decline...

1. Declining soybean complex. .
2. Increasing Canadian Dollar.

Both of these scenarios are possible and even if canola production is lower than expected canola could still decline.

Canola November Futures



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Moving average indicators suggest live cattle futures are in a downward trend as over production continues to put pressure on prices. You'll see from the charts below that feeder cattle futures are more sideways. One positive factor for the livestock industry is the recent decline in grain prices. This may present an opportunity to price feed at a relatively low price, which should result in a fairly low cost of gain. With a lower cost of gain, there is potential to add weight to calves. Typically, in summer months cattle futures tend to be weaker. Demand usually picks up at this time of the year and the market is oversold based on technical indicators. However, a report called the Commitment of Traders shows that managed money still have significant long positions (they think the market is going up). The risk now is these traders start to get out of their positions pushing the market lower. In the last several years, the market has seen additional selling pressures and did not find a seasonal low until October. I've had cattle protection on for clients for quite some time. On a case-by-case basis I'm evaluating positions with client to either extend their protection or take profit and wait on the sidelines.

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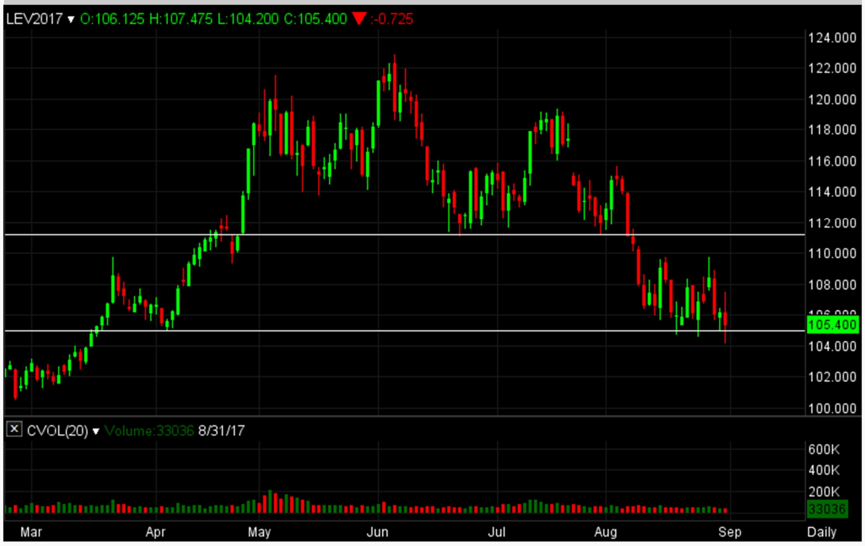
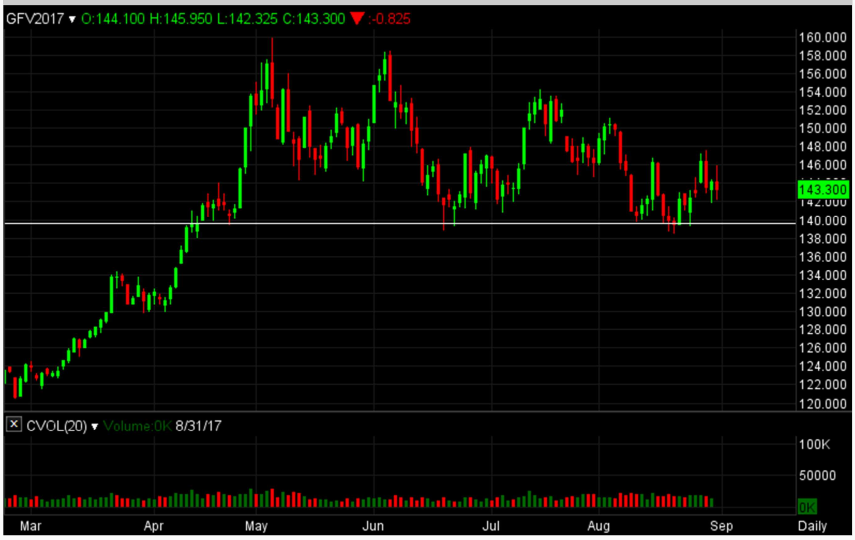
Live Cattle October Futures



Feeder Cattle October Futures



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